



16 September 2015

**ASX RELEASE**

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

Dear Sir

**CONVERTIBLE NOTE FACILITY**

In addressing the ongoing requirement for working capital, the Directors of KalNorth Gold Mines Limited (ASX: KGM) have been considering a number of avenues for raising funds. One such initiative was the Rights Offer launched via the prospectus dated 29 July 2015. Whilst the Rights Issue has not been completed, the Offer Period has closed and, as previously reported, subscriptions have been received for only 44.7M shares for \$447,000 compared to \$1.58M that could have been raised had the Offer been fully subscribed.

As previously reported by the Company, its largest shareholder Cross-Strait Common Development Fund Co., Limited ("CS") has issued a letter of support stating that CS will provide financial support to the Company for the period to 16 March 2016. Following the execution of the loan Settlement Agreements (referred to in the Company's announcement dated 1 September 2015), the Company has had general discussions with CS for financial support pending completion of the Rights Issue. After discussion between the parties, CS agreed to provide financial support through a \$2M convertible note facility. The Board has resolved to enter into a convertible note facility agreement ("Agreement") with CS on the basis that it represents a fair offer in the prevailing tough capital market conditions for mineral explorers. In view of the relatively low take-up for the Rights Offer, the convertible note facility also addresses the Company's ongoing requirement for working capital including funds for exploration activity. The Agreement is subject to the following conditions precedent:

- (a) Shareholder approval for the purposes of Listing Rules, the Corporations Act and for any other purpose;
- (b) such other Australian regulatory approvals as may be necessary;
- (c) the completion of the Settlement Agreements (referred to in the Company's announcement dated 1 September 2015) and the consequential issue of Shares in settlement of loans owed to each of Renergy Pty Ltd, South Victory Global Limited and Smarter Group (Australia) Pty Ltd; and
- (d) the Company and CS entering into a security agreement pursuant to which the Company grants to CS a general security over all the assets of the Company.

The key terms of the Agreement are as follows:

- (i) Within 10 business days of the execution of the Agreement, CS will provide an advance of \$300,000 to the Company ("Initial Advance"). Upon satisfaction of the conditions precedent referred to above, the Company will issue 30 convertible notes to CS with respect to the Initial Advance.
- (ii) Within 30 days of satisfaction of the conditions precedent referred to above, the Company may, at its sole discretion, issue a notice for the drawdown of a further \$700,000. Upon receipt of these funds, the Company will issue 70 convertible notes to CS.
- (iii) The Company may, issue a notice for the drawdown of a further \$1,000,000 at any time between that date on which the Company receives the amount referred to in (ii) above and 31 December 2016. In support of the draw down notice for this amount, the Company shall provide CS with its latest management accounts as well as a use of funds statement for this amount. Upon receipt of these funds, the Company will issue 100 convertible notes to CS.
- (iv) Each convertible note has a principal amount of \$10,000. Each note may be converted at the sole discretion of CS for 1,000,000 Shares in the capital of the Company on or before the maturity date of 30 April 2017. If the Company draws down the full facility amount of \$2,000,000 and CS converts all the convertible notes, it will be issued 200,000,000 Shares.
- (v) If the conditions precedent referred to above are not satisfied (or waived) by 5.00pm (WST) on 30 November 2015, the Agreement shall automatically terminate. In that case the Initial Advance together with accrued interest thereon shall be repaid by the Company on or before 30 June 2016 either in cash or by the issue of Shares in the Company at an issue price of \$0.01 per Share (subject to the receipt of any Shareholder approvals that may be necessary), at the election of the Company.
- (vi) CS may issue a conversion notice to convert the convertible notes to Shares at any time and similarly the Company may issue a redemption notice to redeem the convertible notes by repaying the principal amount at any time. If the Company issues a redemption notice, CS may issue a conversion notice which will then take precedence over the redemption notice.
- (vii) Interest on the principal amount of the convertible notes will accrue daily from the date of receipt of the relevant advance in cleared funds at an annual rate of 8% up to the earlier of the conversion date or redemption date. CS has the right to have the interest paid by issue of Shares at an issue price of \$0.01 per Share.
- (viii) The Company will issue a general security over all the assets of the Company to CS.

### **Rights Offer**

The Company refers to the Rights Offer made under the Company's prospectus dated 29 July 2015.

In view of the significant dilution to share capital that may result from the conversion of convertible notes referred to in this announcement, 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 19 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 19 October 2015.

Yours faithfully

A handwritten signature in dark red ink, appearing to read 'Lijun Yang', with a stylized, cursive script.

**Lijun Yang**  
**Executive Director**