

# KALNORTH GOLD MINES LIMITED (ACN 100 405 954) SUPPLEMENTARY PROSPECTUS

## 1. IMPORTANT INFORMATION

This Supplementary Prospectus (**Supplementary Prospectus #3**) is dated 16 September 2015 and supplements the Prospectus dated 29 July 2015 (**Prospectus**), the supplementary prospectus dated 13 August 2015 (**Supplementary Prospectus #1**) and the supplementary prospectus dated 2 September 2015 (**Supplementary Prospectus #2**) issued by KalNorth Gold Mines Limited (ACN 100 405 954) (**Company**). The purpose of Supplementary Prospectus #3 is to provide additional disclosure regarding a recently executed agreement between the Company and its largest Shareholder, Cross-Strait Common Development Fund Co., Limited ("**CS**") under the terms of which CS has agreed to provide a \$2,000,000 working capital facility to the Company in exchange for convertible notes. The Directors regularly review the Company's working capital requirements and, in particular, funding for exploration activities and consider various avenues for raising capital. In the current tough capital market conditions for mineral explorers, the Directors have determined that the CS offer to provide a convertible note facility is a fair offer. The transaction will however require Shareholder approval, amongst other matters, in order to become effective.

Supplementary Prospectus #3 was lodged with the Australian Securities and Investments Commission (**ASIC**) and the Australian Securities Exchange (**ASX**) on 16 September 2015. ASIC and ASX take no responsibility for the contents of Supplementary Prospectus #3.

Supplementary Prospectus #3 must be read together with the Prospectus, Supplementary Prospectus #1 and Supplementary Prospectus #2. If there is a conflict between the Prospectus, Supplementary Prospectus #1, Supplementary Prospectus #2 and Supplementary Prospectus #3, Supplementary Prospectus #3 will prevail. Terms defined in the Prospectus have the same meaning as in Supplementary Prospectus #3. For the avoidance of doubt, references to 'Section' in Supplementary Prospectus #3 mean references to that section of the Prospectus, unless otherwise stated.

This document is important and should be read in its entirety. Please consult your legal, financial or other professional adviser if you do not fully understand the contents. Other than the changes set out below, all other details in relation to the Prospectus remain unchanged.

## 2. SUPPLEMENTARY INFORMATION

### 2.1 Convertible Note Agreement with Cross-Strait Common Development Fund Ltd

A binding agreement ("**Convertible Note Agreement**") was entered into between the Company and its largest Shareholder, CS on 15 September 2015. As at the date of this Supplementary Prospectus #3, CS has a relevant interest in 63,703,335<sup>1</sup> (20.16%) of the Company's total issued Shares. CS has also made application for 25,000,000 Shares under the Offer. A total of 44,730,803 Shares have been subscribed for under the Offer and assuming none of the Applicants withdraw their applications, CS's relevant interest will increase to 88,703,335 (24.59%) of the Company's total issued Shares upon completion of the Issue.

The Convertible Note 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 Supplementary Prospectus #2) and the consequential issue of Shares in settlement of loans including accrued interest to the date of completion 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.

<sup>1</sup> Section 2.5(b) of the Prospectus stated that CS had a relevant interest in 67,003,445 (21.21%) of the Company's total issued Shares. That information was incorrect and CS's correct data is noted in Supplementary Prospectus #3.

**This Supplementary Prospectus is intended to be read in conjunction with the Prospectus dated 29 July 2015, the supplementary prospectus dated 13 August 2015 and the supplementary prospectus dated 2 September 2015 issued by KalNorth Gold Mines Limited (ACN 100 405 954).**

## 2.2 Key Terms of the Convertible Note Agreement

CS will provide a facility that can be drawn down for an aggregate \$2,000,000 in funds to the Company and be issued convertible notes on the following key terms:

- (i) Within 10 business days of the execution of the Convertible Note Agreement, CS will provide an advance of \$300,000 to the Company ("**Initial Advance**"). Upon satisfaction of the conditions precedent referred to in Section 2.1 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 in Section 2.1 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. Any convertible notes that have not previously been converted or redeemed are redeemable on the maturity date of 30 April 2017.
- (v) If the conditions precedent referred to in Section 2.1 above are not satisfied (or waived) by 5.00pm (WST) on 30 November 2015, the Convertible Note 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 within 7 days of the Company issuing a redemption notice and the conversion notice 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 date of receipt of the conversion notice for the relevant convertible notes or the redemption date.
- (viii) The Company will issue a general security over all the assets of the Company to CS.

## 2.3 Share Capital Dilution

There will be a substantial dilution of the existing Shareholders interest in the Shares of the Company as demonstrated below as a result of the Settlement Agreements the subject of Supplementary Prospectus #2 and potentially as a result of the Convertible Note Agreement, the subject of Supplementary Prospectus #3:

	Number	%
Shares presently on issue	315,966,034	
Shares subscribed for under the Rights Offer as at the Closing Date [note (i)]	44,730,803	
Anticipated Shares on issue on completion of Rights Issue	360,696,837	36
Estimated Shares issued on completion of the Settlement Agreements [note (ii)]	450,000,000	44
Maximum number of Shares that may be issued if all convertible notes are converted [note (iii)]	200,000,000	20
Total Shares on issue following completion of the Settlement Agreements and conversion of the convertible notes [note (iv)]	1,010,696,837	100

**This Supplementary Prospectus is intended to be read in conjunction with the Prospectus dated 29 July 2015, the supplementary prospectus dated 13 August 2015 and the supplementary prospectus dated 2 September 2015 issued by KalNorth Gold Mines Limited (ACN 100 405 954).**

Note (i): assumes that there is no reduction in the number of Shares subscribed for under the Rights Offer as a consequence of Shareholders withdrawing their applications. Please refer to section 2.4 below for further details.

Note (ii): Assumes that no Shares are issued for any other purpose in the period prior to issue of Shares upon completion of the Settlement Agreements and the Shares issued upon completion of the Settlement Agreements occurs on or around 30 November 2015.

Note (iii): CS has the right to have the interest on the principal amount of the convertible notes settled by issue of Shares at \$0.01 per Share. The above table does not take into account the further dilution of the existing Shareholders interest in the Shares of the Company as a result of any issue of Shares to settle interest payments on the convertible notes.

Note (iv): Assumes that no Shares are issued for any other purpose in the period prior to issue of Shares upon conversion of the convertible notes.

As noted in Supplementary Prospectus #2, offers similar to those made under the Settlement Agreements have also been made to the remaining two lenders, Xin Gu and Henry Jian Yu and Mr John McKinstry. Similarly, the Company has asked the existing convertible noteholder to convert its notes concurrently with the issue of Shares under the Settlement Agreements. If agreement is reached with these parties subsequent to the issue of Supplementary Prospectus #3, an additional approximately 47,200,000 Shares will be issued (assuming all principal and accrued interest to 30 November 2015 is converted).

## 2.4 Withdrawal of Applications under the Rights Offer

The Rights Offer has closed and the Company was originally scheduled to issue Shares on Tuesday, 1 September 2015 but the issue date was subsequently deferred to 6 October 2015 as a consequence of the issue of Supplementary Prospectus #2. 94 Shareholders have submitted applications for a total of 44,730,803 Shares (including 25,000,000 Shares subscribed by CS).

Supplementary Prospectus #3 will be mailed to each Shareholder who has submitted an application under the Rights Offer (“**Applicants**”). Supplementary Prospectus #2 stated that Applicants could withdraw their applications if they wish to do so in which case they will receive a full refund of their application monies. Supplementary Prospectus #3 reiterates that, in addition to the matters the subject of Supplementary Prospectus #2, Applicants can withdraw their applications if they wish to do so in view of the Convertible Note Agreement entered into by the Company. Applicants who decide to withdraw their applications will receive a full refund of their application monies.

Applicants who wish to withdraw their applications must do so on or before 5pm WST, Friday, 16 October 2015 by writing to:

By post:	By delivery:
KalNorth Gold Mines Limited c/- Advanced Share Registry Limited PO BOX 1156 Nedlands, Western Australia 6909	KalNorth Gold Mines Limited c/- Advanced Share Registry Limited 110 Stirling Highway Nedlands, Western Australia 6009

Or by facsimile to:

KalNorth Gold Mines Limited,  
c/- Advanced Share Registry Limited  
Facsimile#: +61 8 9262 3723

## 3. AMENDED TIMETABLE

The Offer has already closed and no new applications will be accepted. As Applicants now have the right to withdraw their applications on or before 16 October 2015, the revised timetable dates are as follows:

Issue of Shares and despatch of holding statements	19 October 2015
Normal trading of Shares commences	20 October 2015

The issue of Shares remains subject to the Company complying with the Minimum Subscription amount of \$250,000.

**This Supplementary Prospectus is intended to be read in conjunction with the Prospectus dated 29 July 2015, the supplementary prospectus dated 13 August 2015 and the supplementary prospectus dated 2 September 2015 issued by KalNorth Gold Mines Limited (ACN 100 405 954).**

#### 4. ENTITLEMENT AND APPLICATION FORMS

As noted above the Offer has closed and no new applications will be accepted. Consequently despatch of Supplementary Prospectus #3 to the Applicants will not be accompanied by Entitlement and Application Forms.

#### 5. DIRECTORS STATEMENT

Supplementary Prospectus #3 is issued by the Company and its issue has been authorised by a resolution of the Directors. Each Director has consented to the lodgement of Supplementary Prospectus #3 with ASIC and has not withdrawn that consent.

A handwritten signature in dark ink, appearing to read 'Lijun Yang', is positioned above the printed name and title.

Signed for and on behalf of KalNorth Gold Mines Limited  
By Lijun Yang  
Director

**This Supplementary Prospectus is intended to be read in conjunction with the Prospectus dated 29 July 2015, the supplementary prospectus dated 13 August 2015 and the supplementary prospectus dated 2 September 2015 issued by KalNorth Gold Mines Limited (ACN 100 405 954).**