



KalNorth Gold Mines Limited and Controlled Entities
ACN 100 405 954

Financial Report

For the half-year ended 31 December 2019

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This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2019 and any public announcements made by KalNorth Gold Mines Limited during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

KalNorth Gold Mines Limited and Controlled Entities
Half Year ended 31 December 2019

CORPORATE DIRECTORY

Directors	Jiajun Hu (Executive Chairman) Yuanguang Yang (Non-Executive Director) Xiaojing Wang (Non-Executive Director)
Company Secretary	Jiajun Hu
Registered Office	224 Dugan Street Kalgoorlie, Western Australia 6430
Corporate Office	224 Dugan Street Kalgoorlie, Western Australia 6430
Share Registry	Advanced Share Registry Limited 110 Stirling Highway Perth WA 6009
Auditor	BDO Audit (WA) Pty Ltd 38 Station Street Subiaco WA 6008
Stock Exchange Listing	Australian Securities Exchange ASX code: KGM

DIRECTORS' REPORT

The directors present their report on the consolidated entity consisting of KalNorth Gold Mines Limited and the entities it controlled ("the Consolidated Entity") for the half-year ended 31 December 2019.

Directors

The names of directors who held office during the half year and until the date of this report are provided below. Directors were in office for the entire period unless otherwise stated.

Jiajun Hu
Yuanguang Yang
Xiaojing Wang

Principal Activities

During the financial half-year the principal continuing activities of the consolidated entity consisted of mineral exploration.

Results and Review of Operations

The loss attributable to members of KalNorth Gold Mines Limited for the half year ended 31 December 2019 was \$542,092 (2018: loss of \$538,540). The loss is consistent with the previous half year.

No dividends were paid or declared payable during or since the half-year.

Exploration Activities

Kurnalpi Project (100% KGM)

The Kurnalpi project is located approximately 85 km north-east of Kalgoorlie in the eastern Goldfields Region of Western Australia, with easy road access. It has been subject to extensive historic small scale gold mining and a number of companies have completed extensive work on this project previously. A series of small to moderate size mineral resources have been defined in the project area and KalNorth is focusing on exploration to define additional resources to increase the potential for development.

Lindsay's Project (100% KGM)

The Lindsay's project is located approximately 65km to the north east of Kalgoorlie and contains the Lindsay's mine site which continues to remain under care and maintenance since August 2013. The Board was seeking to review its strategy with respect to the Lindsay's Project which has demonstrated both open-cut and underground mining potential.

Corporate

Loan Facility – A loan agreement was entered into with the Company's significant shareholder, Cross-Strait Common Development Fund Co., Limited ("Cross-Straits") for A\$181,920 on 1 August 2019 for working capital purpose. The full amount was drawn down on 9 August 2019. The loan is subject to an annual 8% interest rate charge and repayable in full by 31 December 2020. The loan facility will also be secured by a security charge over the Company's tenements, subject to shareholders' approval.

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

The lead auditor's independence declaration under section 307C of the *Corporations Act 2001* is set out on page 4 and forms part of the Directors' Report for the half-year ended 31 December 2019.

DIRECTORS' REPORT (Cont'd)

Signed in accordance with a resolution of the Directors.



Jiajun Hu
Executive Chairman

Dated at Perth this 13 of March 2020

DECLARATION OF INDEPENDENCE BY GLYN O'BRIEN TO THE DIRECTORS OF KALNORTH GOLD MINES LIMITED

As lead auditor for the review of KalNorth Gold Mines Limited for the half-year ended 31 December 2019, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
2. No contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of KalNorth Gold Mines Limited and the entities it controlled during the period.



Glyn O'Brien

Director

BDO Audit (WA) Pty Ltd

Perth, 13 March 2020

KalNorth Gold Mines Limited and Controlled Entities
Half Year ended 31 December 2019

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the half year ended 31 December 2019

	Note	Consolidated 31 December 2019 \$	31 December 2018 \$
Other income		78	14,934
Director and corporate employee costs		(169,919)	(139,399)
Professional fees and consultants		(74,084)	(69,763)
Depreciation expenses		(466)	(1,402)
Listing and registry fees		(5,299)	(31,313)
Exploration expenses	2	(216,942)	(253,433)
Interest expense		(14,322)	-
Other expenses		(61,137)	(58,164)
Loss before income tax		<u>(542,092)</u>	<u>(538,540)</u>
Income tax expense		-	-
Loss for the period		<u>(542,092)</u>	<u>(538,540)</u>
Other Comprehensive income		<u>-</u>	<u>-</u>
Total Comprehensive Income for the period		<u>(542,092)</u>	<u>(538,540)</u>
 Earnings Per Share			
Basic and diluted (loss) per share (cents)		(0.06)	(0.06)

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

KalNorth Gold Mines Limited and Controlled Entities
Half Year ended 31 December 2019

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2019

		Consolidated	
	Note	31 December 2019	30 June 2019
		\$	\$
Assets			
Current Assets			
Cash and cash equivalents		76,496	94,736
Trade and other receivables		-	21,508
Other assets		7,500	7,500
Total Current Assets		83,996	123,744
Non-Current Assets			
Property, plant and equipment		290,866	291,332
Exploration and evaluation expenditure	2	5,259,651	5,259,651
Total Non-Current Assets		5,550,517	5,550,983
Total Assets		5,634,513	5,674,726
Liabilities			
Current Liabilities			
Trade and other payables	3	245,182	177,856
Borrowings	4	524,553	-
Total Current Liabilities		769,735	177,856
Non-Current Liabilities			
Borrowings	4	-	90,000
Restoration provision		1,064,874	1,064,874
Total Non-Current Liabilities		1,064,874	1,154,874
Total Liabilities		1,834,609	1,332,730
Net Assets		3,799,904	4,341,996
Equity			
Issued capital	5	92,438,807	92,438,807
Accumulated losses		(88,638,903)	(88,096,811)
Total Equity		3,799,904	4,341,996

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

KalNorth Gold Mines Limited and Controlled Entities
Half Year ended 31 December 2019

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the half year ended 31 December 2019

	Issued Capital	Accumulated Losses	Total
At 1 July 2018	92,438,807	(87,271,438)	5,167,369
Loss for the period	-	(538,540)	(538,540)
Total comprehensive loss for the period	-	(538,540)	(538,540)
At 31 December 2018	92,438,807	(87,809,978)	4,628,829
 At 1 July 2019	 92,438,807	 (88,096,811)	 4,341,996
Loss for the period	-	(542,092)	(542,092)
Total comprehensive loss for the period	-	(542,092)	(542,092)
At 31 December 2019	92,438,807	(88,638,903)	3,799,904

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

KalNorth Gold Mines Limited and Controlled Entities
Half Year ended 31 December 2019

CONSOLIDATED STATEMENT OF CASH FLOWS
For the half year ended 31 December 2019

	Consolidated	
	31 December	31 December
	2019	2018
	\$	\$
Cash flows from Operating Activities		
Payments to suppliers and employees	(184,047)	(259,926)
Research and Development tax refund (gross)	-	-
Interest received	78	3,152
Interest paid	(1,653)	(169,604)
Other income	-	14,026
Net cash used in operating activities	<u>(185,622)</u>	<u>(412,352)</u>
Cash flows from Investing Activities		
Payments for mineral exploration activities	(254,502)	(324,099)
Sale of property, plant and equipment	-	318
Net cash used in investing activities	<u>(254,502)</u>	<u>(323,781)</u>
Cash flows from Financing Activities		
Repayment of borrowings – convertible loan	-	(1,300,000)
Loan from director	90,000	-
Loan from shareholder	331,884	-
Net cash provided by / (used in) financing activities	<u>421,884</u>	<u>(1,300,000)</u>
Net decrease in cash held	(18,240)	(2,036,133)
Cash and cash equivalent at the beginning of the half-year	<u>94,736</u>	<u>2,458,022</u>
Cash and cash equivalent at the end of the half-year	<u>76,496</u>	<u>421,889</u>

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

NOTES TO THE FINANCIAL STATEMENTS
For the half year ended 31 December 2019

1. Basis of Preparation

KalNorth Gold Mines Limited is a listed public company, incorporated and domiciled in Australia. During the half year ended 31 December 2019 (the “period”), the consolidated entity conducted operations in Australia.

These consolidated interim financial statements of the consolidated entity for the period ended 31 December 2019 are general purpose financial statements prepared in accordance with the requirements of the Australian Corporations Act 2001 (Cth), applicable accounting standards including AASB 134 ‘Interim Financial Reporting’, other authoritative pronouncements of the Australian Accounting Standards Board (‘AASB’) and Urgent Issues Group Interpretations.

These interim financial statements do not include full disclosures of the type normally included in an annual financial report. Therefore, it cannot be expected to provide as full an understanding of the financial performance, financial position and cash flows of the group as in the full financial report. It is recommended that these interim financial statements be read in conjunction with the annual financial report for the year ended 30 June 2019, and any public announcements made by the group during the half-year in accordance with continuous disclosure requirements arising under the Corporations Act 2001.

The same accounting policies and methods of computation have been followed in this interim financial report as were applied in the most recent annual financial statements, except in relation to the matters discussed below.

New and Amended Accounting Standards and Interpretations Adopted

AASB 16 Leases became applicable for the current reporting period and the Group has changed its accounting policies as a result of the adoption of these standards. The consolidated entity has adopted AASB 16 from 1 July 2019 using the retrospective modified approach and as such the comparatives have not been restated. The impact of the adoption of these standards means any leases that meet the definition of a lease under the standard are required to be recognised on the balance sheet as a right of use asset with a corresponding lease liability, amortised over the life of the lease. The new accounting policy has not had a material impact on the amounts presented in the Group’s financial statements as the group have no leases which fall within the scope of AASB 16.

Going Concern

The Financial Statements have been prepared on a going concern basis, which contemplates the continuation of normal business activities and the realisation of assets and the settlement of liabilities in the normal course of business.

For the period ended 31 December 2019, the Group recorded a loss from continuing operations after income tax of \$542,092 (2018: loss \$538,540) and had net cash outflows from operating and investing activities of \$440,124 (2018: \$736,133). At 31 December 2019, the Company had total current liabilities of \$769,735 (30 June 2019: \$177,856) and cash and cash equivalents of \$76,496.

The ability of the Group to continue as a going concern is dependent on securing additional funding through either equity or debt, or a combination of both to continue to fund its operational and exploration activities. These conditions indicate a material uncertainty that may cast a significant doubt about the Group’s ability to continue as a going concern, and therefore that it may not be able to realise its assets and discharge its liabilities in the normal course of business.

The Directors believe that the Company will continue as a going concern and be able to pay its debt as and when they fall due. The financial report has been prepared on the basis that the Group is a going concern, which contemplates the continuity of normal business activity, realisation of assets and settlement of liabilities in the normal course of business for the following reasons:

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

- (i) The Group is cutting cost across the board and is monitoring expenditure closely;
- (ii) The Group is considering partial disposal of assets, including through farm-in and joint venture arrangements, to raise funds;
- (iii) The Group is in discussion with major shareholders to provide equity and / or loan facilities;
- (iv) A Director and a significant shareholder, both whom have provided loan funding to the Group, have provided confirmation that they will extend loan repayment terms until such time as the Group has the ability to pay; and
- (v) The Group has received a Letter of Support from Directors dated 13 March 2020 agreeing to provide financial support to enable KalNorth Gold Mines Limited to meet its debts as and when they fall due and to enable the Company to carry on its business as a going concern and maintain its assets in good standing for a period of time until the Company completes adequate fund raising for a period of 12 months.

Should the Group not be able to continue as a going concern, it may be required to realise its assets and discharge its liabilities other than in the ordinary course of business, and at amounts that differ from those stated in the financial report. The financial report does not include any adjustments relating to the recoverability and classification of recorded assets and liabilities that might be necessary should the Group not be able to continue as a going concern.

Significant Accounting Judgements and Key Estimates

In preparing this interim report, the significant judgements made by management in applying the Group's accounting policies and key sources of estimation uncertainty were the same as those that applied to the consolidated financial report for the year ended 30 June 2019.

Statement of Compliance

The interim financial statements were authorised for issue on 13 March 2020.

The interim financial statements comply with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report, comprising the interim financial statements and notes thereto, complies with International Financial Reporting Standards (IFRS).

2. Exploration and Evaluation Expenditure

	Consolidated	
	31 December 2019	30 June 2019
	\$	\$
Cost	5,259,651	5,259,651
<i>Reconciliation</i>		
Balance at beginning of period/year	5,259,651	5,259,651
Exploration expenditure incurred for the period/year	216,942	461,665
Exploration expenditure expensed	(216,942)	(461,665)
Balance at end of period/year	5,259,651	5,259,651

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.

KalNorth Gold Mines Limited and Controlled Entities
Half Year ended 31 December 2019

3. Trade and Other Payables

	Consolidated	
	31 December 2019	30 June 2019
<i>Current</i>	\$	\$
Trade payables	137,440	86,385
GST and other taxes payable	30,830	43,056
Sundry payables and accrued expenses	73,912	46,415
Deposit received	-	2,000
	242,182	177,856

4. Borrowings

	Consolidated	
	31 December 2019	30 June 2019
<i>Current:</i>	\$	\$
Loan from director	186,501	-
Loan from shareholder	338,052	-
	524,553	-
<i>Non-current:</i>		
Loan from director	-	90,000
	-	90,000

During the half year ending 31 December 2019, the Company borrowed additional funds from director, Jiajun Hu and shareholder, Cross-Strait Common Development Fund Co., Limited to fund working capital. These loans will be secured by the Company's assets subject to shareholders' approval, 8% interest charged annually and repayable on or before 31 December 2020.

5. Issued Capital

	31 December 2019	30 June 2019
Ordinary Shares	\$	\$
894,240,060 fully paid ordinary shares (June 2018: 894,240,060)	92,438,807	92,438,807

6. Dividends

No dividends were paid or declared payable during or since the half-year.

7. Segment Information

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Board of Directors (chief operating decision makers) in assessing performance and determining the allocation of resources. During the period the consolidated entity operated in one geographical segment being Australia, and one business segment being mineral exploration and development.

8. Related party transactions

Related Parties

The Group's main related parties are as follows:

a. Key management personnel

Any person(s) having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity is considered key management personnel.

b. Entities subject to significant influence

An entity that has the power to participate in the financial and operating policy decisions of an entity, but does not have control over those policies, is an entity which holds significant influence. Significant influence may be gained by share ownership, statute or agreement

Transactions with related parties:

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

The following transactions occurred with related parties (refer to note 4 Borrowings for details on loan terms and conditions):

Amounts payable to related parties:

	Consolidated	
	31 December 2019	30 June 2019
Loans from key management personnel:	\$	\$
Beginning of the period	90,000	-
Loan advanced	90,000	90,000
Interest charged	6,501	-
End of the period	186,501	90,000
Loans from entities with significant influence:	\$	\$
Beginning of the period	-	-
Loan advanced	331,884	-
Interest charged	6,168	-
End of the period	338,052	-

9. Events Subsequent to Reporting Date

Since the end of the reporting period and to the date of this report, no other matter or circumstance has arisen which significantly affected, or may significantly effect, the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent financial periods.

DIRECTORS' DECLARATION

The Directors of KalNorth Gold Mines Limited declare that:

1. The financial statements and notes, are in accordance with the Corporations Act 2001, including :
 - (a) complying with Accounting Standard AASB 134 Interim Financial Reporting; and
 - (b) giving a true and fair view of the consolidated entity's financial position as at 31 December 2019 and of its performance for the half-year ended on that date.
2. In the Directors' opinion there are reasonable grounds to believe that the consolidated entity will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.



Jiajun Hu
Chairman

Dated at Perth this 13 day of March 2020

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of KalNorth Gold Mines Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the half-year financial report of KalNorth Gold Mines Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2019, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year then ended, notes comprising a statement of accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of the Group is not in accordance with the *Corporations Act 2001* including:

- (i) Giving a true and fair view of the Group's financial position as at 31 December 2019 and of its financial performance for the half-year ended on that date; and
- (ii) Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

Emphasis of matter - Material uncertainty relating to going concern

We draw attention to Note 1 in the financial report which describes the events and/or conditions which give rise to the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern and therefore the Group may be unable to realise its assets and discharge its liabilities in the normal course of business. Our conclusion is not modified in respect of this matter.

Directors' responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year 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 half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2019 and its financial performance for the half-year ended on that date and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.



A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, 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 the Group, would be in the same terms if given to the directors as at the time of this auditor's review report.

BDO Audit (WA) Pty Ltd

A handwritten signature in black ink, appearing to read 'Glyn O'Brien', is written over the printed name. Above the signature, the letters 'BDO' are handwritten in a simple, blocky style.

Glyn O'Brien

Director

Perth, 13 March 2020