

12 August 2020

Ms Madeleine Green
Senior Adviser, Listings Compliance (Perth)
ASX Limited
Level 40, Central Park, 152-158 St Georges Terrace
Perth WA 6000 **By email: ListingsCompliancePerth@asx.com.au**

Dear Ms Green

KALNORTH GOLD MINES LIMITED ('KGM'): APPENDIX 5B QUERY

KalNorth Gold Mines Limited (ASX: KGM) ("the "Company") refers to ASX's letter dated 7 August 2020 containing several queries in relation to the Company's previously lodged Appendix 5Bs' and the Company's financial position in general.

The Company responds as follows (ASX's queries noted in italics):

1. *Please provide a schedule of all outstanding loans that includes:*
 - 1.1 *the amount of the loan;*
 - 1.2 *whether any of the loan has been repaid;*
 - 1.3 *the interest rate;*
 - 1.4 *the lender's name;*
 - 1.5 *the lender's association with KGM;*
 - 1.6 *the repayment date; and*
 - 1.7 *whether the loan is currently secured or contemplated to be secured.*

Lender	Mr Jiajun Hu	Cross-Strait Common Development Fund Co., Limited	Mintu Infrastructure Development Holdings Co., Limited
Loan Amount as at 30 June 2020	\$190,000 ¹	\$331,884	\$236,563
Loan repayments since drawdown	None	None	None
Interest rate	8% per annum	8% per annum	8% per annum
Lender's association with KGM	Executive Chairman of KGM	Significant shareholder (9.92%)	Independent 3 rd party
Repayment date	31 December 2020	31 December 2020	31 March 2021
Security	Unsecured ²	Unsecured ²	Unsecured ²

¹ The formal loan agreement with Mr Hu is for an aggregate amount of \$180,000. However, Mr Hu has continued to provide additional loan funding including an amount of \$31,000 since 30 June 2020 and up to the date of this letter.

² Loans are unsecured, however KGM had agreed to grant security over the Company's assets in relation to these loans subject to shareholder approval where necessary.

2. Please provide copies of all loan agreements.

Copies of loan agreements are attached. KGM notes that these agreements are not for release to the market.

3. Please detail when KGM will be obtaining shareholder approval to secure the loans as contemplated in September Appendix 5B, December Appendix 5B, March Appendix 5B and June Appendix 5B.

KGM will seek shareholder approval for grant of security at its 2020 Annual General Meeting, planned for the month of November 2020. However, the Board is working towards completion of other plans (see further details elsewhere in this letter). Should these plans come to fruition beforehand, then the Board's intention would be repay the loans as soon as possible and therefore not have to grant security in relation to the loans.

4. Please detail when and how KGM intends on repaying each outstanding loan.

The loan repayment dates are noted on the previous page and are in the near term. In the absence of operating revenues and cashflows, the loans would require repayment from a variety of sources including equity capital raising, upfront cash contribution by prospective joint venture partners, partial sale of assets or settlement via conversion of debt to equity. KGM notes that in the past it has successfully raised equity capital, settled debt by conversion to equity and disposed non-core assets for valuable consideration. The Board is working on all of these alternatives and believes that the loans will be repaid or otherwise settled before the due dates.

5. Please provide an update on the discussions with major shareholders and third parties regarding funding which is referred to in the March Appendix 5B and the June Appendix 5B.

KGM remains actively engaged in discussions with major shareholders as well as third parties in relation to equity funding as well as prospective joint venture arrangements. Ongoing restrictions on travel and people movement within Australia and internationally due to the Covid-19 pandemic has created some difficulties for KGM in smoothly progressing these discussions. Recent changes to the foreign investment regime in Australia has also delayed some prospective investors' evaluation of the investment opportunity.

6. Please detail KGM's current cash position as at the date of this letter.

Cash assets of \$2,422 as at the date of this letter.

7. Please detail when the \$1,064,874 in restoration provisions detailed in the Half Year Report becomes due and payable and what these provisions relate to.

This provision relates to KGM's mineral tenement holdings. As the Company is the holder of tenements in Western Australia, it is required to pay an annual levy to the Mining Rehabilitation Fund (MRF levy). The computation of the annual MRF levy takes into account exploration and mining activity on each tenement and provides a monetary estimate of the amount of restoration work required for the tenement. The provision amount of \$1.064 million has been thus computed. The provision amount is not due and payable at any fixed time nor to any specific party but is an estimate of the likely restoration cost if the Company were to relinquish its tenement holdings. A majority of the provision amount relates to the Lindsays' project site, where the Company has previously conducted mining operations and which site presently remains on care and maintenance.

8. Based on the Working Capital Deficiency and KGM's current cash balance of \$4,000 as at 30 June 2020, please detail how KGM believes it is in compliance with Listing Rule 12.2.

KGM's Board believes that the working capital deficiency and the constrained cash balance is a temporary situation and one that the Board has been and is working actively to remedy. As noted earlier, the Company has a successful track record of successfully raising equity capital, settling debt by conversion to equity and disposing non-core assets for valuable consideration. The Board is confident that it will be able to remedy the working capital deficiency and improve its cash balance in the near future. The Board notes that the Company holds valuable gold properties in the Goldfields region of Western Australia and the Company will be able to successfully capitalise on its strategic gold projects, particularly in the current environment of record gold prices and buoyant investor sentiment. The Company continues to field serious inquiries in relation to its Kunalpi and Lindsays projects, including from prospective joint venture partners.

9. Does KGM expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

Yes, KGM expects to be able to continue its operations and to meet its business objectives based on strengthening its working capital position and the balance sheet generally for the various reasons outlined in (8) above.

10. Please confirm that KGM is complying with Listing Rule 3.1 and that there is no information about its financial condition that should be given to ASX in accordance with that rule that has not already been released to the market.

The Company confirms its ongoing compliance with Listing Rule 3.1 and confirms that there is no information about its financial condition that should be given to ASX in accordance with that rule that has not already been released to the market.

11. Please confirm that KGM's responses to the questions above have been authorised and approved under its published continuous disclosure policy or otherwise by its board or an officer of KGM with delegated authority from the board to respond to ASX on disclosure matters.

The Company confirms that its responses noted above have been authorised and approved by an officer of the Company with delegated authority from the Board to respond to ASX on disclosure matters. The Company notes that its responses have in any case been discussed and agreed to by all Board members.

Yours faithfully



Jiajun Hu
Executive Chairman



7 August 2020

Mr Jiajin Hu
Company Secretary
Kalnorth Gold Mines Limited

By email: jiajun.hu@kalnorthgoldmines.com

Dear Mr Hu

Kalnorth Gold Mines Limited ('KGM'): Appendix 5B - Query

ASX refers to the following:

- A. KGM's updated Appendix 5B report for the period ended 30 September 2019 lodged with ASX Market Announcements Platform on 31 October 2019 (the 'September Appendix 5B'), which noted the following:
- Net cash used in operating activities for the quarter of \$301,000.
 - Total cash balance at the end of the quarter of \$36,000.
 - Total outstanding financial facilities at the end of the quarter of \$332,000.
 - "...the Company entered into a \$150,000 loan facility agreement with a Director of the Company and a \$181,884 loan facility agreement with a substantial shareholder of the Company, to be secured by the assets of the Company subject to shareholders approval, interest of 8% per annum and repayable by 31 December 2020. During the quarter, the remaining \$60,000 director loan and full \$181,884 shareholder loan have been drawn down."*
- B. KGM's announcement entitled 'Further Loan Funds' lodged with lodged with ASX Market Announcements Platform on 7 January 2020 ('Announcement') that stated:
- 'KalNorth Gold Mines Limited (ASX: KGM) advises receipt of further loan funds of \$180,000 in aggregate from a director of the Company and a major shareholder of the Company.*
- Together with loan funds previously received and reported, the total loan funds from these parties are now just under \$512,000. Interest at the rate of 8% per annum is chargeable on these loans, which are repayable by 31 December 2020. Pending development of a longer-term funding plan, the major shareholder has indicated its continuing support for the Company.'*
- C. KGM's Appendix 5B report for the period ended 31 December 2019 lodged with ASX Market Announcements Platform on 31 January 2020 (the 'December Appendix 5B'), which noted the following:
- Net cash used in operating activities for the quarter of \$140,000.
 - Total cash balance at the end of the quarter of \$76,000.
 - Total outstanding financial facilities at the end of the quarter of \$512,000.
 - '...the Company entered into additional loans facility agreement with a Director of the Company (\$30,000) and a substantial shareholder of the Company (\$150,000), to be secured by the assets of the Company subject to shareholders approval, interest of 8% per annum and repayable by 31 December 2020. During the quarter, the full loan amount of \$180,000 was drawn down.'*
- D. KGM's half year report for the period ending 31 December 2019 lodged with ASX Market Announcements Platform on 13 March 2020 (the 'Half Year Report'), which noted the following:

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- a. Cash and cash equivalents of \$76,496 at the end of the period.
 - b. Total current assets of \$83,996 at the end of the period.
 - c. Total current liabilities of \$767,735 at the end of the period, being made up of:
 - i. Trade and other payables of \$245,182; and
 - ii. Borrowings of \$524,553.
 - d. Total non-current liabilities of \$1,064,874 at the end of the period, being restoration provisions.
- E. KGM's Appendix 5B report for the period ended 31 March 2020 lodged with ASX Market Announcements Platform on 30 April 2020 (the 'March Appendix 5B'), which noted the following:
- a. Net cash used in operating activities for the quarter of \$258,000.
 - b. Total cash balance at the end of the quarter of \$54,000.
 - c. Total outstanding financial facilities at the end of the quarter of \$658,000.
 - d. Estimated quarters funded available was less than 1 quarter.
 - e. *'...the Company entered into a new loan agreement with a third party, Mintu Infrastructure Development Holdings Co., Limited for \$236,563. This loan will be secured by the assets of the Company subject to shareholder approval, interest payable of 8% per annum at the end of the term and repayable in full by 31 March 2021. During the quarter, the full amount was drawn down.'*
 - f. *'...the Board is talking to its major shareholders as well as third parties who are interested to provide funding through a combination of equity and debt structure.'*
- F. KGM's Appendix 5B report for the period ended 30 June 2020 lodged with ASX Market Announcements Platform on 31 July 2020 (the 'June Appendix 5B'), which noted the following:
- a. Net cash used in operating activities for the quarter of \$57,000.
 - b. Total cash balance at the end of the quarter of \$4,000.
 - c. Total outstanding financial facilities at the end of the quarter of \$758,000.
 - d. Estimated quarters funded available was less than 1 quarter.
 - e. *'...an additional \$10,000 loan was provided by a Director of the company for working capital purposes. This loan will be secured by the assets of the Company subject to shareholder approval, interest payable of 8% per annum and repayable upon demand.'*
 - f. *'... the Board is talking to its major shareholders as well as third parties who are interested to provide funding through a combination of equity and debt structure. In the meantime, the Company continues to receive loan funding from a director and also a major shareholder in the Company.'*
- G. Listing Rule 12.2 which states:
- 12.1 *The level of an entity's operations must, in ASX's opinion, be sufficient to warrant the continued +quotation of the entity's +securities and its continued listing.*

Request for Information

Based on the Half Year Report KGM had a working capital deficiency (total current assets – total current liabilities) of \$683,739 at 31 December 2019 ('Working Capital Deficiency').

It is possible to conclude, based on the information in the June Appendix 5B that if KGM were to continue to expend cash at the rate indicated by the June Appendix 5B, KGM may not have sufficient cash to continue funding its operations.

In light of the above, ASX asks KGM to answer separately each of the following questions and request for documentation:

1. Please provide a schedule of all outstanding loans that includes:
 - 1.1 the amount of the loan;
 - 1.2 whether any of the loan has been repaid;
 - 1.3 the interest rate;
 - 1.4 the lender's name;
 - 1.5 the lender's association with KGM;
 - 1.6 the repayment date; and
 - 1.7 whether the loan is currently secured or contemplated to be secured.
2. Please provide copies of all loan agreements (not for release to market).
3. Please detail when KGM is will be obtaining shareholder approval to secure the loans as contemplated in September Appendix 5B, December Appendix 5B, March Appendix 5B and June Appendix 5B.
4. Please detail when and how KGM intends on repaying each outstanding loan.
5. Please provide an update on the discussions with major shareholders and third parties regarding funding which is referred to in the March Appendix 5B and the June Appendix 5B.
6. Please detail KGM's current cash position as at the date of this letter.
7. Please detail when the \$1,064,874 in restoration provisions detailed in the Half Year Report becomes due and payable and what these provisions relate to.
8. Based on the Working Capital Deficiency and KGM's current cash balance of \$4,000 as at 30 June 2020, please detail how KGM believes it is in compliance with Listing Rule 12.2.
9. Does KGM expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?
10. Please confirm that KGM is complying with Listing Rule 3.1 and that there is no information about its financial condition that should be given to ASX in accordance with that rule that has not already been released to the market.
11. Please confirm that KGM's responses to the questions above have been authorised and approved under its published continuous disclosure policy or otherwise by its board or an officer of KGM with delegated authority from the board to respond to ASX on disclosure matters.

Please also provide any other information that KGM considers may be relevant to ASX forming an opinion on whether KGM is complying with Listing Rule 12.2 that a listed entity's financial condition must, in ASX's opinion, be adequate to warrant the continued quotation of its securities and its continued listing.

When and where to send your response

Please note that ASX reserves its right under Listing Rule 18.7A to release this letter and KGM's response to the market. Accordingly, KGM's response should address each question separately and be in a format suitable for release to the market.

Your response is required as soon as reasonably possible and, in any event, by no later than **3:00 PM AWST Wednesday, 12 August 2020**. You should note that if the information requested by this letter is information required to be given to ASX under Listing Rule 3.1 and it does not fall within the exceptions mentioned in Listing Rule 3.1A, KGM's obligation is to disclose the information 'immediately'. This may require the information to be disclosed before the deadline set out in the previous paragraph and may require KGM to request a trading halt immediately.

Your response should be sent to me by e-mail at **ListingsCompliancePerth@asx.com.au**. It should not be sent directly to the ASX Market Announcements Office. This is to allow me to review your response to confirm that it is in a form appropriate for release to the market, before it is published on the ASX Market Announcements Platform.

Trading halt

If you are unable to respond to this letter by the time specified above, you should discuss with us whether it is appropriate to request a trading halt in KGM's securities under Listing Rule 17.1. If you wish a trading halt, you must tell us:

- the reasons for the trading halt;
- how long you want the trading halt to last;
- the event you expect to happen that will end the trading halt;
- that you are not aware of any reason why the trading halt should not be granted; and
- any other information necessary to inform the market about the trading halt, or that we ask for.

We require the request for a trading halt to be in writing. The trading halt cannot extend past the commencement of normal trading on the second day after the day on which it is granted. You can find further information about trading halts in Guidance Note 16 *Trading Halts & Voluntary Suspensions*.

Suspension

If you are unable to respond to this letter by the time specified above, ASX will likely suspend trading in KGM's securities under Listing Rule 17.3.

Listing Rules 3.1 and 3.1A

In responding to this letter, you should have regard to KGM's obligations under Listing Rules 3.1 and 3.1A and also to Guidance Note 8 *Continuous Disclosure*: Listing Rules 3.1 – 3.1B. It should be noted that KGM's obligation to disclose information under Listing Rule 3.1 is not confined to, nor is it necessarily satisfied by, answering the questions set out in this letter.

Release of correspondence between ASX and entity

We reserve the right to release a copy of this letter, your reply and any other related correspondence between us to the market under Listing Rule 18.7A.

Questions

If you have any questions in relation to the above, please do not hesitate to contact me.

Yours sincerely

Madeleine Green
Senior Adviser, Listings Compliance (Perth)