

Quarterly Activities Report: December 2014



Date: 28 Jan. 2015

ASX Code: KGM

www.kalnorthgoldmines.com

Shares on issue: 274.8M ordinary shares

Share Price: \$0.025

Market Capitalization: \$ 6.9 M

Projects

Eastern Goldfields-Western Australia

- Kurnalpi (100%)
- Lindsays (100%)
- Kalpini (100%)
- Spargoville (80%)

Directors

Lijun Yang: Executive Director &
Company Secretary

Jiajun Hu: Non-executive Director

Yuanguang Yang: Non-executive Director

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During the December Quarter, the board of KalNorth Gold Mines Limited ("KalNorth" or the "Company", ASX: KGM) maintained emphasis on the core goals of reducing or elimination of the Company's level of debt, lowering of administrative overheads, re-commencement of exploration, and evaluating the potential to develop its existing resources. The board continues and is steadily progressing discussions with key loan holders to resolve the secured and unsecured loans. The Company is also pleased to advise that, after a difficult 18 months since the suspension of mining at Lindsays, exploration involving a project wide geophysical compilation to assist in target identification has been initiated. In addition work is advancing to recommence drilling at Lindsays to support an updated resource model.

Quarterly Summary:

- Divestment of the Mt Jewell Project to Norton Goldfields Limited for a cash consideration of \$1.8 million.
- Continued prospecting activities by third parties over tenements at Kurnalpi, Lindsays and Kalpini.
- Initiated regional geophysical data compilation over core projects primarily to support the compilation of an improved geological interpretation of the Kurnalpi Project.
- Continued to focus on reducing operating costs with the ongoing rationalization of the tenement holding and termination of the Perth office rental agreement.
- Annual General meeting of shareholders convened with all resolutions approved.
- Improvement in financial position with cash at end of quarter of \$714,000 and settlement of outstanding debt for the 2012 acquisition of Mt Jewell.
- The Company's securities were placed under voluntary suspension on October 10 2014 and remain suspended from trading.

EXPLORATION REPORT

KalNorth holds a portfolio of tenements in four exploration projects in close proximity to Kalgoorlie in the Eastern Goldfields region of Western Australia.

The Company continued its focus during the December quarter, given its difficult financial circumstances, to maintain the tenement portfolio and ensure individual tenements meet the statutory compliance obligations. At quarter's end the tenement portfolio consisted of 99 mining titles in four project areas, each of which host a gold mineral resource and are considered prospective for additional economic gold mineralization.

The Company continued to rationalize the tenement portfolio during the quarter primarily to reduce the ongoing holding cost and minimum expenditure commitment required by the Department of Mines and Petroleum (DMP) to maintain the tenements. During the quarter the Mt Jewell project containing 14 tenements was divested and two tenements in the Lindsays package were surrendered. The KGM tenement portfolio has now been reduced to a more manageable 99 tenements of which 16 are within the Spargoville project which is managed and sole-funded by Mithril Resources Limited (ASX:MTH)

As noted in the previous quarter the Company continues to seek alternative opportunities to explore or work the tenements to compliment KGM exploration activities and ensure statutory tenement compliance is met with the DMP. A key initiative has been through the prospecting activities of third party bona fide prospectors under agreement with the Company. This work not only supports tenement and or project expenditure, but provides geological information on the regolith environment hosting the alluvial gold that can be used to provide a vector to a primary source. The Company retains a small percentage (10%) of the gold nuggets won by prospectors, and these are carefully documented to note location and regolith environment.

All prospectors operate under agreement with the Company with adherence to statutory obligations to work the tenements via a Prospecting Program of Works approved by the DMP. Regular inspections are made by the Company to view the prospecting activities and to ensure there is no unauthorized clearing of land and that rehabilitation obligations are complied with.

During the quarter the Company initiated the compilation and merging of geophysical (aeromagnetics, gravity, radiometric) data collected by previous mineral explorers which was sourced from the DMP website. This open file

data compilation complimented the recent acquisition and release (July 2014) of 100m line spaced aeromagnetic data collected by the Geological Survey of Western Australia (GSWA) over the project area. Core Geophysics (Core) has been contracted to provide this compilation, merging and processing of geophysical data and at quarter's end had delivered a suite of regional geophysical images covering the Lindsays-Kalpini-Kurnalpi projects.

This dataset will assist with advancing regional geological interpretation, targeting and ground selection. Work is ongoing, with Core currently focussing on providing high quality geophysical imagery focussing on the Kurnalpi project which is planned to be received in late January. This Kurnalpi imagery will be utilised in a second stage geophysical interpretation of the Kurnalpi project to be interrogated with existing geochemical and drilling data to generate and rank targets for gold mineralisation. This is expected to be completed during the March 2015 quarter.

Lindsays Project (KGM 100%)

The Lindsays Project contains the Lindsays mine site which remains on care and maintenance since mining was suspended in August 2013. As previously reported the Company was focussed on recommencement of mining at Lindsays via a Tribute Mining-Right to Mine arrangement. During the quarter negotiations with a local operator who had expressed interest in the project earlier in that year were terminated. Given the increase in the gold price the Company is now focussing on redevelopment via underground mining of the resource beneath the Parrot Feathers (or stage 2) pit, internally depending on favourable mining optimisations and scenarios.

The first stage of work to support the redevelopment will involve updating and amending the existing resource with more detailed geological control of the wireframe and reporting to JORC 2012. In addition the board has approved a small program of RC precollared diamond drill holes to test the Parrot Feathers lode approximately 25m down dip from the base of the existing open pit to provide support for the modelling, geotechnical information, vein geometry and samples for future metallurgical testwork. The resource modelling is anticipated to commence in early February.

Kalpini Project (KGM 100%)

The project is located midway between Lindsays and Kurnalpi and consists of three tenements, one of which contains the Kalpini gold resource. Work during the quarter consisted of prospecting by one party on two tenements, with a small amount of gold nuggets won.

Kurnalpi Project (KGM 100%)

Prospecting activities continued with work being undertaken by 3 prospecting parties.

Mt Jewell Project (KGM 100%)

As noted in the corporate report below the Mt Jewell project was divested during the quarter.

Spargoville Project (KGM 80%, Mithril 20% and earning to 80 %)

The Spargoville Project, located some 45km to the south east of Kalgoorlie is subject to a farm in and Joint Venture with Mithril Resources Limited (ASX:MTH) where Mithril has earned an initial 20% interest having completed expenditure of \$0.32M. Mithril can earn an additional 60% interest by spending a further \$1.68M by no later than 17 May 2017 (total expenditure of \$2million over 4 years for an 80% interest). No field activity reported during the quarter.

Exploration Outlook

Since the suspension of mining at Lindsays in August 2013 the Company has been severely restricted from undertaking detailed exploration work due to the limited funding and personnel to undertake this. Since that time the Company has been able to reduce administration costs, relinquish tenements considered less prospective, maintain core tenements by allowing prospecting and divest the Mt Jewell project. This has enabled the Company, although still constrained by debt, to plan some exploration on each of the three projects which will be initiated in the March quarter. This work will focus exploration both on evaluating and improving the existing resources but also on early stage prospects.

CORPORATE REPORT

The Company sought and was granted voluntary suspension of its securities on the ASX on October 10 2014, to allow time for the board to undertake plans to strengthen the Company's financial position by dealing with the interest bearing liabilities and the shares remain under suspension.

Mt Jewell Transaction

Part of the board's plans in mid-2014 were to divest non-core mineral assets for cash and on 7 November had reached agreement with Norton Goldfields Limited (ASX: NGF) for the sale of the Mt Jewell Project for a cash consideration of \$1.8million. This transaction was settled on 21 November 2014 with net sale proceeds of \$750,000 being

added to the company's working capital. This transaction also involved the settlement of the final outstanding deferred payment to Pioneer Resources Limited (ASX:PIO) of \$1.05million which was due on March 6 2015.

Loan Facilities

The Company has both secured and unsecured loan facilities totaling \$4.2 Million which have matured and have accrued interest owing of \$667,073. The Board is actively discussing and negotiating with its key lenders in order to seek a satisfactory outcome to eliminate the level of debt.

In addition, the Company has a \$350,000 convertible loan outstanding and which has a maturity date of 5 March 2016.

Annual General Meeting

The Company's Annual General Meeting of shareholders was held on 28 November 2014. All seven resolutions were approved by shareholders (refer ASX announcement 28 Nov 2014).

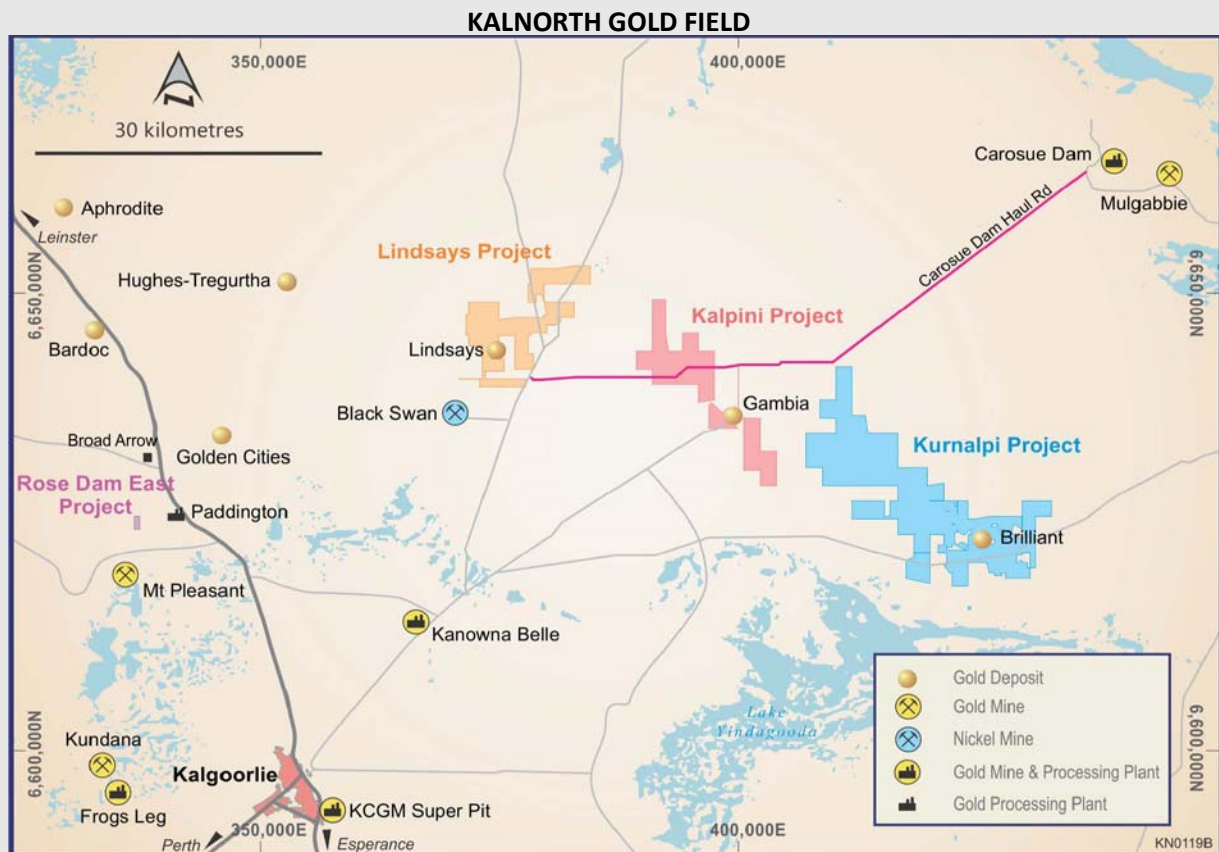
Administration

During the quarter the Company maintained its focus on control of administrative overheads and this included the termination of the lease on the former registered office at 12 St George's Tce, Perth.

Cash Reserves

Total expenditure for the December quarter amounted to \$355,000 of which \$105,000 was attributable to exploration and evaluation, compared to a total expenditure of \$340,000 in the September quarter.

The cash balance at the end of the quarter was \$714,373.



Location map of KalNorth projects showing roads and local processing plants

About KalNorth Gold Mines Limited

KalNorth Gold Mines Limited (ASX Code: KGM) is a gold exploration company based in Kalgoorlie, Western Australia (WA). The Company's core suite of tenements, all 100% owned, are located some 50 to 80km north-east of the world renowned gold mining town of Kalgoorlie, WA. There are currently three gold projects each with resources within the KGM holding: Lindsays, Kalpini and Kurnalpi (collectively the KalNorth Field). Spargoville, south of Kalgoorlie, is a JV project with Mithril Resources Limited.

KalNorth transitioned to gold producer in January 2013 when it brought the Lindsays Project into production. KalNorth mined Lindsays for 7 months before ceasing mining in August 2013. KalNorth is currently exploring opportunities to develop Lindsays as an underground mine focussing upon the Parrot Feathers lode beneath the Stage 2 open pit.

Competent Person Statement-Exploration Results and Mineral Resources

Information in this announcement that relates to exploration results is based on information compiled and reviewed by Mr. Wade Johnson who is the Exploration Manager of KalNorth. Mr. Johnson is a member of the Australian Institute of Geoscientists and has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and the activity which he is undertaking to qualify as a Competent Person as defined in the 2012 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves". Mr. Johnson consents to the inclusion in the document of the information in the form and context in which it appears.

Tenement Holdings and Movements
Schedule of Mining Tenements and Beneficial Interest
Held as at the end of the December 2014 Quarter

TENEMENT	LOCALITY	PROJECT	HOLDER	INTEREST %
M27/485	KALPINI	KALPINI	KALNORTH GOLD MINES	100
E27/412	KALPINI HILL	KALPINI	KALNORTH GOLD MINES	100
E27/411	MAGGIES DAM	KALPINI	KALNORTH GOLD MINES	100
E28/2015	COLOUR DAM	KURNALPI	KALNORTH GOLD MINES	100
M28/0092	KURNALPI	KURNALPI	SHANNON RESOURCES PTY LTD	100
M28/0072	KURNALPI	KURNALPI	SHANNON RESOURCES PTY LTD	100
P28/1190	KURNALPI	KURNALPI	KALNORTH GOLD MINES	100
P28/1191	KURNALPI	KURNALPI	KALNORTH GOLD MINES	100
M28/0007	KURNALPI	KURNALPI	SHANNON RESOURCES PTY LTD	100
P28/1228	KURNALPI	KURNALPI	LUSITAN PROSPECTING PTY LTD	100
P28/1224	KURNALPI	KURNALPI	LUSITAN PROSPECTING PTY LTD	100
P28/1225	KURNALPI	KURNALPI	LUSITAN PROSPECTING PTY LTD	100
P28/1226	KURNALPI	KURNALPI	LUSITAN PROSPECTING PTY LTD	100
P28/1227	KURNALPI	KURNALPI	LUSITAN PROSPECTING PTY LTD	100
P28/1229	KURNALPI	KURNALPI	LUSITAN PROSPECTING PTY LTD	100
P28/1230	KURNALPI	KURNALPI	LUSITAN PROSPECTING PTY LTD	100
P28/1231	KURNALPI	KURNALPI	LUSITAN PROSPECTING PTY LTD	100
M28/0084	KURNALPI	KURNALPI	SHANNON RESOURCES PTY LTD	100
E28/2088	DAVIES DAM	KURNALPI	KALNORTH GOLD MINES	100
E28/2014	MOOREE HILL	KURNALPI	KALNORTH GOLD MINES	100
E28/2226	6 MILE SOUTH	KURNALPI	SHANNON RESOURCES PTY LTD	100
M28/374	KURNALPI 1	KURNALPI	SHANNON RESOURCES PTY LTD	100
M28/375	KURNALPI 2	KURNALPI	SHANNON RESOURCES PTY LTD	100
M28/0090	KURNALPI	KURNALPI	SHANNON RESOURCES PTY LTD	100
P28/1180	KURNALPI	KURNALPI	KALNORTH GOLD MINES	100
P28/1154	RICHES FIND	KURNALPI	KALNORTH GOLD MINES	100
P28/1155	KURNALPI	KURNALPI	KALNORTH GOLD MINES	100
P28/1156	KURNALPI	KURNALPI	KALNORTH GOLD MINES	100
P28/1157	KURNALPI	KURNALPI	KALNORTH GOLD MINES	100
P28/1184	SUCCESS	KURNALPI	KALNORTH GOLD MINES	100
M28/0089	KURNALPI	KURNALPI	SHANNON RESOURCES PTY LTD	100
M28/0076	SCOTTISH LASS	KURNALPI	SHANNON RESOURCES PTY LTD	100
E28/2153	5 MILE DAM	KURNALPI	KALNORTH GOLD MINES	100
M28/0066	KURNALPI	KURNALPI	SHANNON RESOURCES PTY LTD	100
M28/0113	KURNALPI	KURNALPI	SHANNON RESOURCES PTY LTD	100
P28/1187	COLOUR DAM	KURNALPI	KALNORTH GOLD MINES	100
P28/1186	PURPLE PATCH	KURNALPI	KALNORTH GOLD MINES	100
P28/1097	KURNALPI	KURNALPI	SHANNON RESOURCES PTY LTD	100

TENEMENT	LOCALITY	PROJECT	HOLDER	INTEREST %
P28/1100	KURNALPI	KURNALPI	SHANNON RESOURCES PTY LTD	100
P28/1101	KURNALPI	KURNALPI	SHANNON RESOURCES PTY LTD	100
P28/1102	KURNALPI	KURNALPI	SHANNON RESOURCES PTY LTD	100
P28/1103	KURNALPI	KURNALPI	SHANNON RESOURCES PTY LTD	100
P28/1104	KURNALPI	KURNALPI	SHANNON RESOURCES PTY LTD	100
P28/1105	KURNALPI	KURNALPI	SHANNON RESOURCES PTY LTD	100
P28/1106	KURNALPI	KURNALPI	SHANNON RESOURCES PTY LTD	100
P28/1107	KURNALPI	KURNALPI	SHANNON RESOURCES PTY LTD	100
P28/1108	KURNALPI	KURNALPI	SHANNON RESOURCES PTY LTD	100
P28/1111	KURNALPI	KURNALPI	SHANNON RESOURCES PTY LTD	100
P28/1112	KURNALPI	KURNALPI	SHANNON RESOURCES PTY LTD	100
P28/1113	KURNAPLI	KURNALPI	SHANNON RESOURCES PTY LTD	100
P28/1114	KURNALPI	KURNALPI	SHANNON RESOURCES PTY LTD	100
P28/1115	KURNALPI	KURNALPI	SHANNON RESOURCES PTY LTD	100
P28/1116	KURNALPI	KURNALPI	SHANNON RESOURCES PTY LTD	100
P28/1118	KURNALPI	KURNALPI	SHANNON RESOURCES PTY LTD	100
P28/1119	KURNALPI	KURNALPI	SHANNON RESOURCES PTY LTD	100
P28/1125	KURNALPI 2	KURNALPI	SHANNON RESOURCES PTY LTD	100
P28/1126	KURNALPI 3	KURNALPI	SHANNON RESOURCES PTY LTD	100
E28/2256	LAPAGE HILL	KURNALPI	SHANNON RESOURCES PTY LTD	100
P28/1254	KURNALPI	KURNALPI	SHANNON RESOURCES PTY LTD	100
P28/1255	KURNALPI	KURNALPI	SHANNON RESOURCES PTY LTD	100
E28/2056	6 MILE DAM	KURNALPI	KALNORTH GOLD MINES LIMITED	100
E28/1477	KURNALPI	KURNALPI	SHANNON RESOURCES PTY LTD	100
P28/1117	KURNALPI	KURNALPI	SHANNON RESOURCES PTY LTD	100
M27/34	LINDSAY FIND	LINDSAYS FIND	KALNORTH GOLD MINES LIMITED	100
M27/169	LINDSAY FIND	LINDSAYS FIND	KALNORTH GOLD MINES LIMITED	100
P27/2111	LINDSAYS NORTH	LINDSAYS FIND	KALNORTH GOLD MINES LIMITED	100
P27/2058	GINDALBIE	LINDSAYS FIND	KALNORTH GOLD MINES LIMITED	100
P27/2084	GINDALBIE	LINDSAYS FIND	KALNORTH GOLD MINES LIMITED	100
P27/2083	GINDALBIE	LINDSAYS FIND	KALNORTH GOLD MINES LIMITED	100
P27/2094	LINDSAY DAM	LINDSAYS FIND	KALNORTH GOLD MINES LIMITED	100
M27/486	LINDSAYS	LINDSAYS FIND	KALNORTH GOLD MINES LIMITED	100
P24/4654	BARDOC	MOUNT JEWELL	KALNORTH GOLD MINES LIMITED	100
P24/4655	BARDOC	MOUNT JEWELL	KALNORTH GOLD MINES LIMITED	100
P15/5264	LOGANS FIND	SPARGOVILLE	KALNORTH GOLD MINES LIMITED	100
P15/4801	SPARGOVILLE	SPARGOVILLE	KALNORTH GOLD MINES LIMITED	80 ¹
P15/4802	SPARGOVILLE	SPARGOVILLE	KALNORTH GOLD MINES LIMITED	80 ¹
P15/5494	LOGANS	SPARGOVILLE	KALNORTH GOLD MINES LIMITED	80 ¹
E15/1174	SPARGOVILLE	SPARGOVILLE	KALNORTH GOLD MINES LIMITED	80 ¹
P15/5216	LOGANS	SPARGOVILLE	KALNORTH GOLD MINES LIMITED	80 ¹
M15/1806	LADY ALLISON	SPARGOVILLE	KALNORTH GOLD MINES LIMITED	80 ¹
P15/5236	LOGANS	SPARGOVILLE	KALNORTH GOLD MINES LIMITED	80 ¹
P15/5537	LARKINVILLE	SPARGOVILLE	KALNORTH GOLD MINES LIMITED	80 ¹

TENEMENT	LOCALITY	PROJECT	HOLDER	INTEREST%
P15/5545	LOGANS	SPARGOVILLE	KALNORTH GOLD MINES LIMITED	80 ¹
P15/5546	LOGANS	SPARGOVILLE	KALNORTH GOLD MINES LIMITED	80 ¹
P15/5547	LOGANS	SPARGOVILLE	KALNORTH GOLD MINES LIMITED	80 ¹
P15/5548	LOGANS	SPARGOVILLE	KALNORTH GOLD MINES LIMITED	80 ¹
P15/5392	LARKINVILLE	SPARGOVILLE	KALNORTH GOLD MINES LIMITED	80 ¹
P15/5409	LARKINVILLE	SPARGOVILLE	KALNORTH GOLD MINES LIMITED	80 ¹
P24/4317	ROSE DAM EAST	MOUNT PLEASANT	KALNORTH GOLD MINES LIMITED	100
L27/82	LINDSAYS HAUL	LINDSAYS FIND	KALNORTH GOLD MINES LIMITED	100
L27/84	LINDSAYS HAUL	LINDSAYS FIND	KALNORTH GOLD MINES LIMITED	100
L27/88	KALPINI HAUL	KALPINI	KALNORTH GOLD MINES LIMITED	100
P27/2110	LINDSAYS	LINDSAYS FIND	KALNORTH GOLD MINES LIMITED	100
P 15/5766	NORTH DAM	SPARGOVILLE	KALNORTH GOLD MINES LIMITED	80 ¹
P 15/5772	LADY ALLISON	SPARGOVILLE	KALNORTH GOLD MINES LIMITED	80 ¹
E 27/517	LINDSAYS EAST	LINDSAYS FIND	KALNORTH GOLD MINES LIMITED	100
E28/2303	CLAYPAN EAST	YINDI WOOLSHED	KALNORTH GOLD MINES LIMITED	100
E28/2304	LAKE ROE	YINDI WOOLSHED	KALNORTH GOLD MINES LIMITED	100
E27/524	WELLINGTON	KALPINI	HERON RESOURCES LIMITED	100% Au

¹The Spargoville tenements are subject to an earn in Joint Venture by Mithril Resources Limited, who have earned an initial 20% interest and have the ability to earn up to 80% interest.

²During the quarter, there has been no change to the Company's farm-in / farm-out and joint venture arrangements.

Schedule of Mining Tenements Relinquished During the December 2014 Quarter

TENEMENT	PROJECT	HOLDER	COMMENT
E24/146	Mt Jewell	KalNorth Gold Mines Ltd	Divested
E24/149	Mt Jewell	KalNorth Gold Mines Ltd	Divested
E24/171	Mt Jewell	KalNorth Gold Mines Ltd	Divested
E27/404	Mt Jewell	KalNorth Gold Mines Ltd	Divested
E27/422	Mt Jewell	KalNorth Gold Mines Ltd	Divested
P27/2017	Mt Jewell	KalNorth Gold Mines Ltd	Divested
P27/2018	Mt Jewell	KalNorth Gold Mines Ltd	Divested
P27/2019	Mt Jewell	KalNorth Gold Mines Ltd	Divested
E27/333	Mt Jewell	KalNorth Gold Mines Ltd	Divested
E24/157	Mt Jewell	KalNorth Gold Mines Ltd	Divested
P27/2019	Mt Jewell	KalNorth Gold Mines Ltd	Divested
P24/4233	Mt Jewell	KalNorth Gold Mines Ltd	Divested
P24/4234	Mt Jewell	KalNorth Gold Mines Ltd	Divested
E27/300	Mt Jewell	KalNorth Gold Mines Ltd	Divested
M24/944	Mt Jewell	KalNorth Gold Mines Ltd	Divested
E27/506	Lindsays	KalNorth Gold Mines Ltd	Surrendered
P27/2162	Lindsays	KalNorth Gold Mines Ltd	Surrendered