



KalNorth Gold Mines Limited and Controlled Entities

ACN 100 405 954

Financial Report

For the year ended 30 June 2014

KalNorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2014

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KalNorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2014

CORPORATE PARTICULARS

Directors	Mr Lijun Yang (Appointed 08 November 2013)	<i>Executive Director</i>
	Mr Jerry Jiajun Hu (Appointed 13 December 2013)	<i>Non-Executive Director</i>
	Mr Yuanguang Yang (Appointed 28 August 2014)	<i>Non-Executive Director</i>
	Mr Brendon Peter Connell (Appointed 25 February 2014, resigned 28 August 2014)	<i>Non-Executive Chairman</i>
	Mr Laurence Freedman (Retired 8 November 2013)	
	Mr Robert Schuitema (Resigned 25 February 2014)	<i>Non-Executive Director</i>
Company Secretary	Mr Henry Jian Yu (Resigned 13 December 2013)	<i>Non-Executive Director</i>
	Mr John McKinstry (Resigned 2 August 2013)	<i>Non-Executive Director</i>
	Mr Lijun Yang (Appointed 29 August 2014)	<i>Non-Executive Director</i>
	Mr James Church (Appointed 25 February 2014, resigned 29 August 2014)	
	Mr Robert Schuitema (Resigned 25 February 2014)	
Registered Office	224 Dugan Street Kalgoorlie, Western Australia 6430	
Corporate Office	224 Dugan Street Kalgoorlie, Western Australia 6430	
Mailing Address	GPO Box 2567 Perth WA 6001	
Share Registry	Advanced Share Registry Services 110 Stirling Highway Perth WA 6009	
Auditor	RSM Bird Cameron Partners 8 St Georges Terrace Perth WA 6000	
Solicitor	Steinepreis Paganin 16 Milligan St Perth WA 6000	

KalNorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2014

DIRECTORS' REPORT

The Directors of KalNorth Gold Mines Limited ("the Company") present their financial report on the consolidated entity, being the company and its controlled entities, for the financial year ended 30 June 2014.

Directors

The names of directors in office at any time during or since the end of the financial year are listed hereunder. Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

- Lijun Yang (Appointed 8 November 2013)
- Jerry Jiajun Hu (Appointed 13 December 2013)
- Yuanguang Yang (Appointed 28 August 2014)
- Brendan Peter Connell (Appointed 25 February 2014, resigned 28 August 2014)
- Laurence Freedman (Retired 8 November 2013)
- Robert Schuitema (Resigned 25 February 2014)
- Henry Jian Yu (Resigned 13 December 2013)
- John McKinstry (Resigned 2 August 2013)

Information on Directors

LIJUN YANG

Executive Director (Appointed 08 November 2013)

Mr Yang is a geologist with significant experience, working at various Chinese gold operations in the North east of China and Yunnan province for many years.

He received his Master's Degree in Exploration Mineralogy from the China University of Geosciences in 2012 and developed new methodologies to explore for gold mineralisation using the typomorphic properties of minerals. He commenced working for KalNorth as a Project Evaluation Geologist in August 2013 and to the board in November 2013 as Executive Director. Mr Yang is multi-lingual (Chinese & English).

Mr Yang has held no other directorships of other public companies within the last three years.

Interest in Shares and Options:

31,400 ordinary fully paid shares in KalNorth Gold Mines Limited

JERRY JIAJUN HU

Non-Executive Director (Appointed 13 December 2013)

Mr. Jiajun Hu acts as Regional Business Executive of Cross Strait Common Development Fund Co., Ltd (hereinafter referred to as "Cross Strait"). Currently, Cross Strait, with its global headquarters in Hong Kong, is the first majority shareholder of KalNorth Gold Mines Limited

He is responsible for supervising and administering the investment projects of Cross Strait in Oceania and he directly reports to the managing director of Cross Strait. and has gained significant experience in international investment, financial accounting, commercial contract negotiation and contract dispute negotiation through corporate transactions in North America, Africa, Asia and Oceania.

He has a Bachelor's Degree in Business Studies in 2008 from the Australian National University majoring in finance and accounting. Mr. Hu has specialized knowledge of financial transaction market and investment capital market, and is familiar with Chinese business and capital market operation. Mr. Hu is fluent in both English and Chinese

Mr Hu has held no other directorships of other public companies within the last three years.

Interest in Shares and Options:

Nil

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DIRECTORS' REPORT

YUANGUANG YANG

Non-Executive Director (Appointed 28 August 2014)

Mr. Yang is a Hong Kong CPA (Practising) and currently operates a CPA firm in Hong Kong with business focus in markets of Hong Kong, Mainland China, Australia and New Zealand. Mr. Yang is also a Chartered Accountant in Australia and New Zealand.

He has over 15 years' experience in audit and assurance, global tax planning, corporate advisory, family business and M & A business and also worked with the Industrial and Commercial Bank of China for several years before running his CPA business.

Mr Yang resides in Hong Kong and is an authorised officer of South Victory Global Limited (SV) – a major lender to the Company.

Mr. Yang has held no other directorships of other public companies within the last three years.

Interest in Shares and Options:

Nil

BRENDAN PETER CONNELL

Appointed 25 February 2014

Resigned 28 August 2014

LAURENCE FREEDMAN AM

Appointed 18 August 2010

Resigned 08/11/2013

ROBERT SCHUITEMA

Appointed 9 September 2010

Resigned 25 February 2014

HENRY JIAN YU

Appointed 26 November 2012

Resigned 13 December 2013

JOHN MCKINSTRY BE(Min), MAusIMM, MAICD

Appointed 1 September 2011

Resigned 2 August 2013

Company Secretary

Mr Lijun Yang

Appointed 29 August 2014

Mr James Church

Appointed 25 February 2014,

Resigned 29 August 2014)

Mr Robert Schuitema

Resigned 25 February 2014

KalNorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2014

DIRECTORS' REPORT

Principal Activities

The Consolidated entity's principal activities during the year were divided between exploration on the Lindsays, Kalpini and Kurnalpi and Mt. Jewell projects (KalNorth Gold Field Project) near Kalgoorlie, and a short period of open pit mine production from the Parrot Feathers deposit at Lindsay's.

Operating Results and Financial Performance

The operating loss after income tax of the consolidated entity for the year ended 30 June 2014 was \$10,763,483 (2013: loss \$56,492,958).

The operating loss for the year was attributable to the following:

- (i) Gross loss from mining activities (refer to the Review of Operations) of \$0.3 million (2013: \$4.5 million).
- (ii) Exploration expenditure of \$0.8 million (2013: see below) across all project areas and immediately written-off to the profit and loss.
- (iii) Impairment charge for the further write-down of past exploration expenditures of \$10.1 million (2013: \$47.9 Million, which included \$5.3 million exploration expenditure incurred for the year),
- (iv) Receiving a significant tax refund of \$2.4 million with respect to the 2013 financial year and supported by a tax incentive submission based upon the R&D activities and development of new mining knowledge relating to mine design and mining methodologies at the Lindsays mine.

During the year, the company raised \$622,765 (net of capital raising costs) via completion of a 1 for 1 non-renounceable rights issue.

As at 30 June 2014 the company had \$128,867 (2013: \$2,427,292) in cash and cash-backed bonds and an aggregate of \$4,891,788 (2013: \$4,239,139) in secured and unsecured loans.

The net assets of the Consolidated entity are \$1,513,158 as at 30 June 2014 (2013: \$11,645,799).

Review of Operations

The year marked a very difficult period in the company's history which focused upon reducing operating costs and seeking ways to minimise its level of debt after the suspension of mining at Lindsays on August 5 2013. Exploration activities were significantly reduced on all company managed projects but with minimal work completed to maintain tenements to meet statutory compliance.

The board decided in July 2013 to suspend open pit mining at the completion of Parrot Feathers Stage 2 (Lindsay's) and on August 5 2013 mining ceased leaving 75% of the original planned production intact. Three ore parcels totalling 75,211 tonnes were hauled to and processed at Saracen Mineral Holdings Limited's Carosue Dam processing facility, which is situated 72km by road from the Lindsay's field, with the last parcel being processed in late September 2013. Mining of the three open pits at Lindsay's over the 9 month period (Jan-Aug 2013) produced 138,229 tonnes of ore for the recovery of 6,153 ounces of gold.

The mining has had a minimal impact on the existing Lindsay's resource inventory.

The company has also actively progressed a scoping study on the underground development potential of the narrow but higher grade mineralised quartz vein beneath the stage 2 pit. During the year the company continued discussions with and sought expressions of interest from three mining contractors to develop the Lindsay's underground via a tribute style of arrangement.

At the Spargoville Project located 50km south of Kalgoorlie, the company's Joint Venture partner Mithril Resources Ltd (Mithril) completed systematic exploration that resulted in the RC drill testing of three targets (two Nickel, one Gold). During the year Mithril earned a 20% interest in the project having completed the stage 1 expenditure of \$0.32 million, and has made an election to proceed toward earning an additional 60% interest (commitment to the stage 2 earn in period).

KalNorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2014

DIRECTORS' REPORT

Review of Operations (cont'd)

At the Company's Kurnalpi project located approximately 90 kilometres to the east of Kalgoorlie, several prospectors working under agreement with the company increased the level of prospecting activity at no cost to the company which has generated a small revenue from a small share of gold nugget sales, but more importantly provided geological information and in meeting the annual expenditure commitments required to maintain the tenements in good standing. The company has also reacquired the Nickel (Ni) rights on a package of tenements it held known as Grey Dam, in the north west of Kurnalpi.

Given the cessation of mining activities at Lindsay's and the difficult financial circumstances the company implemented significant cost cutting measures during the year. These included a major reduction in employees, sale of equipment, the surrender of non-core tenements and the closure and relocation of the corporate office from Perth to owned premises in Kalgoorlie.

There was no change to the Consolidated entity's resource base.

Significant Changes in the State of Affairs

Except for the matters mentioned in the Review of Operations, there have been no significant changes in the state of affairs of the Consolidated entity during the current year.

Dividends Paid or Recommended

The directors do not recommend the payment of a dividend and no dividends have been paid or declared since the end of the last financial year.

Significant Events After the Reporting Date

Events occurring after 30 June 2014 are disclosed in detail in Note 27.

Likely Developments and Expected Results

Mining at Lindsay's was suspended in mid-August upon the completion of Parrot Feathers Stage 2 due to the lower gold price. The company has been actively pursuing recommencing mining activities at Lindsay's via tribute underground operation. The company will continue to work on its other projects at Kurnalpi, Kalpini and Mt. Jewell, and at Spargoville by its Joint Venture operator.

Environmental Issues

The consolidated entity is subject to significant environmental regulation in respect of its exploration activities.

The consolidated entity aims to ensure the appropriate standard of environmental care is achieved and, in doing so, comply with all environmental legislation. The directors of the Consolidated entity are not aware of any breach of environmental legislation for the year under review.

KalNorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2014

DIRECTORS' REPORT

Meetings of Directors

During the financial year 12 meetings of directors were held. Attendances by each director during the year were as follows:

	Directors' Meetings		Audit Committee ¹		Remuneration Committee ¹	
	Number of meetings eligible to attend	Number attended	Number of meetings eligible to attend	Number attended	Number of meetings eligible to attend	Number attended
Lijun Yang	8	8	-	-	-	-
Jiajun Hu	7	7	-	-	-	-
Brendon Connell	6	6	-	-	-	-
Laurence Freedman	3	3	-	-	-	-
Robert Schuitema	6	6	-	-	-	-
Henry Jian Yu	4	4	-	-	-	-
John McKinstry	1	-	-	-	-	-

¹There were no Audit or Remuneration Committee meetings held, with all matters dealt with by the board as a whole

Options

At the date of this report, the unissued ordinary shares of KalNorth Gold Mines Limited under option are as follows:

Grant Date	Date of Expiry	Exercise Price	Number under Option
28 May 2013	28 November 2014	\$0.08	25,000,000

During the year ended 30 June 2014, no shares have been issued on the exercise of options (2013: Nil).

Option holders do not have any rights to participate in any issues of shares or other interests in the Consolidated entity or any other entity. For details of options issued to directors and executives as remuneration, refer to the Remuneration Report.

Risk Management

The Board is responsible for ensuring that risks and opportunities are identified in a timely manner and that activities are aligned with the risks and opportunities identified by the Board.

The Consolidated entity believes that it is crucial for all Board members to be a part of this process and, as such, the Board has not established a separate risk management committee.

The Board has a number of mechanisms in place to ensure that management's objectives and activities are aligned with the risks identified by the Board. These include Board approval of a strategic plan which encompasses strategy statements designed to meet stakeholders needs and manage business risk, and implementation of Board approved operating plans and budgets and the monitoring thereof.

KalNorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2014

DIRECTORS' REPORT

Remuneration Report (Audited)

This report outlines the remuneration arrangements in place for directors and executives of the Consolidated entity.

Remuneration Policy

The remuneration policy of KalNorth Gold Mines Limited has been designed to align director and executive objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long-term incentives based on key performance areas affecting the Consolidated entity's ability to attract and retain the best directors and executives to run and manage the Consolidated entity.

The Board's policy for determining the nature and amount of remuneration for board members and senior executives of the Consolidated entity is as follows:

The remuneration policy setting out the terms and conditions for the executive directors and other senior executives was developed by the Board. All executives receive a base salary (which is based on factors such as the length of service and experience) and superannuation. The Board reviews executive packages annually by reference to the Consolidated entity's performance, executive performance, and comparable information from industry sectors and other listed companies in similar industries.

The Board may exercise discretion in relation to approving incentives, bonuses, and options. The policy is designed to attract the highest calibre of executives and reward them for performance that results in long-term growth in shareholder wealth.

All remuneration paid to directors and executives is valued at the cost to the Consolidated entity and expensed.

Executives are also entitled to participate in the employee share and option arrangements. Shares given to directors and executives are valued as the difference between the market price of those shares and the amount paid by the director or executive. Options are valued using the Black-Scholes methodology.

Performance-based Remuneration

The Consolidated entity currently has no compulsory performance-based remuneration component built into director and executive remuneration packages. However, performance-based bonuses may be awarded from time to time at the discretion of the Board, and this will be dependent on individual performance linked to the Consolidated entity's strategic objectives for that period.

In the current year, no bonuses were awarded.

Non-executive director remuneration

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

The Board considers the fees paid to non-executive directors of comparable companies when undertaking the annual review process. Independent advice is obtained when considered necessary to confirm that remuneration is in line with market practice. Each director may receive a fee for being a director of the Company.

Non-executive directors may also receive performance rights (subject to shareholder approval) as it is considered an appropriate method of providing sufficient reward whilst maintaining cash reserves.

KalNorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2014

DIRECTORS' REPORT

Remuneration Report (cont'd)

Relationship between Remuneration Policy and Consolidated entity Performance

The remuneration policy has been tailored to increase goal congruence between shareholders and directors and executives. From time to time, this is facilitated through the issue of options to the majority of directors and executives to encourage the alignment of personal and shareholder interests. The Consolidated entity believes this policy will be effective in increasing shareholder wealth.

Key management personnel service agreements

Details of the key conditions of service agreements for key management personnel are as follows:

	Commencement Date	Notice Period Base Salary	Base Salary	Termination Payments Provided *
Lijun Yang	09/09/2010	1 month	\$80,000 ¹	none
Wade Johnson ²	04/04/2011	1 month	\$280,000 ¹	none
Wade Johnson ³	24/03/2014	1 month	\$150,000 ¹	none

*other than statutory entitlements

¹Entitled to statutory superannuation contributions

²This service agreement was terminated as part of a review of all Corporate and administration overheads.

³This new service agreement was executed and effective from 24 March 2014. Mr Johnson is also entitled to:

- Statutory superannuation contributions
- The following achievement bonuses:
 - a. equal to 5% of the gross 2013-2014 R&D Refund, and
 - b. equal to 20% of any land management income, which includes the company's share of gold nuggets recovered by prospectors working the KalNorth tenements and any profit from tenement trading
- Reimbursement of reasonable expenses, including communication costs.
- Leave entitlements and service period from the former service agreement carry over to the new agreement and retain their original terms.

There are no other agreements with key management personnel.

KalNorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2014

DIRECTORS' REPORT

Remuneration Report (Cont'd)

Remuneration Details for the Year Ended 30 June 2014

(a) Key management personnel compensation:

2014	Short-term benefits			Post-employment benefits		Share-based payment		Total
	Salary, fees and leave	Non- Cash bonus	Non-monetary benefits	Super-annuation	Retirement benefits	Options	Others	
Name	\$	\$	\$	\$	\$	\$	\$	\$
<i>Directors</i>								
Lijun Yang ¹	65,846	-	-	6,091	-	-	-	71,937
Jerry Jiajun Hu ²	25,000	-	-	-	-	-	-	25,000
Yuanguang Yang ³	-	-	-	-	-	-	-	-
Brendon Peter Connell ⁴	15,000	-	-	-	-	-	-	15,000
Laurence Freedman ⁵	-	-	-	-	-	-	-	-
Robert Schuitema ⁶	65,333	-	-	6,043	-	-	93,600 ⁷	164,976
Henry Jian Yu ⁸	-	-	-	-	-	-	-	-
John McKinstry ⁹	-	-	-	-	-	-	-	-
<i>Other key management personnel</i>								
James Church ¹⁰	15,000	-	-	-	-	-	-	15,000
Wade Johnson	292,674	-	-	27,072	-	-	-	319,746
Total	478,853	-	-	39,206	-	-	93,600	611,659

¹ Mr. Lijun Yang was appointed to the board on 8 November 2013 and as Company Secretary on 29 August 2014 (post year-end).

² Mr. Jerry Hu was appointed to the board on 13 December 2013

³ Mr. Yuanguang was appointed to the board on 28 August 2014

⁴ Mr. Connell was appointed to the board on 25 February 2014 and resigned on 28 August 2014 (post year-end).

⁵ Mr Laurence Freedman retired from the board on 8 November 2013.

⁶ Mr. Schuitema resigned from the board on 25 February 2014

⁷ Mr. Schuitema was paid \$93,600 in consulting fees during the year.

⁸ Mr. Henry Yu resigned from the board on 13 December 2013

⁹ Mr. McKinstry resigned from the board on 2 August 2013.

¹⁰ Mr. Church was appointed on 25 February 2014 and resigned on 29 August 2014 (post year-end).

KalNorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2014

DIRECTORS' REPORT

Remuneration Report (Cont'd)

2013	Short-term benefits			Post-employment benefits		Share-based payment		Total
	Salary, fees and leave	Non- Cash bonus	Non-monetary benefits (*)	Super-annuation	Retirement benefits	Options	Others (**)	
Name	\$	\$	\$	\$	\$	\$	\$	\$
<i>Directors</i>								
Laurence Freedman	50,000	-	-	4,500	-	-	-	54,500
Robert Schuitema	98,000	-	60,240	8,820	-	-	65,400	232,460
Henry Jian Yu	29,932	-	-	2,694	-	-	-	32,626
Ross Gillon	37,500	-	-	3,375	-	-	-	40,875
John McKinstry	396,594	-	60,240	36,000	-	-	-	492,834
<i>Other key management personnel</i>								
Wade Johnson	280,000	-	-	25,200	-	-	-	305,200
Total	892,026	-	120,480	80,589	-	-	65,400	1,158,495

(*) relates to the provision of non-recourse share loans, the cost of which are treated as share based payments in the financial statements.

(**) \$65,400 was paid in consulting fees to Mr Schuitema during the year.

KalNorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2014

DIRECTORS' REPORT

Remuneration Report (Cont'd)

Share-based payment compensation

To ensure that the Consolidated entity has appropriate mechanisms to continue to attract and retain the services of Directors and Executives of a high calibre, the Consolidated entity has a policy of issuing options that are exercisable in the future at a certain fixed price.

No options were granted to directors or executives during the year ended 30 June 2014 or 30 June 2013.

Key management personnel shareholdings

The number of ordinary shares in KalNorth Gold Mines Limited held by each key management personnel of the Consolidated entity during the financial year is as follows:

2014	Balance 1 July 2013	Granted as Remuneration	Options Exercised	Net Change Other	Balance 30 June 2014
<i>Directors</i>					
Lijun Yang	-	-	-	31,400	31,400
Jerry Hu	-	-	-	-	-
Yuanguang Yang	-	-	-	-	-
Brendan Connell	-	-	-	-	-
Laurence Freedman	26,225,262	-	-	(26,225,262)	-
Robert Schuitema	846,900	-	-	(846,900)	-
Henry Jian Yu	10,000	-	-	(10,000)	-
John McKinstry	1,251,920	-	-	(1,251,920)	-
<i>Other</i>					
James Church	-	-	-	-	-
Wade Johnson	500,000	-	-	1,500,000	2,000,000
Total	28,834,082	-	-	(26,802,682)	2,031,400

Key management personnel option holdings

No options were granted or held by key management personnel in the current or prior year.

END OF REMUNERATION REPORT

KalNorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2014

DIRECTORS' REPORT

Indemnification of Officers and Insurance Premiums

The consolidated entity has paid premiums to insure the directors against liabilities for costs and expenses incurred by them in defending legal proceedings arising from their conduct while acting in the capacity of director of the consolidated entity, other than conduct involving a wilful breach of duty in relation to the consolidated entity.

Indemnity and insurance of auditor

The company has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the company or any related entity against a liability incurred by the auditor.

During the financial year, the company has not paid a premium in respect of a contract to insure the auditor of the company or any related entity.

Proceedings on Behalf of Company

No person has applied for leave of the Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings. The Company was not a party to any such proceedings during the year.

Non-Audit Services

The Board of Directors, in accordance with advice from the audit committee, is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

- all non-audit services are reviewed and approved by the audit committee prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- the nature of the services provided does not compromise the general principles relating to auditor independence in accordance with APES 110: Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standards Board.

The following fees were paid or payable to RSM Bird Cameron for non-audit services.

	2014	2013
	\$	\$
Taxation services	17,350	8,250
Other taxation services – 2012/2013 year R&D credit assistance	72,783	-
	90,133	8,250

Officers of the company who are former audit partners of RSM Bird Cameron Partners

There are no officers of the company who are former audit partners of RSM Bird Cameron Partners.

Auditor's Independence Declaration

We have obtained an Auditor's Independence Declaration. Please refer to "Auditor's Independence Declaration" included on page 45 of the financial statements.

KalNorth Gold Mines Limited and Controlled Entities

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DIRECTORS' REPORT

Auditor

RSM Bird Cameron Partners continues in office in accordance with section 327 of the Corporations Act 2001.

The Report of Directors, incorporating the Remuneration Report, is signed pursuant to section 298(2)(a) of the Corporations Act 2001 in accordance with a resolution of the Board of Directors.



Lijun Yang
Executive Director

Dated at Perth this 30th day of September 2014

KalNorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2014

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2014

	Note	2014 \$	2013 \$
Revenue from gold sales		5,211,564	3,629,630
Cost of sales		(5,520,582)	(8,144,071)
Gross loss		(309,018)	(4,514,441)
Other income	3	2,545,953	176,527
Share based payment expense	26	-	(1,698,598)
Director and corporate employee costs		(430,498)	(1,022,491)
Professional fees and consultants		(184,228)	(210,936)
Advertising and promotion cost		(25,636)	(239,676)
Depreciation expenses	8	(217,914)	(235,285)
Amortisation expenses	9	-	(314,833)
Listing and registry fees		(38,030)	(44,056)
Exploration costs		(805,489)	-
Impairment expense	4	(10,124,900)	(47,852,280)
Interest expense		(726,013)	(128,167)
Other administration expenses		(447,710)	(408,722)
Loss before income tax		(10,763,483)	(56,492,958)
Income tax benefit	5	-	-
Loss after income tax for the year		(10,763,483)	(56,492,958)
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Movement in fair value of available for sale investments		8,076	(8,076)
Other comprehensive income for the year, net of tax		8,076	(8,076)
Total comprehensive loss for the year		(10,755,407)	(56,501,034)
Loss per share			
Basic and diluted loss per share (cents)	19	(5.28)	(35.09)

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

KalNorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2014

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2014

	Note	2014 \$	2013 \$
ASSETS			
Current Assets			
Cash and cash equivalents	21 (b)	128,867	2,427,292
Trade and other receivables	6	32,503	484,907
Inventories		-	1,038,501
Other assets	7	34,548	52,625
Total Current Assets		195,918	4,003,325
Non-Current Assets			
Other assets	7	-	75,690
Property, plant and equipment	8	504,833	850,324
Exploration and evaluation expenditure	10	8,035,398	17,547,128
Available-for-sale investments	11	-	4,739
Total Non-Current Assets		8,540,231	18,477,881
TOTAL ASSETS		8,736,149	22,481,206
LIABILITIES			
Current Liabilities			
Trade and other payables	12	1,231,834	5,010,068
Interest bearing liabilities	13	4,891,788	739,139
Total Current Liabilities		6,123,622	5,749,207
Non-Current Liabilities			
Trade and other payables	12	-	1,100,000
Interest bearing liabilities	13	-	3,500,000
Restoration provision	14	1,099,370	486,200
Total Non-Current Liabilities		1,099,370	5,086,200
TOTAL LIABILITIES		7,222,992	10,835,407
NET ASSETS		1,513,157	11,645,799
EQUITY			
Issued capital	15	75,226,229	74,603,464
Reserves	16	1,334,418	2,856,715
Accumulated losses		(75,047,490)	(65,814,380)
TOTAL EQUITY		1,513,157	11,645,799

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

KalNorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2014

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2014

	Issued capital \$	Accumulated losses \$	Financial assets reserve \$	Share payment reserve \$	Total equity \$
2013					
As at 1 July 2012	68,289,298	(11,146,888)	-	2,878,781	60,021,191
Loss after income tax for the year	-	(56,492,958)	-	-	(56,492,958)
Movement in fair value of available for sale investments	-	-	(8,076)	-	(8,076)
Total comprehensive income for the year, net of tax	-	(56,492,958)	(8,076)	-	(56,501,034)
Cost of share options granted during the year (Note 26)	-	-	-	1,811,476	1,811,476
Transfer of expired share option costs	-	1,825,466	-	(1,825,466)	-
Employee share loans	(817,500)				(817,500)
Share issued during the year, net of costs	7,131,666	-	-	-	7,131,666
As at 30 June 2013	74,603,464	(65,814,380)	(8,076)	2,864,791	11,645,799
2013					
As at 1 July 2013	74,603,464	(65,814,380)	(8,076)	2,864,791	11,645,799
Loss after income tax for the year	-	(10,763,483)	-	-	(10,763,483)
Movement in fair value of available for sale investments	-	-	8,076	-	8,076
Total comprehensive income for the year, net of tax	-	(10,763,483)	8,076	-	(10,755,407)
Transfer of expired share option costs		1,530,373	-	(1,530,373)	-
Share issued during the year, net of costs	622,765	-	-	-	622,765
As at 30 June 2014	75,226,229	(75,047,490)	-	1,334,418	1,513,157

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

KalNorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2014

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2014

	Note	2014 \$	2013 \$
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		6,074,603	3,903,681
Payments to suppliers and employees (inclusive of GST)		(9,580,175)	(8,014,253)
Research and development tax refund		2,377,491	-
Interest received		21,392	163,678
Interest paid		(72,645)	(89,028)
Net cash used in operating activities	21(a)	(1,179,334)	(4,035,922)
Cash flows from investing activities			
Proceeds from sale of investments		8,993	525,542
Proceeds from sale of tenements		12,500	350,000
Proceeds from sale of plant and equipment		269,173	-
Payment for mine development		-	(1,417,452)
Payment for mine tenement		(1,200,000)	(1,200,000)
Payments for plant and equipment		(27,033)	(301,070)
Payment for mineral exploration activities		(805,489)	(5,839,759)
Net cash used in investing activities		(1,741,856)	(7,882,739)
Cash flows from financing activities			
Proceeds from issue of shares		622,765	7,131,666
Proceeds from borrowings		-	4,200,000
Payment of bank borrowings		-	(216,108)
Net cash provided by financing activities		622,765	11,115,558
Net decrease in cash held		(2,298,425)	(803,103)
Cash and cash equivalents at the beginning of the financial year		2,427,292	3,230,395
Cash and cash equivalents at the end of the financial year	21(b)	128,867	2,427,292

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

KalNorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2014

Note 1: Statement of Significant Accounting Policies

The financial report covers the consolidated entity of KalNorth Gold Mines Limited and Controlled Entities. KalNorth Gold Mines Limited is a listed public company incorporated and domiciled in Australia. The separate financial statement for parent entity, KalNorth Gold Mines Limited has not been prepared within this financial report as permitted by the Corporations Act 2001.

The financial report was authorised for issue on 30 September 2014 by the Board of Directors.

Basis of preparation

The financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in financial statements containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards as issued by the IASB. Material accounting policies adopted in the preparation of these financial statements are presented below and have been consistently applied unless otherwise stated.

The financial statements have been prepared on an accruals basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

Going Concern

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

As disclosed in the financial statements, the company and consolidated entity incurred losses of \$10,763,483 each and the consolidated entity had net cash outflows of \$2,298,425, for the year ended 30 June 2014. As at that date the company and consolidated entity had net current liabilities of \$5,927,704. The ability of the company and consolidated entity to continue as going concerns is contingent on a number of future events, the most significant of which is their ability to negotiate with the major lenders with respect to the restructuring of secured and unsecured loans and to obtain additional funding, to continue their exploration activities and to pay their debts as and when they fall due.

These factors indicate significant uncertainty as to whether the company and consolidated entity will continue as going concerns and therefore whether they will realise their assets and extinguish their liabilities in the normal course of business and at the amounts stated in the financial report.

The Directors believe that there are reasonable grounds to believe that the company and consolidated entity will continue as going concerns and that it is appropriate to adopt the going concern basis in the preparation of the financial report, after taking into consideration the following factors:

- (a) The Company plans to liquidate exploration projects or sell its interest in certain projects for cash or for assets readily convertible into cash;
- (b) The Company is in the process of submitting a research and development claim for the 2014 financial year, in relation to which for the 2013 year, it received the refund disclosed in Note 3;
- (c) As disclosed in Note 27, on 28 August 2014, the company issued 35,842,004 ordinary fully paid shares (at an issue price of 1 cent each) to South Victory Global Limited ("SVG") to convert the partial outstanding interest on its loan to equity, thereby extinguishing \$358,420 of accrued interest owing to SVG;
- (d) As disclosed in Note 27, on 8 September 2014, the Company announced that it has entered into a Converting Loan agreement with Goldfresh Limited, a Hong Kong based investment company, for an amount of \$350,000 to be used to provide the company with short-term funding for its working capital;

KalNorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2014

Note 1: Statement of Significant Accounting Policies (cont'd)

- (e) With respect to secured and unsecured loans, the company plans to convert loan debts to equity or extend the maturity date of the loans;
- (f) The Company plans to further reduce certain corporate and administration overheads as a result of its corporate office lease at 12 St. Georges Terrace ending on 9 January 2015 and in the further outsourcing of certain financial and administrative functions; and
- (g) The Company has commenced discussions with a third-party mining company, which plans to recommence mining through a tribute mining arrangement at the Lindsays project, to generate cash from royalties for the Company.

Accordingly, the Directors believe that the company and consolidated entity will be able to continue as going concerns and that it is appropriate to adopt the going concern basis in the preparation of the financial report.

The financial report does not include any adjustments relating to the amounts or classification of recorded assets or liabilities that might be necessary if the company and consolidated entity do not continue as going concerns.

Adoption of new and revised standards

Changes in accounting policies on initial application of Accounting Standards

In the year ended 30 June 2014, the Group has reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for the current annual reporting period.

The Group has also reviewed all new Standards and Interpretations that have been issued but are not yet effective for the year ended 30 June 2014. As a result of these reviews the Directors have determined that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change is necessary to Group accounting policies.

Principles of consolidation

The consolidated financial statements incorporate the assets, liabilities and results of entities controlled by KalNorth Gold Mines Limited at the end of the reporting period. A controlled entity is any entity over which KalNorth Gold Mines Limited has the ability and right to govern the financial and operating policies so as to obtain benefits from the entity's activities.

Where controlled entities have entered or left the Group during the year, the financial performance of those entities is included only for the period of the year that they were controlled. A list of controlled entities is contained in Note 23 to the financial statements.

In preparing the consolidated financial statements, all inter-group balances and transactions between entities in the consolidated group have been eliminated in full on consolidation.

Non-controlling interests, being the equity in a subsidiary not attributable, directly or indirectly, to a parent, are reported separately within the equity section of the consolidated statement of financial position and statement of comprehensive income. The non-controlling interests in the net assets comprise their interests at the date of the original business combination and their share of changes in equity since that date.

Operating Segments

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers ('CODM'). The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

Note 1: Statement of Significant Accounting Policies (cont'd)**Income tax**

The income tax expense (income) for the year comprises current income tax expense (income) and deferred tax expense (income).

Current income tax expense charged to the profit of loss is the tax payable on taxable income calculated using applicable income tax rates enacted, or substantially enacted, as at reporting date. Current tax liabilities (assets) are therefore measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well as unused tax losses.

Current and deferred income tax expense (income) is charged or credited directly to equity instead of profit or loss when the tax related to items that are credited or charged directly to equity.

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantially enacted at reporting date. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries, branches, associates, and joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

Current tax assets and liabilities are offset where a largely enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where a legally enforceable right of set-off exists, the deferred tax assets and liabilities related to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

Mine development

Mine development represents the expenditure incurred in preparing mines for production and includes mine design, grade control drilling, contract documentation and purchase of minor capital items. Such expenditure comprises net direct costs and an appropriate allocation of directly related overhead costs.

All expenditure incurred prior to commencement of production from the development property is carried forward to the extent to which recoupment out of future revenue from the sale of production is reasonably assured.

Note 1: Statement of Significant Accounting Policies (cont'd)**Mine development (cont'd)**

When further development expenditure is incurred in respect of the mine property after commencement of production, such expenditure is carried forward as part of the cost of the mine property only when future economic benefits are reasonable assured, otherwise the expenditure is classified as an operating cost and expensed as incurred. Such capital development expenditure is added to the total carrying value of mine development being amortised.

The net carrying value of mine development expenditure carried forward is reviewed at least annually by directors to determine whether there is any indication of impairment. The carrying value of mine development will be amortised in full by the completion of the mine

Mining tenements and exploration and evaluation expenditure

Mining tenements are carried at cost, less accumulated impairment losses.

Exploration, evaluation and development 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 that permits reasonable assessment of the existence of economically recoverable reserves. Accumulated costs in relation to an abandoned area are written off in full against profit 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.

Costs of site restoration are provided over the life of the facility from when exploration commences and are included in the costs of that stage. Site restoration costs include the dismantling and removal of mining plant, equipment and building structures, waste removal, and rehabilitation of the site in accordance with clauses of the mining permits. Such costs have been determined using estimates of future costs, current legal requirements and technology on an undiscounted basis.

Any changes in the estimates for the costs are accounted on a prospective basis. In determining the costs of site restoration, there is uncertainty regarding the nature and extent of the restoration due to community expectations and future legislation. Accordingly the costs have been determined on the basis that the restoration will be completed within one year of abandoning the site.

Leases

Leases of fixed assets, where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership that are transferred to the economic entity, are classified as finance leases.

Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over the shorter of their estimated useful lives or the lease term. Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

Note 1: Statement of Significant Accounting Policies (cont'd)**Employee benefits***Short-term employee benefits*

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled within 12 months of the reporting date are recognised in current liabilities in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

Defined contribution superannuation expense

Contributions to defined contribution superannuation plans are expensed in the period in which they are incurred.

Property, plant and equipment

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses.

Property

Freehold land and buildings are measured on the cost basis less depreciation and impairment losses.

Plant and equipment

Plant and equipment are measured on the cost basis less depreciation and impairment losses.

The carrying amount of property, plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the assets employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Depreciation

The depreciable amount of all fixed assets including building and capitalised lease assets, but excluding freehold land, is depreciated on a straight-line basis over the useful lives to the Consolidated entity commencing from the time the asset is held ready for use.

The depreciation rates used for each class of depreciable assets are:

Class of fixed asset	Depreciation rate
Plant and equipment	10-33%
Buildings	10%
Motor vehicles	25%
IT assets	33%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the statement of comprehensive income. When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

Note 1: Statement of Significant Accounting Policies (cont'd)**Current and non-current classification**

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is current when: it is expected to be realised or intended to be sold or consumed in normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within twelve months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period. All other assets are classified as non-current.

A liability is current when: it is expected to be settled in normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within twelve months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

Financial instruments

Financial instruments, incorporating financial assets and financial liabilities, are recognised when the entity becomes a party to the contractual provisions of the instrument. Trade date accounting is adopted for financial assets that are delivered within timeframes established by marketplace convention.

Financial instruments are initially measured at fair value plus transactions costs where the instrument is not classified as at fair value through profit or loss. Transaction costs related to instruments classified as at fair value through profit or loss are expensed to profit or loss immediately. Financial instruments are classified and measured as set out below.

Derecognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expire. The difference between the carrying value of the financial liability extinguished or transferred to another party and their fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

*Classification and subsequent measurement**Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost using the effective interest rate method.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated as such or that are not classified in any of the other categories. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

Note 1: Statement of Significant Accounting Policies (cont'd)

Financial liabilities

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost using the effective interest rate method.

Impairment of financial assets

The consolidated entity assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. Objective evidence includes significant financial difficulty of the issuer or obligor; a breach of contract such as default or delinquency in payments; the lender granting to a borrower concessions due to economic or legal reasons that the lender would not otherwise do; it becomes probable that the borrower will enter bankruptcy or other financial reorganisation; the disappearance of an active market for the financial asset; or observable data indicating that there is a measurable decrease in estimated future cash flows.

Impairment of financial assets (continued)

The amount of the impairment allowance for financial assets carried at cost is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the current market rate of return for similar financial assets.

Available-for-sale financial assets are considered impaired when there has been a significant or prolonged decline in value below initial cost. Subsequent increments in value are recognised in other comprehensive income through the available-for-sale reserve.

Fair value

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principle market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interest. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Assets and liabilities measured at fair value are classified, into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed each reporting date and transfers between levels are determined based on a reassessment of the lowest level input that is significant to the fair value measurement.

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

Impairment of non-financial assets

At each reporting date, the group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the comprehensive statement of income.

Note 1: Statement of Significant Accounting Policies (cont'd)**Impairment of non-financial assets (cont'd)**

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 is estimated to be less than its carrying amount, the carrying amount of the asset 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 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 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.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

Trade and Other Receivables

Trade and other receivables include amounts due from customers for goods sold and services performed in the ordinary course of business. Receivables expected to be collected within 12 months of the end of the reporting period are classified as current assets. All other receivables are classified as non-current assets. Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises all direct materials, direct labour and an appropriate portion of variable and fixed overheads. Fixed overheads are allocated on the basis of normal operating capacity. Costs are assigned to inventories using the first-in-first-out basis. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and selling expenses.

Trade and Other Payables

Trade and other payables represent the liabilities for goods and services received by the entity that remain unpaid at the end of the reporting period. The balance is recognised as a current liability with the amounts normally paid within 30 days of recognition of the liability.

Provision for restoration

Costs of site restoration are recognised in full at present value as a non-current liability and an equivalent amount capitalised as part of the cost of the asset when an obligation arises to decommission or restore a site to a certain condition after abandonment as a result of bringing the assets to their present location. The capitalised cost is amortised over the life of the project and the provision is accreted periodically as the discounting of the liability unwinds. The unwinding of the discount is recorded as interest expense. Site restoration costs include the dismantling and removal of mining plant, equipment and building structures, waste removal and rehabilitation of the site in accordance with clauses of the mining permits. Such costs are determined using estimates of future costs, current legal requirements and technology on an undiscounted basis.

Note 1: Statement of Significant Accounting Policies (cont'd)**Provision for restoration (cont'd)**

Any changes in the estimates for the costs are accounted for on a prospective basis. In determining the costs of site restoration there is uncertainty regarding the nature and extent of the restoration due to community expectations and future legislation. Accordingly the costs are determined on the basis that restoration will be completed within one year of abandoning a site.

Borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method. Where there is an unconditional right to defer settlement of the liability for at least 12 months after the reporting date, the loans or borrowings are classified as non-current.

Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST. Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows

Revenue*Sale of Ore*

Revenue from sale of ore is recognised when the significant risks and rewards of ownership have passed to the buyer and can be reliably measured. Risks are considered passed to buyer when the customer takes possession of the ore, however, revenue is not reliably measurable until that ore has been processed. Therefore revenue from the sale of ore is recognised upon processing.

Interest income

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

Share-based payment transactions

The consolidated entity provides benefits to employees (including senior executives) in the form of share-based payments, whereby employees render services in exchange for shares or rights over shares (equity settled transactions). The consolidated entity does not provide cash settled share based payments.

The cost of equity settled transactions with employees are measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by reference to the market price of the consolidated entity's shares on the Australian Stock Exchange. The cost of equity settled transactions are recognised, together with a corresponding increase in equity, over the period in which the service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the vesting period).

The cumulative expense recognised for equity settled transactions at each reporting date until vesting date reflects the extent to which the vesting period has expired, and the consolidated entity's best estimate of the number of equity instruments that will ultimately vest. The profit or loss charge or credit for a period represents the movement in cumulative expense recognised for the period.

No cumulative expense is recognised for awards that ultimately do not vest (in respect of non-market vesting conditions).

KalNorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2014

Note 1: Statement of Significant Accounting Policies (cont'd)

Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the consolidated entity, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year.

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

Comparative figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

New accounting standards and interpretations

The Group has adopted all of the new and revised Accounting Standards and Interpretations issued by the Australian Accounting Standards Board that are mandatory for the current reporting period. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the Group.

The Group's assessment of the new and amended pronouncements that are relevant to the Group but applicable in future reporting periods is set out below:

AASB 9	Financial Instruments	Replaces the requirements of AASB 139 for the classification and measurement of financial assets. This is the result of the first part of Phase 1 of the IASB's project to replace IAS 39.	1 January 2017
AASB 1031	Materiality	The objective of this Standard is to make cross-references to other Standards and the Framework for the Preparation and Presentation of Financial Statements (as identified in AASB 1048 Interpretation of Standards) (Framework) that contain guidance on materiality.	30 June 2015
AASB 2012-3	Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities	AASB 2012-3 principally amends AASB 7 Financial Instruments: Disclosures to require disclosure of the effect or potential effect of netting arrangements. This includes rights of set-off associated with the entity's recognised financial assets and liabilities, on the entity's financial position, when the offsetting criteria of ASB 132 are not all met.	1 January 2014
AASB 2013-3	Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets	Address inconsistencies in current practice when applying the offsetting criteria in AASB 132 Financial Instruments: Presentation. Clarifies the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realisation and settlement'.	1 January 2014
AASB 2013-6	Amendments to AASB 136 arising from Reduced Disclosure Requirements	Amends AASB 136 Impairment of Assets to establish reduced disclosure requirements for Tier 2 entities arising from AASB 2013-3 Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets.	1 January 2014

KalNorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2014

Note 1: Statement of Significant Accounting Policies (cont'd)

New accounting standards and interpretations (cont'd)

AASB 2013-9	Amendments to Australian Accounting Standards – Conceptual Framework, Materiality, and Financial Instruments	The objective of this Standard is to make amendments to the Standards and Interpretations listed in the Appendix: (a) as a consequence of the issue of Accounting Framework AASB CF 2013-1 Amendments to the Australian Conceptual Framework, and editorial corrections, as set out in Part A of this Standard; (b) to delete references to AASB 1031 Materiality in other Australian Accounting Standards, and to make editorial corrections, as set out in Part B of this Standard; and (c) as a consequence of the issuance of IFRS 9 Financial Instruments – Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39 by the IASB in November 2013, as set out in Part C of this Standard.	30 June 2015
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The Consolidated entity has elected not to early adopt any of the new and amended pronouncements. These are not expected to have significant impact on the financial performance or position of the Consolidated entity upon adoption.

Note 2: Critical accounting estimates and judgments

The Directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the group. These are:

Restoration provision

The Company is required to ensure that appropriate rehabilitation is carried out on tenements that are mined. The amount of rehabilitation cost is an estimate based upon the estimated life of each mined tenement, as well as the future timing and cost of such rehabilitation. The provision is constantly revised as information about the life of mine, type of mining and cost estimates are updated.

Mine development

All expenditure incurred prior to commencement of production from the development property is carried forward to the extent to which recoupment out of future revenue from the sale of production is reasonably assured. The net carrying value of mine development expenditure carried forward is reviewed at least annually by directors to determine whether there is any indication of impairment. The carrying value of mine development will be amortised in full by the completion of the mine, refer to the accounting policy stated in Note 1.

Deferred exploration and evaluation expenditure

Exploration and evaluation costs are carried forward where right of tenure of the area of interest is current. These costs are carried forward in respect of an area that has not at statement of financial position date reached a stage that permits reasonable assessment of the existence of economically recoverable reserves, refer to the accounting policy stated in Note 1.

Note 3: Other income

	2014 \$	2013 \$
Interest received on cash deposits	6,194	115,599
Profit on sale of investments	-	31,156
Refundable R&D tax offset	2,377,491	29,772
Gain on sale of tenements	12,500	-
Profit on sale of property, plant and equipment	148,154	-
Other income	1,614	-
Total revenue	2,545,953	176,527

KalNorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2014

Note 4: Impairment expenses

	2014 \$	2013 \$
Impairment of available for sale investments	-	15,281
Impairment of mine development assets	-	3,977,381
Impairment of exploration and evaluation assets	10,124,900	43,859,618
Total impairment expenses	10,124,900	47,852,280

Note 5: Income tax

(a) Income tax recognised

No income tax is payable by the consolidated entity for the year as a loss was recorded for income tax purposes.

(b) Numerical reconciliation between income tax expense and the loss before income tax

	2014 \$	2013 \$
Loss before income tax	(10,763,483)	(56,492,958)
Income tax benefit at 30% (2013: 30%)	3,229,045	16,947,888
Tax effect of permanent differences – Impairment	(3,037,470)	(14,351,100)
Tax effect of temporary differences	(65,374)	1,545,573
Tax effect of deferred tax asset not recognised	(126,201)	(4,142,361)
Income tax expense	-	-

(c) Unrecognised deferred tax balances

Tax losses attributable to members of the tax consolidated group – revenue	82,629,867	81,991,284
Potential tax benefit at 30%	24,788,960	24,597,385

A deferred tax asset attributable to income tax losses has not been recognised at reporting date as the probability criteria disclosed in Note 1 (Income Tax) is not satisfied and such benefit will only be available if the conditions of deductibility also disclosed in Note 1 (Income tax) are satisfied.

For the purposes of taxation, KalNorth Gold Mines Limited and its 100% owned Australian subsidiary are a tax consolidated group. The head entity of the tax consolidated group is KalNorth Gold Mines Limited. The group has not entered into a tax sharing agreement.

Note 6: Trade and other receivables

	2014 \$	2013 \$
Current		
Interest receivable	-	15,198
GST receivable	16,534	460,835
Other receivables	15,969	8,874
	32,503	484,907

Impairment of receivables

The consolidated entity has recognised an amount of nil (2013: nil) in profit or loss in respect of impairment of receivables for the year ended 30 June 2014.

KaINorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2014

Note 7: Other assets

	2014 \$	2013 \$
Current		
Prepayments	34,548	52,625
	<u>34,548</u>	<u>52,625</u>
Non-current		
Deposits held as security	-	75,690
	<u>-</u>	<u>75,690</u>
Total other assets	<u>34,548</u>	<u>128,315</u>

Note 8: Property, plant and equipment

	2014 \$	2013 \$
Plant and equipment		
At cost	381,136	389,927
Accumulated depreciation	(305,086)	(242,643)
	<u>76,050</u>	<u>147,284</u>
Motor vehicles		
At cost	113,887	363,835
Accumulated depreciation	(83,261)	(166,712)
	<u>30,626</u>	<u>197,123</u>
IT Assets		
At cost	302,008	312,212
Accumulated depreciation	(222,910)	(134,354)
	<u>79,098</u>	<u>177,858</u>
Land and buildings		
At cost	380,866	380,866
Accumulated depreciation	(61,807)	(52,807)
	<u>319,059</u>	<u>328,059</u>
Total written down value	<u>504,833</u>	<u>850,324</u>

(a) Movements in carrying amounts

	Land & Buildings	Plant & Equipment	Motor vehicles	IT Assets	Total
Balance at 1 July 2012	337,059	91,878	239,026	116,576	784,539
Additions	-	112,835	39,802	148,433	301,070
Depreciation expense	(9,000)	(57,429)	(81,705)	(87,151)	(235,285)
Balance at 30 June 2013	<u>328,059</u>	<u>147,284</u>	<u>197,123</u>	<u>177,858</u>	<u>850,324</u>
Balance at 1 July 2013	328,059	147,284	197,123	177,858	850,324
Additions	-	300	25,702	1,231	27,233
Disposals	-	(9,091)	(142,652)	(3,067)	(154,810)
Depreciation expense	(9,000)	(62,443)	(49,547)	(96,924)	(217,914)
Balance at 30 June 2014	<u>319,059</u>	<u>76,050</u>	<u>30,626</u>	<u>79,098</u>	<u>504,833</u>

KalNorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2014

Note 9: Mine development asset	2014	2013
	\$	\$
Cost	-	-
<i>Reconciliation</i>		
Balance at beginning of year	-	-
Mine development expenditure incurred	-	1,903,652
Transfers from exploration	-	2,388,562
Amortisation	-	(314,833)
Impairment	-	(3,977,381)
Balance at end of year	-	-

In the prior year, the Company commenced mining at the Parrot Feathers deposit at the Lindsay's exploration area. An amount of \$2,388,562 was transferred from exploration assets to mine development assets which directly related to exploration expenditure incurred on those tenements to be mined. Amortisation of the asset was based on ounces produced over the JORC reserves of the deposit. Mining operations were suspended on 5 August 2013 due to the fall in the gold price in April 2013, which failed to significantly recover, and a shortfall of working capital. The site is currently on care and maintenance. As a result of the suspension, the directors impaired the carrying value of the mine development asset at 30 June 2013 to nil.

Note 10: Exploration and evaluation expenditure	2014	2013
	\$	\$
Cost	8,035,398	17,547,128
<i>Reconciliation</i>		
Balance at beginning of year (i)	17,547,128	58,515,374
Exploration expenditure incurred	805,489	5,279,934
Exploration expenditure immediately expensed	(805,489)	-
Transfers to mine development	-	(2,388,562)
Additional allowance for rehabilitation	613,170	-
Impairment (ii)	(10,124,900)	(43,859,618)
Balance at end of year	8,035,398	17,547,128

- (i) During the year the company incurred exploration expenditure and it immediately expensed.
(ii) During the year, the directors undertook an impairment assessment of the current carrying values of the exploration and evaluation assets. As a result, the carrying value of the exploration and evaluation asset was deemed to be impaired by \$10,124,900 (2013: \$43,859,618).

The ultimate recoupment of costs carried forward for exploration and evaluation phases is dependent on the successful development and commercial exploitation or sale of the respective mining areas. Amortisation of the costs carried forward for the development phase is not being charged pending the commencement of production.

Note 11: Available-for-sale investments	2014	2013
	\$	\$
Shares in listed corporation at fair value	-	4,739

Note 12: Trade and other payables	2014	2013
	\$	\$

KalNorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2014

Current

Trade payables	57,182	3,311,019
Deferred consideration (i)	1,100,000	1,200,000
Sundry payables and accrued expenses	74,652	499,049
	<u>1,231,834</u>	<u>5,010,068</u>

Non-current

Deferred consideration (i)	-	1,100,000
	<u>1,231,834</u>	<u>6,110,068</u>

- (i) The deferred consideration relates to the acquisition of the Mt. Jewell tenements in the year ended 30 June 2012. A cash payment of \$1,100,000 is due in March 2015 to complete this transaction.

Note 13: Interest bearing liabilities

	2014 \$	2013 \$
Current		
Secured loans	3,500,000	-
Unsecured loans	700,000	700,000
Interest payable on loans	691,788	39,139
	<u>4,891,788</u>	<u>739,139</u>
Non-current		
Secured loans	-	3,500,000
	<u>-</u>	<u>3,500,000</u>
Total interest bearing liabilities	<u>4,891,788</u>	<u>4,239,139</u>

Secured Loan – South Victory Global Limited (“SVG”)

On 27 May 2013, the Company entered into a \$2 million secured financing arrangement with SVG. The key terms and conditions are:

1. Principal of \$2.0 million is fully drawn down at 30 June 2014.
2. Interest is calculated daily on the principal and interest due at a rate of 15% per annum, 2% additional on overdue interest payable on demand by the lender.
3. Interest payment dates are 29 November 2013, 29 May 2014 and 29 November 2014.
4. Security - a fixed and floating charge over the Company's assets, which includes its mineral tenements and its freehold land and buildings.
5. Facility expiry date of 28 November 2014 but on 25 August 2014 (subsequent to year-end), the company received a notice of loan termination and on 28 August 2014 reached agreement for the partial settlement of the outstanding interest liability of \$358,420 via the issue of 35,842,004 ordinary fully paid shares (at an issue price of 1 cent each (refer Note 27)).

Secured Loan – Renergy Pty Ltd (“Renergy”)

On 27 May 2013, the Company entered into a \$1.5 million secured financing arrangement with Renergy. The key terms and conditions are:

1. Principal of \$1.5 million is fully drawn down at 30 June 2014.
2. Interest is calculated daily on the principal and interest due at a rate of 15% per annum, 2% additional on overdue interest payable on demand by the lender.
3. Interest payment dates are 29 November 2013, 29 May 2014 and 29 November 2014.
4. Security - a fixed and floating charge over the Company's assets, which includes its mineral tenements and its freehold land and buildings.
5. Facility expiry date of 28 November 2014

KalNorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2014

Note 13: Interest bearing liabilities (cont'd)

Unsecured Loans – Former Directors

On 25 March 2013, three former directors entered into aggregate loan agreements of \$700,000 with the Company. The loans are fully drawn down at 30 June 2014. The key terms and conditions are:

1. Interest is calculated daily and payable monthly on the principal due at a rate of 18% per annum
2. The loans were due to be repaid on 31 December 2013, but as the secured lenders have payment priority, they must agree as to when any principal or interest repayments are made.

Note 14: Restoration provision

	2014 \$	2013 \$
Non-current		
Restoration provision	1,099,370	486,200

Costs of site restoration are recognised in full at present value as a non-current liability and an equivalent amount capitalised as part of the cost of the asset when an obligation arises to decommission or restore a site to a certain condition after abandonment as a result of bringing the assets to their present location.

Consolidated

	2014 \$	2013 \$
Carrying amount at the start of the year	486,200	-
Additional provisions recognised	613,170	486,200
Carrying amount at the end of the year	1,099,370	486,200

Note 15: Contributed equity

	2014 \$	2013 \$
238,946,696 fully paid ordinary shares (2013: 169,910,000)	75,226,229	74,603,464
Movements in ordinary shares on issue	No of shares	Paid up capital \$
Balance 1 July 2013	169,910,000	74,603,464
31 Dec 2013 – Rights issue (1 cent per share)	59,291,538	592,915
9 Jan 2014 – Rights issue (1 cent per share)	132,000	1,320
30 Jan 2014 – Rights issue (1 cent per share)	600,000	6,000
17 Mar 2014 - Rights issue shortfall (1 cent per share)	12,500,000	125,000
Less share issue costs	-	(102,470)
Shares cancelled (previously issued to former employees)	(3,486,842)	-
Balance 30 June 2014	238,946,696	74,226,229

Ordinary shares

Ordinary shares have the right to receive dividends as declared and, in the event of winding up of the consolidated entity, 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.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Share buy-back

There is no current on-market share buy-back.

KalNorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2014

Note 15: Contributed equity (cont'd)

Capital risk management

The consolidated entity's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the consolidated entity may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The consolidated entity would look to raise capital when an opportunity to invest in a business or company was seen as value adding relative to the current company's share price at the time of the investment. The consolidated entity is not actively pursuing additional investments in the short term as it continues to integrate and grow its existing businesses in order to maximise synergies.

The consolidated entity is subject to certain financing arrangements covenants and meeting these is given priority in all capital risk management decisions. There have been no events of default on the financing arrangements during the financial year.

Note 16: Reserves

	2014 \$	2013 \$
Share based payment reserve	1,334,418	2,864,791
Financial assets reserve	-	(8,076)
	<u>1,334,418</u>	<u>2,856,715</u>

Movements in share based payments reserve

	No of Options	Paid up Capital \$
Balance at 1 July 2013	30,000,000	2,864,791
Share options expired – transfer to accumulated losses	(5,000,000)	(1,503,373)
Balance at 30 June 2014	<u>25,000,000</u>	<u>1,334,418</u>

Movements in financial assets reserve

	2014 \$	2013 \$
Movements in financial assets reserve		
Balance at 1 July	8,076	-
Purchase of available or sale assets	-	8,076
Sale of assets	(8,076)	-
Balance at 30 June	<u>-</u>	<u>8,076</u>

Share based payments reserve

The Share based payments reserve records items recognised as expenses on valuation of share options

Financial assets reserve

The financial assets reserve records revaluation of financial assets

KalNorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2014

Note 17: Key management personnel compensation

Refer to the Remuneration Report contained in the Directors' Report for details of the remuneration paid to each member of the Consolidated entity's key management personnel for the year ended 30 June 2014.

The totals of remuneration paid to key management personnel of the Consolidated entity during the year are as follows:

	2014 \$	2013 \$
Short-term employee benefits	572,454	1,077,904
Post-employment benefits	39,206	80,589
Termination benefits	-	-
	<u>611,660</u>	<u>1,158,493</u>

Note 18: Related party transactions

The following transactions with key management personnel occurred during the financial year:

- (i) The Company has in place a secured loan with South Victory Global Limited ("SVG") (refer Note 13), a company which is represented on the board of KalNorth Gold Mines Limited via the appointment of Mr. Yuanguang Yang an authorised officer of SVG.
- (ii) The Company has engaged Mercury Consulting Pty Ltd and IRM Pty Ltd, both former director-related entities, to perform investor relations activities on behalf of the Consolidated entity. The agreement is renewable by negotiation and mutual consent. The total value of services provided in the current year was \$32,182 (2013: \$104,704). The services were provided on an arm's length basis.
- (iii) On 20 May 2013, as a condition of the granting of the secured loans (as disclosed in Note 13) three former Directors loaned the Company an aggregate total of \$700,000.

Note 19: Loss per share

	2014 \$	2013 \$
a) Basic loss per share		
Loss after income tax	(10,763,483)	(56,492,958)
Weighted average number of ordinary shares on issue during the year used as the denominator in calculating basic loss per share	<u>203,923,588</u>	<u>161,003,562</u>

Diluted loss per share is the same as basic loss per share as there are no securities to be classified as dilutive potential ordinary shares on issue.

Note 20: Auditor's remuneration

	2014 \$	2013 \$
Remuneration of the auditor for:		
- auditing and reviewing financial reports	41,550	41,350
- taxation services	17,350	8,250
- other taxation services – R&D tax credit assistance	72,783	-
	<u>131,683</u>	<u>49,600</u>

KalNorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2014

Note 21: Cash flow information

	2014 \$	2013 \$
a) Reconciliation of the net loss after income tax to the net cash flows from operating activities		
Net loss for the year	(10,763,483)	(56,492,958)
<i>Non-cash items:</i>		
Depreciation on non-current assets	217,914	235,285
Amortisation on non-current assets	-	314,833
Fair value adjustment to employee share loans	-	(215,466)
Share based payment expenses	-	1,811,476
Exploration expenses	805,489	-
Tenement impairment expense	10,124,900	47,836,999
Profit on sale of plant and equipment	(123,241)	-
Profit on sale of investments	-	(31,156)
<i>Changes in assets and liabilities:</i>		
(Increase)/Decrease in inventories	1,038,501	(1,038,501)
(Increase)/Decrease in trade and other receivables	452,405	526,363
Decrease in other assets	93,766	7,561
(Decrease)/Increase in trade and other creditors	(3,025,585)	3,009,642
Net cash outflow from operating activities	(1,179,334)	(4,035,922)
b) Reconciliation of cash		
Cash balance comprises:		
- Cash at bank and on hand	128,867	2,427,292

Note 22: Commitments

The Consolidated entity has certain commitments to meet minimum expenditure requirements on the mineral exploration assets in which it has an interest. The current annual minimum lease expenditure commitments on these tenements which covers the Lindsays, Kurnalpi, Kalpini and Mt. Jewell projects is \$1,316,037 (2013: \$1,485,881).

If the Consolidated entity decides to relinquish certain leases and/or does not meet these obligations, assets recognised in the balance sheet may require review to determine the appropriateness of carrying values. The sale, transfer, or farm-out of exploration rights to third parties will reduce or extinguish these obligations.

	2014 \$	2013 \$
(b) Non-cancellable operating lease commitments		
- Not later than 12 months	50,051	160,578
- Between 12 months and 5 years	8,004	107,961
- Greater than 5 years	-	-
	58,055	268,539

The Consolidated entity has certain operating lease commitments a property lease at 12 St. Georges Terrace, Perth which is a non-cancellable lease expiring on 9 January 2015 and with rent payable monthly in advance. Additionally, the Consolidated entity has an operating lease for a hand held data analyser at a rental of \$1,334 per month and expiring 31 December 2015.

KalNorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2014

Note 23: Controlled entities	Country of Incorporation	Percentage Owned (%)	
		2014	2013
Subsidiaries of KalNorth Gold Mines Limited:			
Shannon Resources Pty Ltd (dormant)	Australia	100	100
Lusitan Prospecting Pty Limited (dormant)	Australia	100	100

Shannon Resources Pty Ltd is the registered owner of various tenements. The parent entity owns 100% of Shannon Resources Pty Ltd and is entitled to all profits earned and losses incurred from the tenements. There was no income earned and no expenses incurred in Shannon Resources Pty Ltd from the year end 30 June 2014 (2013: nil).

Lusitan Prospecting Pty Limited was acquired by the Company on 12 July 2011 for consideration of \$1. Lusitan Prospecting Pty Limited is the registered owner of various tenements. The parent entity owns 100% of Lusitan Prospecting Pty Limited and is entitled to all profits earned and losses incurred from the tenements.

There was no income earned and no expenses incurred in Lusitan Prospecting Pty Limited for the year ended 30 June 2014 (2013: nil).

Note 24: Segment information

Identification of reportable operating segments

The consolidated entity is organised into two operating segments: mine development and mineral exploration, both within Australia.

These operating segments are based on the internal reports that are reviewed and used by the Board of Directors (who are identified as the Chief Operating Decision Makers ('CODM')) in assessing performance and in determining the allocation of resources. There is no aggregation of operating segments.

The CODM reviews EBITDA (earnings before interest, tax, depreciation and amortisation). The accounting policies adopted for internal reporting to the CODM are consistent with those adopted in the financial statements.

The information reported to the CODM is on at least a monthly basis.

Types of products and services

The principal products and services of each of these operating segments are as follows:

Mine Development	Development and extraction of mineral reserves and resources at Lindsays deposit, Kalgoorlie region, Western Australia
Mineral Exploration	Exploration and evaluation of mineral reserves and resources around the Kalgoorlie region, Western Australia

Intersegment transactions

There were no intersegment transactions

Intersegment receivables, payables and loans

There are no intersegment receivables, payables or loans.

Major customers

During the year ended 30 June 2014 100% (2013: 100%) of the consolidated entity's external revenue was derived from sales to Saracen Mineral Holdings Limited (an Australian Listed gold miner) through the mine development segment.

KalNorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2014

Note 24: Segment information (cont'd)

30 June 2014	Mine development	Mineral exploration	Administration	Total consolidated group
Revenue	\$	\$	\$	\$
Sales to external customers	5,211,564	-	-	5,211,564
Other revenue		-	2,539,759	2,539,759
Total revenue	5,192,150	-	2,539,759	7,751,323
EBITDA	(328,432)	-	627,573	299,141
Depreciation and amortisation	-	(49,547)	(168,367)	(217,964)
Impairment expense	-	(10,124,900)	-	(10,124,900)
Interest revenue	-	-	6,194	6,194
Finance costs	(726,013)	-	-	(726,013)
Profit/ (Loss) before income tax	(1,054,445)	(10,174,447)	465,400	(10,763,492)
Income tax benefit	-	-	-	-
Loss after income tax	(1,054,445)	(10,174,447)	465,400	(10,763,492)
30 June 2014	Mine development	Mineral exploration	Administration	Total consolidated group
Assets	\$	\$	\$	\$
<i>Segment assets</i>				
Inventories	-	-	-	-
Exploration assets	-	8,035,399	-	8,035,399
Property, plant and equipment	-	30,626	474,207	504,833
<i>Unallocated assets:</i>	-	-	-	-
Cash and cash equivalents	-	-	128,867	128,867
Other current and non-current assets	-	-	67,051	67,051
Total assets	-	8,066,025	670,125	8,736,150
Liabilities				
<i>Segment liabilities</i>				
Trade and other payables	-	(1,100,000)	(131,834)	(1,231,834)
Restoration provision	(1,099,370)	-	-	(1,099,370)
<i>Unallocated liabilities:</i>				
Interest-bearing liabilities	-	-	(4,891,788)	(4,891,788)
Total liabilities	(1,099,370)	(1,100,000)	(5,023,622)	(7,222,992)

KalNorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2014

Note 24 Segment information (cont'd)

30 June 2013	Mine Development	Mineral Exploration	Unallocated	Total Consolidated Group
Revenue	\$	\$	\$	\$
Sales to external customers	3,629,630	-	-	3,629,630
Other revenue	-	29,772	31,156	60,928
Total revenue	3,629,630	29,772	31,156	3,690,558
EBITDA	(4,514,441)	29,772	(3,593,323)	(8,077,992)
Depreciation and amortisation	(388,090)	(84,860)	(77,168)	(550,118)
Impairment expense	(3,977,380)	(43,874,900)	-	(47,852,280)
Interest revenue	-	-	115,599	115,599
Finance costs	(128,167)	-	-	(128,167)
Loss before income tax	(9,008,078)	(43,929,988)	(3,554,892)	(56,492,958)
Income tax benefit	-	-	-	-
Loss after income tax	(9,008,078)	(43,929,988)	(3,554,892)	(56,492,958)

30 June 2013	Mine Development	Mineral Exploration	Unallocated	Total Consolidated Group
Assets	\$	\$	\$	\$
<i>Segment assets</i>				
Inventories	1,038,501	-	-	1,038,501
Exploration assets	-	17,547,128	-	17,547,128
Property, plant and equipment	312,305	131,272	406,747	850,324
<i>Unallocated assets:</i>				
Cash and cash equivalents	-	-	2,427,292	2,427,292
Other current and non-current assets	-	-	617,961	617,961
Total assets	1,350,806	17,678,400	3,452,000	22,481,206

Liabilities				
<i>Segment liabilities</i>				
Trade and other payables	(3,421,869)	(2,375,540)	(312,659)	(6,110,068)
Restoration provision	(486,200)	-	-	(486,200)
<i>Unallocated liabilities:</i>				
Interest-bearing liabilities	-	-	(4,239,139)	(4,239,139)
Total liabilities	(3,908,069)	(2,375,540)	(4,551,798)	(10,835,407)

KalNorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2014

Note 25: Financial risk management objectives and policies

The Consolidated entity's principal financial instruments comprise cash and short-term deposits.

The main purpose of these financial instruments is to finance the Consolidated entity's operations. The Consolidated entity has various other financial assets and liabilities such as receivables and payables, which arise directly from its operations.

The main risks arising from the Consolidated entity's financial instruments are interest rate risks, commodity price risks, and, indirectly, foreign exchange risk. Other minor risks have been summarised below. The Board reviews and agrees on policies for managing each of these risks.

(a) Interest rate risk

The Consolidated entity's exposure to market interest rate relates primarily to the Consolidated entity's cash and short term deposits. All other financial assets in the form of receivables and payables are non-interest bearing. The Consolidated entity does not engage in any hedging or derivative transactions to manage interest rate risk.

The following tables set out the carrying amount by maturity of the Consolidated entity's exposure to interest rate risk and the effective weighted interest rate for each class of these financial instruments

	Weighted average interest Rate %	Floating interest rate \$	Fixed interest maturing 1 year or less \$	Fixed interest maturing 1 to 5 years \$
30 June 2014				
Cash at bank	0.37%	128,867	-	-
Total assets				
Interest bearing liabilities	18%	-	(785,120)	-
Interest bearing liabilities	15%	-	(4,106,668)	-
Total liabilities		-	(4,891,788)	-
	%	\$	\$	\$
30 June 2013				
Cash at bank	2.84%	1,627,292	800,000	-
Total assets		1,627,292	800,000	-
Interest bearing liabilities	(18%)	-	(739,139)	(3,500,000)
Total liabilities		-	(739,139)	(3,500,000)

Interest rate sensitivity analysis – cash at bank

At 30 June 2014, if interest rates had changed by 1% during the entire year with all other variables held constant, profit for the year and equity would have been \$2,985 higher/lower (2013: \$11,885), mainly as a result of higher/lower interest income from cash and cash equivalents.

(b) Credit risk

The maximum exposure to credit risk at reporting date on financial assets of the Consolidated entity is the carrying amount, net of any provisions for doubtful debts, as disclosed in the statement of financial position and notes to the financial statements.

KalNorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2014

Note 25: Financial risk management objectives and policies (cont'd)

(c) Liquidity risk

The consolidated entity manages liquidity risk by monitoring forecast cash flows and ensuring that adequate unutilised borrowing facilities are maintained.

The table below analyses the entity's financial liabilities into relevant maturity groupings based on the remaining period from the statement of financial position date to the contractual maturity date. As the amounts disclosed in the table are the contractual undiscounted cash flows, these balances will not necessarily agree with the amounts disclosed in the statement of financial position.

	Less than 6 months \$	6 months to 1 year \$	1 to 5 years \$	Total \$
30 June 2014				
Financial liabilities due for payment				
Trade and other payables	(1,231,834)	-	-	(1,231,834)
Interest bearing liabilities	(4,891,788)	-	-	(4,891,788)
	(6,123,622)	-	-	(6,123,622)
Financial assets – cash flows realisable				
Cash assets	128,867	-	-	128,867
Trade and other receivables	32,503	-	-	32,503
Inventories				
	161,370	-	-	161,370
Net (outflow)/inflow on financial instruments	(5,962,252)	-	-	(5,962,252)

	Less than 6 months \$	6 months to 1 year \$	1 to 5 years \$	Total \$
30 June 2013				
Financial liabilities due for payment				
Trade and other payables	(3,810,068)	(1,200,000)	(1,100,000)	(6,110,068)
Interest bearing liabilities	(739,139)	-	(3,500,000)	(4,239,139)
	(4,549,207)	(1,200,000)	(4,600,000)	(10,349,207)
Financial assets – cash flows realisable				
Cash assets	2,427,292	-	-	2,427,292
Trade and other receivables	484,907	-	-	484,907
Inventories	1,038,501	-	-	1,038,501
	3,950,700	-	-	3,950,700
Net (outflow)/inflow on financial instruments	(598,507)	(1,200,000)	(4,600,000)	(6,398,507)

(d) Commodity price risk

The Consolidated entity is exposed to gold price risk. The Consolidated entity's current policy is for the all of gold production to be exposed to gold price risk. No put options or forward selling was conducted during the year or prior year.

KalNorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2014

Note 25: Financial risk management objectives and policies (cont'd)

(e) Foreign exchange risk

The Consolidated entity sold its ore in Australian Dollars (AUD) and costs of production are denominated in Australian Dollars (AUD). However the AUD gold price is set with reference to the USD price. A rapidly weakening US dollar exposes the consolidated entity to the downside risks related to movement in the AUD/USD exchange rate. The Consolidated entity's current policy is for the all of gold production to be exposed to foreign exchange risk. As production ceased during the year and all gold inventories sold, there is no current intention to enter into any currency hedging contracts and none are outstanding at year end. There were no financial instruments with a foreign currency exposure at the reporting date or at the end of the preceding financial year.

(f) Net fair value of financial assets and liabilities

The carrying amounts of financial instruments included in the statement of financial position approximate their fair values due to their short terms of maturity.

Note 26: Share based payments

Options issued

The Consolidated entity may from time to time issue options to its directors and employees and third party lenders as part of its policy to continue to attract and retain the directors and employees of high calibre and maintain on-going commercial relationships with lenders.

During the year ended 30 June 2014 there were no options issued (2013; 25,000,000 options issued)

Set out below is a summary of those options on issue as at 30 June 2014 for the Consolidated entity:

Issue date	Expiry date	Balance at start of year	Number issued during year	Number expired during year	Balance at end of year	Number exercisable at end of year
27/11/2008	31/12/2013	1,500,000	-	(1,500,000)	-	-
2/12/2008	31/12/2013	1,500,000	-	(1,500,000)	-	-
8/4/2010	31/12/2013	2,000,000	-	(2,000,000)	-	-
28/5/2013	28/11/2014	25,000,000	-	-	25,000,000	25,000,000
		30,000,000	-	(5,000,000)	25,000,000	25,000,000

Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the year as part of share based payment expense were as follows:

	2014 \$	2013 \$
Expenses related to options issued to secured lenders	-	1,274,848
Expenses related to share loans issued to directors and other key management personnel(*)	-	120,479
Expenses related to non-recourse share loans to employees (*)	-	416,149
Total share based payment expense	-	1,811,476
Transfer of options expense to exploration costs capitalised	-	(112,878)
	-	1,698,598

(*) relates to non-recourse interest free share loans, the costs of which are treated as share based payments in the financial statements

Note 27: Events subsequent to reporting date

Since the end of the financial year and to the date of this report no matter or circumstance has arisen 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 other than the matter referred to below.

(i) South Victory Global Limited ("SVG") Loan

On 28 August 2014, the company issued 35,842,004 ordinary fully paid shares (at an issue price of 1 cent each) to SVG to convert the partial outstanding interest on the loan to equity. This extinguished \$358,420 of accrued interest owing to SVG.

As at the date of this report, the company is in on-going discussions with SVG and its other major lenders with respect to the restructuring of both its secured and unsecured loans, which includes the potential to seek shareholder approval of a partial or full conversion of the loan debts and accrued interest to equity.

(ii) Changes to the Composition of the Board

On 28 August 2014, Mr. Brendan Connell resigned as a non-executive Director and Mr. Yuanguang Yang (a representative of SVG) was appointed as a Non-Executive Director.

(iii) Change of Company Secretary

On 29 August 2014, Mr James Church resigned as Company Secretary. Executive Director, Mr Lijun Yang was appointed in this role as the Interim Company Secretary.

(iv) New Short term Loan Facility

On 8 September 2014, the Company announced that it has entered into a Converting Loan agreement with Goldfresh Limited, a Hong Kong based investment company, for an amount of A\$350,000 to be used to providing the company with short-term funding for its working capital.

The key terms of the converting note are as follows:

- (i) Principal - \$350,000
- (ii) Interest – 8% p.a.
- (iii) Maturity – 5 March 2016
- (iv) Conversion Price – The lower of 1.5 cents or price of any shares issued after agreement execution date.

There were no other events of significance subsequent to 30 June 2014.

Note 28: Contingent liabilities and contingent assets

There are no contingent liabilities or assets at reporting date.

Note 29: Parent Information

As the subsidiaries referred to in Note 23 are part of the KalNorth tax consolidated group, the group maintains one set of books and records and as such the Parent entity disclosures are identical to the Group's disclosures in the Statement of Financial Position and the Statement of Comprehensive Income. In addition, there are:

- a) no guarantees entered into by the parent entity in relation to the debts of its subsidiaries.
- b) no contingent liabilities of the parent entity as at the reporting date.
- c) no contractual commitments by the parent entity for the acquisition of property, plant and equipment as at the reporting date.

KalNorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2014

DIRECTORS' DECLARATION

The directors of the company declare that, in the opinion of the directors:

- (a) the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards, including the Interpretations, and the Corporations Regulations 2001;
- (b) the financial statements and notes thereto also comply with International Financial Reporting Standards, as disclosed in Note 1; and
- (c) the directors have been given the declarations required by s.295A of the Corporations Act 2001
- (d) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable;
Signed in accordance with a resolution of the directors made pursuant to s.295(5) of the Corporations Act 2001.

On behalf of the Directors:



Lijun Yang
Executive Director

Dated at Perth this 30th September 2014

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

Report on the Financial Report

We were engaged to audit the financial report of KalNorth Gold Mines Limited ("the company"), which comprises the consolidated statement of financial position as at 30 June 2014, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, 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 of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on conducting the audit in accordance with Australian Auditing Standards. Because of the matters described in the Bases for Disclaimer of Opinion paragraphs, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial report. However, we believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the Remuneration Report.

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*, which has been given to the directors of KalNorth Gold Mines Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Bases for Disclaimer of Opinion

Going Concern

We draw attention to Note 1 in the financial statements, which indicates that the company and consolidated entity both incurred net losses of \$10,763,483 and the consolidated entity had net cash outflows of \$2,298,425 for the year ended 30 June 2014. As of that date, the company and consolidated entity had net current liabilities of \$5,927,704. The ability of the company and consolidated entity to continue as going concerns is contingent on a number of future events, the most significant of which are their ability to negotiate with their major lenders with respect to the restructuring of secured and unsecured loans, obtain additional funding to continue their exploration activities and to pay their debts as and when they fall due. We have been unable to obtain sufficient appropriate evidence as to whether the company and the consolidated entity may be able to negotiate such loans and obtain such funding, and hence, we have been unable to determine whether the preparation of the financial report on a going concern basis is appropriate.

Recoverability of Assets

As a result of the uncertainties relating to the adoption of the going concern basis of accounting by the company and the consolidated entity, their future debt restructuring and the continuation of their mineral exploration activities, we have been unable to obtain sufficient appropriate evidence regarding the carrying amount in the statement of financial position of deferred exploration and evaluation expenditure disclosed in Note 10 of \$8,035,398 and property, plant, and equipment disclosed in Note 8 of \$504,833. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

Disclaimer of Opinion

Because of the significance of the matters described in the Bases for Disclaimer of Opinion paragraphs, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion whether:

- (a) the financial report of KalNorth Gold Mines Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report contained within the directors' report for the year ended 30 June 2014. 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.

Opinion

In our opinion the Remuneration Report of KalNorth Gold Mines Limited for the year ended 30 June 2014 complies with section 300A of the *Corporations Act 2001*.



RSM BIRD CAMERON PARTNERS



D J WALL
Partner

Perth, WA

Dated: **30 SEPTEMBER 2014**

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AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the financial report of KalNorth Gold Mines Limited for the year ended 30 June 2014, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

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



RSM BIRD CAMERON PARTNERS



D J WALL
Partner

Perth, WA
Dated: 30 September 2014