

1 September 2015

ASX RELEASE

The Manager
 ASX Market Announcements
 ASX Ltd
 Level 4, 20 Bridge Street
 Sydney, NSW 2000

Dear Sir

LOAN SETTLEMENT PROPOSAL

As foreshadowed in previous announcements, KalNorth Gold Mines Limited (ASX: KGM) has been in negotiation with its lenders for a longer term and more sustainable arrangement with respect to the loans and the interest rates payable on the loans (interest is payable every six months at 10% per annum on the loans and every three months at 8% per annum on the convertible notes).

The Directors are pleased to announce that the Company has now reached agreement for the settlement of the three largest loans by issue of shares in the Company.

Lender	Principal \$	Outstanding Interest at 30 June 2015 \$	Principal plus Outstanding Interest \$
Renenergy Pty Ltd*	1,500,000	74,384	1,574,384
South Victory Global Limited*	2,000,000	99,178	2,099,178
Smarter Group (Australia) Pty Ltd	600,000	29,753	629,753
Xin Gu and Henry Jian Yu	50,000	2,479	52,479
John McKinstry	50,000	2,479	52,479
Total Loans	4,200,000	208,273	4,408,273
Gold Fresh Limited convertible notes	350,000	6,981	356,981
Total	4,550,000	215,254	4,765,254

* Borrowings secured over all the assets of the Company

Binding agreements have been entered into with Renenergy Pty Ltd, South Victory Global Limited and Smarter Group (Australia) Pty Ltd as a result of which principal amounts and all outstanding interest (accruing up to the date immediately prior to the date of issue of shares by the Company) owed to these parties will be settled by issue of shares at an issue price of \$0.01 each. The loan settlement transaction is subject to the following conditions precedent:

- (a) KGM shareholder approval for the purposes of ASX listing Rules, the Corporations Act and for any other purpose;
- (b) Such other Australian regulatory approvals as may be necessary; and
- (c) KGM entering into loan settlement agreements on identical terms with each of Renergy Pty Ltd, South Victory Global Limited and Smarter Group (Australia) Pty Ltd – which condition has now been satisfied.

Unless all parties agree in writing to extend the date, loan settlement must take place on or before 30 November 2015 (“End Date”) failing which the settlement agreements shall come to an end. In that case, the loans with these parties will revert to the terms of the present loan agreements between the parties (key commercial terms being loan maturity date of 30 April 2016, and 10% per annum interest payable every six months).

Based on the current amounts outstanding to Renergy Pty Ltd, South Victory Global Limited and Smarter Group (Australia) Pty Ltd, assuming issue of shares around the end of November 2015 and further interest accruing to that date, the total amount settled by issue of shares is estimated at approximately \$4.5 million. Consequently, 450 million shares would have to be issued in settlement of loans to these three parties.

Identical offers for settlement have been made to the two smaller lenders but no agreement has been reached as yet. The Company is also seeking the exercise of the convertible note into shares concurrently with the issue of shares to the lenders but again no agreement has been reached with the noteholder.

Rights Offer

The Company refers to the rights offer made under the Company’s prospectus dated 29 July 2015. Under the timetable previously published, the shares subscribed for under the non-renounceable rights offer were to be issued on Tuesday, 1 September 2015.

In view of the loan settlement proposal referred to above and the significant dilution to share capital resulting from the settlement proposal, the Company will be issuing a supplementary prospectus. Amongst other things, the supplementary prospectus will permit applicants to withdraw their applications for the rights offer.

Subject to the Company complying with the prospectus minimum subscription condition of \$250,000, it is now anticipated that the issue of shares under the rights offer will be completed on or around 1 October 2015.

It is also anticipated that the voluntary suspension of quotation of the Company’s shares on ASX will be lifted concurrently with the issue of shares on or around 1 October 2015.

Yours faithfully



Lijun Yang
Executive Director