



KalNorth Gold Mines Limited and Controlled Entities

ACN 100 405 954

Financial Report

For the year ended 30 June 2015

KalNorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2015

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KalNorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2015

CORPORATE PARTICULARS

Directors	Mr Jiajun Hu Mr Lijun Yang Mr Yuanguang Yang	<i>Chairman</i> <i>Executive Director</i> <i>Non-Executive Director</i>
Company Secretary	Mr Lijun Yang	
Registered Office and Principal Place of Business	224 Dugan Street Kalgoorlie, Western Australia 6430	
Share Registry	Advanced Share Registry Limited 110 Stirling Highway Perth WA 6009	
Auditor	RSM Bird Cameron Partners 8 St Georges Terrace Perth WA 6000	
Solicitor	Steinepreis Paganin 16 Milligan St Perth WA 6000	
Stock Exchange Listing	Australian Securities Exchange (ASX: KGM)	
Company Website	www.kalnorthgoldmines.com	

KalNorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2015

DIRECTORS' REPORT

The Directors of KalNorth Gold Mines Limited ("the Company") present their financial report on the consolidated entity, being the company and its controlled entities, for the financial year ended 30 June 2015.

Directors

The names of directors in office at any time during or since the end of the financial year are listed hereunder. Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

- | | |
|-------------------------|---|
| • Jiajun Hu | Non-executive Chairman |
| • Lijun Yang | Executive Director |
| • Yuanguang Yang | Non-executive Director (appointed 28 August 2014) |
| • Brendan Peter Connell | Former non-executive Chairman (resigned 28 August 2014) |

Information on Directors

JIAJUN HU

Non-Executive Chairman (appointed Chairman 14 April 2015)

Mr. Jiajun Hu acts as Regional Business Executive of Cross-Strait Common Development Fund Co., Ltd (hereinafter referred to as "Cross-Strait"). Currently, Cross-Strait, with its global headquarters in Hong Kong, is the largest shareholder in the Company.

He is responsible for supervising and administering the investment projects of Cross-Strait in Oceania and he directly reports to the managing director of Cross-Strait and has gained significant experience in international investment, financial accounting, commercial contract negotiation and contract dispute negotiation through corporate transactions in North America, Africa, Asia and Oceania.

He has a Bachelor's Degree in Business Studies in 2008 from the Australian National University majoring in finance and accounting. Mr. Hu has specialized knowledge of financial transaction market and investment capital market, and is familiar with Chinese business and capital market operation. Mr. Hu is fluent in both English and Chinese

Mr Hu has held no other directorships of other public companies within the last three years.

Interest in shares and options: nil

LIJUN YANG

Executive Director

Mr Yang is a geologist with more than 10 years working experience at various Chinese and Australian gold operations. He received his Master's Degree in Exploration Mineralogy from the China University of Geosciences in 2012 and developed new methodologies to explore for gold mineralisation using the typomorphic properties of minerals. He commenced working for KalNorth as a Project Evaluation Geologist in August 2013 and was appointed to the Board in November 2013 as an Executive Director. Mr Yang is multi-lingual (Chinese & English).

He is a member of the Australian Institute of Geoscientists ("AIG") and the Society of Economic Geologists ("SEG").

Mr Yang has held no other directorships of other public companies within the last three years.

Interest in shares and options: 31,400 ordinary fully paid shares

KalNorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2015

DIRECTORS' REPORT

Information on Directors (Cont'd)

YUANGUANG YANG

Non-Executive Director (Appointed 28 August 2014)

Mr. Yang is a Hong Kong CPA (practising) and currently operates a CPA firm in Hong Kong with business focus in markets of Hong Kong, Mainland China, Australia and New Zealand. Mr. Yang is also a Chartered Accountant in Australia and New Zealand.

He has over 15 years' experience in audit and assurance, global tax planning, corporate advisory, family business and M & A business and also worked with the Industrial and Commercial Bank of China for several years before running his CPA business.

Mr Yang resides in Hong Kong and is an authorised officer of South Victory Global Limited, a major lender to and shareholder in the Company.

Mr. Yang has held no other directorships of other public companies within the last three years.

Interest in shares and options: nil

BRENDAN PETER CONNELL

Resigned 28 August 2014

Company Secretary

Mr Lijun Yang

Appointed 29 August 2014

Mr James Church

Resigned 29 August 2014

Principal Activities

The consolidated entity's principal activity during the year was gold exploration on the Lindsays, Kalpini and Kurnalpi projects near Kalgoorlie, Western Australia.

Operating Results and Financial Performance

The operating loss after income tax of the consolidated entity for the year ended 30 June 2015 was \$774,451 (2014: loss \$10,763,483).

The operating loss for the year was impacted by the following key items:

- (i) Exploration expenditure of \$0.79 million (2014: \$0.80 million) across all project areas and immediately written-off to the profit and loss.
- (ii) No impairment charge for the further write-down of past exploration expenditures in the current year (2014: \$10.1 million).
- (iii) Interest expense of \$0.56 million (2014: \$0.73 million) on the secured and unsecured loans.
- (iv) Profit on the sale of the Mt. Jewell project of \$0.9 million (2014: nil).
- (v) A tax refund of \$0.53 million with respect to the 2014 financial year and supported by a tax incentive submission based upon the R&D activities and development of new mining knowledge relating to mine design and mining methodologies at the Lindsays mine (2014: \$2.40 million).

In addition to the sources of funding referred to above, the company also raised \$350,000 via the completion of a convertible note issue.

KalNorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2015

DIRECTORS' REPORT

Operating Results and Financial Performance (Cont'd)

As at 30 June 2015 the company had \$238,640 (2014: \$128,867) in cash reserves and an aggregate of \$4,764,557 (2014: \$4,891,788) in secured/unsecured loans and convertible notes (and accrued interest payable).

At 30 June 2015, the consolidated entity had net assets of \$1,764,199 (2014: \$1,513,157).

Review of Operations

The company has four core gold exploration projects each located within 90 kilometres of Kalgoorlie in the Eastern Goldfields of Western Australia. Each project hosts a gold resource within a package of semi contiguous tenements that are located close to existing infrastructure and operating gold plants that could provide options for milling with any future development proposal. The past year, with improvement in the financial capacity of the company resulted in the first exploration programs being initiated and completed in over two years on three of the four project areas. The company's strategy has and continues to focus on seeking to realise value from existing resource assets by improving the value whilst at the same time rationalising the large tenement portfolio to reduce the commitment costs to keep tenure in good standing.

During the year field based work programs included diamond drilling, ground based gravity surveys and prospecting. Desktop work comprising resource estimation, geophysical data compilation and geophysical interpretation resulted in the announcement of a new gold resource at Lindsays and the definition of several high quality gold targets at Kurnalpi that require further evaluation. In particular the geological interpretation and targeting exercise at Kurnalpi has supported the company's view of the project being a favourable area for significant gold mineralisation and provided a foundation for ongoing exploration.

Lindsays Project (100% KGM)

The Lindsays Project is located approximately 65km to the north east of Kalgoorlie and contains the Lindsays mine site which continues to remain under suspension since August 2013. During the past year three RC precollared diamond drill holes were completed at Lindsays successfully targeting the narrow flat dipping Parrot Feathers lode below the Stage 2 pit which hosts the Parrot Feathers lode to improve understanding of the lode geometry and grade in an area previously evaluated with reverse circulation drilling. The Parrot Feathers lode is exposed along the entire length of the Stage 2 open pit and the recent and historical drilling has shown the lode to have good continuity both along strike and down dip. All three holes intersected the mineralised quartz vein in the expected position

The results of these drill holes were combined with the relogging and reinterpretation of existing drilling to refine the geological model and support a resource estimate of the Parrot Feathers lode. The company elected to focus on re-modelling and estimating the Parrot Feathers lode as it was exposed at the base of the suspended stage 2 pit, contained higher grade intercepts from previous drilling than other zones at Lindsays and had exhibited down dip continuity to some 250m from surface. Furthermore the Stage 2 open pit provided a sound option from which to develop an underground mining operation. The company engaged Ravensgate Mining Industry Consultants ("Ravensgate") to complete the mineral resource estimate to JORC 2012 standard.

The more robust geological model and improved grade distribution within the Parrot Feathers lode gives further confidence to consider underground development from the base of the stage 2 open pit. The company has commenced and is well advanced with an initial scoping study and preliminary economic evaluation to develop the Parrot Feathers lode via underground mining. The company continues to progress negotiations with parties interested in a tribute type of underground mining development of the Parrot Feathers lode.

KalNorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2015

DIRECTORS' REPORT

Review of Operations (Cont'd)

Kurnalpi Project (100% KGM)

The company's wholly owned Kurnalpi project is located some 90km to the east of Kalgoorlie and covers approximately 100km² centered on the historical Kurnalpi townsite. Kurnalpi was the site of a major alluvial gold rush in the late 1890's, was exploited in the mid 1980's by modern alluvial mining and continues to yield gold nuggets to this day over a wide area by prospectors who work the company's ground under agreement. Numerous small historical gold workings are located throughout the Kurnalpi area but a primary source to the extensive alluvial gold areas is yet to be located. The company considers the Kurnalpi Project to have the core geological, geophysical, geochemical and structural characteristics that are required to host major Archaean orogenic lode gold deposits, and has initiated work to progress exploration over this high priority area.

In March 2015 the company engaged Core Geophysics to commence a geophysical interpretation of the Kurnalpi area using all available open file company and Government aeromagnetic data sets that were merged to create a seamless mosaic over the wider area surrounding the interpretation block. The purpose of the interpretation was to deliver both a significantly improved geological and structural framework of Kurnalpi, but also a range of ranked target areas considered prospective for gold mineralisation that would assist the prioritisation and focusing of future exploration. On 20 July 2015 the company reported the completion of the interpretation and targeting compilation with the delivery of an advanced geological and structural interpretation map of the Kurnalpi District at a 1:25000 scale. In addition a range of targets were identified from the interpretation that are considered prospective for gold mineralisation and five top tier targets were selected after field inspection. These high priority targets have been selected for follow up evaluation by drilling, mapping and geophysical surveys in 2016.

Prospecting for surface gold by independent individuals under agreement with the company over most of the Kurnalpi tenements continued throughout the year. This activity whilst being at no cost to the company provides small revenue from a share of the gold nuggets won, but most importantly the expenditure for the work undertaken on each tenement by the prospectors is additional to that by the company to support the annual commitment required to maintain the tenements in good standing. The geological information obtained from the location and texture of the nuggets in the surface weathering profile also provides data that can contribute to targeting the source of this alluvial gold. The company plans to initiate detailed research into the source of the gold nuggets at Kurnalpi in 2016 with the aim of providing vectors to the primary source or sources.

Kalpini Project (100%KGM)

The company's wholly owned Kalpini project is located some 60km to the north east of Kalgoorlie and 23km east of the Lindsays gold project. The project consists of three tenements one of which is a mining lease centered on the historical Atlas gold workings which were operating in the early 1900's, but also the smaller nearby Camelia and Gambia prospects. Substantial reverse circulation (RC) and minor diamond drilling by the company at Kalpini during the period 2009-2012 supported the delineation of a mineral resource estimate (JORC 2004 Compliant) of 4.6Mt @1.7g/t Au for 255, 600oz (*refer ASX announcement dated 24 October 2012*). The resource is covered by a single granted Mining Lease and is linked to Saracen Mineral Holdings (ASX:SAR) Carosue Dam haul and access road 5.5km to the north by a granted miscellaneous license, which can be used as a future haul road route if required.

The company resumed exploration at Kalpini in April 2015 and completed a five hole programme of infill reverse circulation (RC) precollared diamond holes along the Gambia-Camelia Trend. An aggregate 508m was drilled in five holes, four of which were new holes, the fifth being a re-entry of a hole drilled in 2012 (KPDD009-012, KPRCD371). The programme was specifically designed to provide further geological and structural controls on the flat dipping mineralisation to support future upgrading of the resource estimate to JORC 2012 compliance. Each of the holes intersected the narrow mineralised lodes, the best intercept being 1.45m from 117.55m at 15.2g/t Au in hole KPRCD371. The assay results received coupled with the structural data interpreted from the drill core confirm the flat dipping high grade nature of the lodes at Gambia and Camelia with the information providing confidence in the current geological interpretation.

The April 2015 drilling campaign at Kalpini is part of the company's strategy to realize value from its existing resource base through development. The information from the drilling will be incorporated into the Kalpini resource model to aid in refining the model and supporting reporting to JORC 2012 compliance. Resource modelling and targeting for additional styles of gold mineralisation at Kalpini will be pursued in 2016.

KalNorth Gold Mines Limited and Controlled Entities

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DIRECTORS' REPORT

Review of Operations (Cont'd)

Spargoville Project (100% KGM)

The Spargoville Project is located approximately 50km to the south west of Kalgoorlie and 30km west of Kambalda and consists of 16 semi-contiguous tenements over a 25km north and south strike. The Lady Allison gold resource, located on a Mining Lease is the core asset in the tenement portfolio with an inferred resource estimate of 2.13Mt at 1.3g/t Au. Work completed during the year consisted of rehabilitation of the drill sites for drilling completed during 2014.

In December 2012 the company announced the execution of a farm-out agreement with Mithril Resources Limited ("Mithril" & ASX: MTH) for exploration over the Spargoville Project. During 2014 Mithril earned a 20% interest in the tenements after having completed the stage 1 expenditure of \$0.32 million and made an election to proceed toward earning an additional 60% interest (stage 2 commitment). On 11 March 2015 Mithril notified the company of its withdrawal from the Spargoville Farm-In and Joint Venture with an effective date of 11 May 2015. Mithril also elected to return its 20% interest to KalNorth for no consideration, and from the effective date KalNorth resumed 100% ownership of the project.

The Spargoville Project is not considered a priority for exploration in 2016 and the company will likely seek other interested parties for joint venture or outright sale.

Significant Changes in the State of Affairs

There was a reduction to the consolidated entity's resource and reserve base after adjustments to the Lindsays resource were made in the course of compiling the Parrot Feathers lode, and the removal of the Mt. Jewell resource and reserve following the divestment of the project. No changes were made to the other resources or reserves.

Except for the matters mentioned in the Review of Operations above, there have been no significant changes in the state of affairs of the consolidated entity during the current year.

Dividends Paid or Recommended

The Directors do not recommend the payment of a dividend and no dividends have been paid or declared since the end of the last financial year.

Significant Events after the Reporting Date

Since the end of the financial year and to the date of this report no matter or circumstance has arisen which has significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations or the state of affairs of the consolidated entity in subsequent financial years other than the matters referred to below.

- (a) On 31 August 2015 and 11 September 2015, binding agreements were entered into with Renergy Pty Ltd, South Victory Global Limited, Smarter Group (Australia) Pty Ltd and Mr John McKinstry, 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. At 30 June 2015, the principal and interest amounts due to these parties amounted to \$4.35 million.
- (b) On 15 September 2015, a convertible note facility agreement has been entered into with the Company's largest shareholder, Cross-Strait, under the terms of which the Company will be able to draw down up to \$2 million. As at the date of the financial report \$0.3m was received from Cross-Strait. Cross-Strait will have the right to convert all or part of the amounts drawn down under the facility into shares in the Company at an issue price of \$0.01 per share. The facility will have a maturity date of 30 April 2017.

KalNorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2015

DIRECTORS' REPORT

Significant Events after the Reporting Date (Cont'd)

- (c) On 29 July 2015, the Company issued a prospectus for a non-renounceable entitlement offer of shares at \$0.01 each. The rights offer has closed, however the issue of shares has not been completed as the Company is required to give applicants an opportunity to withdraw their applications on or before 16 October 2015. On 27 August 2015, the Company announced acceptances have been received for 44,730,803 shares. Assuming no material applications for the rights offer are withdrawn, an amount of approximately \$0.4 million is expected to be raised when the Company completes the rights issue on 19 October 2015.

The completion of the transactions referred to in (a) and (b) above is subject to shareholder and other regulatory approvals which must be obtained by 30 November 2015 (unless the parties agree to an extension).

Likely Developments and Expected Results

The company intends to remain focused on adding value through ongoing exploration activities at its main projects and may seek alliance partners to fast track development of existing resource assets.

Environmental Issues

The consolidated entity is subject to significant environmental regulation in respect of its exploration activities.

The consolidated entity aims to ensure the appropriate standard of environmental care is achieved and, in doing so, comply with all environmental legislation. The directors of the consolidated entity are not aware of any breach of environmental legislation for the year under review.

Meetings of Directors

During the financial year 13 meetings of Directors were held. Attendances by each Director during the year were as follows:

	Directors' Meetings	
	Number of meetings eligible to attend	Number attended
Lijun Yang	13	13
Jiajun Hu	13	13
Yuanguang Yang	10	9
Brendon Connell (resigned 28/8/2014)	3	3

¹There were no Audit or Remuneration Committee meetings held, with all matters dealt with by the Board as a whole.

Options

At the date of this report, there were no unissued ordinary shares of KalNorth Gold Mines Limited under option (2014: 25,000,000).

During the year ended 30 June 2015 and to the date of this report, no shares were issued on the exercise of options (2014: nil).

Risk Management

The Board is responsible for ensuring that risks and opportunities are identified in a timely manner and that activities are aligned with the risks and opportunities identified by the Board.

KalNorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2015

DIRECTORS' REPORT

Risk Management (Cont'd)

The consolidated entity believes that it is crucial for all Board members to be a part of this process and, as such, the Board has not established a separate risk management committee, but considers these matters at Board meetings.

The Board has a number of mechanisms in place to ensure that management's objectives and activities are aligned with the risks identified by the Board. These include Board approval of a strategic plan which encompasses strategy statements designed to meet stakeholders needs and manage business risk, and implementation of Board approved operating plans and budgets and the monitoring thereof.

Remuneration Report (Audited)

This report outlines the remuneration arrangements in place for Directors and executives of the consolidated entity.

Remuneration Policy

The remuneration policy of KalNorth Gold Mines Limited has been designed to align Director and executive objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long-term incentives based on key performance areas affecting the consolidated entity's ability to attract and retain the best Directors and executives to run and manage the consolidated entity.

The Board's policy for determining the nature and amount of remuneration for Board members and senior executives of the consolidated entity is as follows:

The remuneration policy setting out the terms and conditions for executive directors and other senior executives was developed by the Board. All executives receive a base salary (which is based on factors such as the length of service and experience) and superannuation. The Board reviews executive packages annually by reference to the consolidated entity's performance, executive performance, and comparable information from industry sectors and other listed companies in similar industries.

The Board may exercise discretion in relation to approving incentives, bonuses, and options. The policy is designed to attract the highest calibre of executives and reward them for performance that results in long-term growth in shareholder wealth.

All remuneration paid to Directors and executives is valued at the cost to the consolidated entity and expensed.

Executives are also entitled to participate in the employee share and option arrangements. Shares given to Directors and executives are valued as the difference between the market price of those shares and the amount paid by the Director or executive. Options are valued using the Black-Scholes methodology.

Performance-Based Remuneration

The consolidated entity currently has no compulsory performance-based remuneration component built into Director and executive remuneration packages. However, performance-based bonuses may be awarded from time to time at the discretion of the Board, and this will be dependent on individual performance linked to the consolidated entity's strategic objectives for that period.

In the current year, no bonuses were paid or declared.

Non-Executive Director Remuneration

The Board seeks to set aggregate remuneration at a level that provides the Company with the ability to attract and retain Directors of the highest calibre, whilst incurring a cost that is acceptable to shareholders.

The Board considers the fees paid to non-executive Directors of comparable companies when undertaking the annual review process. Independent advice is obtained when considered necessary to confirm that remuneration is in line with market practice. Each Director may receive a fee for being a Director of the Company.

KalNorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2015

DIRECTORS' REPORT

Remuneration Report (Cont'd)

Non-executive Directors may also receive performance rights (subject to shareholder approval) as it is considered an appropriate method of providing sufficient reward whilst maintaining cash reserves.

Relationship between Remuneration Policy and Consolidated Entity Performance

The remuneration policy has been tailored to increase goal congruence between shareholders and Directors and executives. From time to time, this is facilitated through the issue of options to the majority of directors and executives to encourage the alignment of personal and shareholder interests. The consolidated entity believes this policy will be effective in increasing shareholder wealth.

Key management personnel service agreements

Details of the key conditions of service agreements for key management personnel are as follows:

	Commencement Date	Notice Period Base Salary	Base Salary	Termination Payments Provided
Lijun Yang	01/08/2013	1 month	\$80,000 ¹	-
Wade Johnson	24/03/2014	1 month	\$150,000 ¹	-

¹Entitled to statutory superannuation contributions

There are no other agreements with key management personnel.

KalNorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2015

DIRECTORS' REPORT

Remuneration Report (Cont'd)

Remuneration Details for the Year Ended 30 June 2015

(a) Key management personnel compensation:

2015	Short-term benefits			Post-employment benefits		Share-based payment		Total
	Salary, fees and leave	Non- Cash bonus	Non-monetary benefits	Super-annuation	Retirement benefits	Options	Others	
Name	\$	\$	\$	\$	\$	\$	\$	\$
<i>Directors</i>								
Lijun Yang	80,000	-	-	7,600	-	-	-	87,600
Jiajun Hu	54,166	-	-	7,521	-	-	-	61,687
Yuanguang Yang ¹	23,753	-	-	-	-	-	-	23,753
Brendan Peter Connell ²	-	-	-	-	-	-	-	-
<i>Other key management personnel</i>								
Wade Johnson ³	183,491	-	-	19,967	-	-	26,689	230,148
Total	341,410	-	-	35,088	-	-	26,689	403,188

¹ Mr. Yuanguang Yang was appointed 28 August 2014.

² Mr. Connell resigned on 28 August 2014.

³ Mr Johnson received an additional \$33,491 in salary in lieu of forgoing a portion of his accrued annual leave entitlements.

KalNorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2015

DIRECTORS' REPORT

Remuneration Report (Cont'd)

2014	Short-term benefits			Post-employment benefits		Share-based payment		Total
	Salary, fees and leave	Non- Cash bonus	Non-monetary benefits	Super-annuation	Retirement benefits	Options	Others	
Name	\$	\$	\$	\$	\$	\$	\$	\$
<i>Directors</i>								
Lijun Yang ¹	65,846	-	-	6,091	-	-	-	71,937
Jiajun Hu ²	25,000	-	-	-	-	-	-	25,000
Yuanguang Yang ³	-	-	-	-	-	-	-	-
Brendan Peter Connell ⁴	15,000	-	-	-	-	-	-	15,000
Laurence Freedman ⁵	-	-	-	-	-	-	-	-
Robert Schuitema ⁶	65,333	-	-	6,043	-	-	93,600 ⁷	164,976
Jian Yu ⁸	-	-	-	-	-	-	-	-
John McKinstry ⁸	-	-	-	-	-	-	-	-
<i>Other key management personnel</i>								
James Church ⁹	15,000	-	-	-	-	-	-	15,000
Wade Johnson	292,674	-	-	27,072	-	-	-	319,746
Total	478,853	-	-	39,206	-	-	93,600	611,659

¹ Mr. Lijun Yang was appointed to the board on 8 November 2013 and as Company Secretary on 29 August 2014 (post year-end).

² Mr. Jiahun Hu was appointed to the board on 13 December 2013

³ Mr. Yuanguang Yang was appointed to the board on 28 August 2014

⁴ Mr. Connell was appointed to the board on 25 February 2014 and resigned on 28 August 2014 (post year-end).

⁵ Mr Laurence Freedman retired from the board on 8 November 2013.

⁶ Mr. Schuitema resigned from the board on 25 February 2014

⁷ Mr. Schuitema was paid \$93,600 in consulting fees during the year.

⁸ Mr. Jian Yu resigned from the board on 13 December 2013

⁸ Mr. McKinstry resigned from the board on 2 August 2013.

⁹ Mr. Church was appointed on 25 February 2014 and resigned on 29 August 2014 (post year-end).

KalNorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2015 DIRECTORS' REPORT

Remuneration Report (Cont'd)

Share-based payment compensation

To ensure that the consolidated entity has appropriate mechanisms to continue to attract and retain the services of Directors and Executives of a high calibre, the consolidated entity has a policy of issuing options that are exercisable in the future at a certain fixed price.

No options were granted to Directors or key management personnel during the year ended 30 June 2015 (2014: nil).

Key management personnel shareholdings

The number of ordinary shares in KalNorth Gold Mines Limited held by each key management personnel of the consolidated entity during the financial year is as follows:

2015	Balance 1 July 2014	Granted as Remuneration	Options Exercised	Net Change Other	Balance 30 June 2015
<i>Directors</i>					
Lijun Yang	31,400	-	-	-	31,400
Jiajun Hu	-	-	-	-	-
Yuanguang Yang	-	-	-	-	-
Brendan Peter Connell ¹	-	-	-	-	-
<i>Other</i>					
Wade Johnson	2,000,000	-	-	(990,000)	1,010,000
Total	2,031,400	-	-	(990,000)	1,041,400

¹ Mr. Connell resigned on 28 August 2014.

Key management personnel option holdings

No options were granted or held by key management personnel in the current or prior year.

Loans to key management personnel and their related parties

There were no loans outstanding at the reporting date to key management personnel and their related parties.

Use of Remuneration Consultants

The Company did not use any remuneration consultants during the period.

END OF REMUNERATION REPORT

KalNorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2015
DIRECTORS' REPORT

Indemnification and Insurance of Officers and Auditors

The Company's Constitution requires it to indemnify Directors and officers of any entity within the consolidated entity against liabilities incurred to third parties and against costs and expenses incurred in defending civil or criminal proceedings, except in certain circumstances. An indemnity is also provided to the Company's auditors under the terms of their engagement. Directors and officers of the consolidated entity have been insured against all liabilities and expenses arising as a result of work performed in their respective capacities, to the extent permitted by law. The insurance premium relates to:

- costs and expenses incurred by the relevant officers in defending proceedings, whether civil or criminal and whatever the outcome;
- other liabilities that may arise from their position, with the exception of conduct involving a wilful breach of duty or improper use of information or position to gain a personal advantage.

Proceedings on Behalf of Company

No person has applied for leave of the Court to bring proceedings on behalf of the company or intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings. The company was not a party to any such proceedings during the year.

Non-Audit Services

The Board of Directors is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

- all non-audit services are reviewed and approved by the Board prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- the nature of the services provided does not compromise the general principles relating to auditor independence in accordance with APES 110: Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standards Board.

The following fees were paid or payable to RSM Bird Cameron for non-audit services:

	2015	2014
	\$	\$
Taxation services	9,000	17,350
Other taxation services – R&D return and lodgment assistance	48,659	72,783
	57,659	90,133

Officers of the company who are former audit partners of RSM Bird Cameron Partners

There are no officers of the company who are former audit partners of RSM Bird Cameron Partners.

Auditor's Independence Declaration

The auditor, RSM Bird Cameron Partners, has provided the Board of Directors with an independence declaration in accordance with section 307C of the Corporations Act 2001.

The independence declaration is located on the next page.

KalNorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2015
DIRECTORS' REPORT

The Report of Directors, incorporating the Remuneration Report, is signed pursuant to section 298(2) (a) of the Corporations Act 2001 in accordance with a resolution of the Board of Directors.



Lijun Yang
Executive Director

Dated at Perth this 30th day of September 2015

KalNorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2015

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE

For the year ended 30 June 2015

	Note	2015 \$	2014 \$
Revenue from gold sales		9,295	5,211,564
Cost of sales		-	(5,520,582)
Gross profit / (loss)		9,295	(309,018)
Other income	3	1,463,771	2,545,953
Director and corporate employee costs		(178,812)	(430,498)
Professional fees and consultants		(303,285)	(184,228)
Advertising and promotion cost		(5,945)	(25,636)
Depreciation expenses	8	(114,913)	(217,914)
Listing and registry fees		(29,047)	(38,030)
Exploration costs		(794,899)	(805,489)
Impairment expense	4	-	(10,124,900)
Interest expense		(563,765)	(726,013)
Other administration expenses		(256,851)	(447,710)
Loss before income tax		(774,451)	(10,763,483)
Income tax benefit	5	-	-
Loss after income tax for the year		(774,451)	(10,763,483)
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Movement in fair value of available for sale investments		-	8,076
Other comprehensive income for the year, net of tax		-	8,076
Total comprehensive loss for the year		(774,451)	(10,755,407)
Loss per share			
Basic and diluted loss per share (cents)	17	(0.28)	(5.28)

The accompanying notes form an integral part of these financial statements.

KalNorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2015

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2015

	Note	2015 \$	2014 \$
ASSETS			
Current Assets			
Cash and cash equivalents	19 (b)	238,640	128,867
Trade and other receivables	6	15,993	32,503
Other assets	7	7,500	34,548
Total Current Assets		<u>262,133</u>	<u>195,918</u>
Non-Current Assets			
Property, plant and equipment	8	389,920	504,833
Exploration and evaluation expenditure	9	7,147,846	8,035,398
Total Non-Current Assets		<u>7,537,766</u>	<u>8,540,231</u>
TOTAL ASSETS		<u>7,799,899</u>	<u>8,736,149</u>
LIABILITIES			
Current Liabilities			
Trade and other payables	10	122,785	1,231,834
Interest bearing liabilities	11	4,764,557	4,891,788
Total Current Liabilities		<u>4,887,342</u>	<u>6,123,622</u>
Non-Current Liabilities			
Restoration provision	12	1,148,358	1,099,370
Total Non-Current Liabilities		<u>1,148,358</u>	<u>1,099,370</u>
TOTAL LIABILITIES		<u>6,035,700</u>	<u>7,222,992</u>
NET ASSETS		<u>1,764,199</u>	<u>1,513,157</u>
EQUITY			
Issued capital	13	76,251,722	75,226,229
Reserves	14	-	1,334,418
Accumulated losses		<u>(74,487,523)</u>	<u>(75,047,490)</u>
TOTAL EQUITY		<u>1,764,199</u>	<u>1,513,157</u>

The accompanying notes form an integral part of these financial statements.

KalNorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2015

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2015

	Issued Capital \$	Accumulated Losses \$	Financial assets reserve \$	Share payment reserve \$	Total Equity \$
2014					
As at 1 July 2013	74,603,464	(65,814,380)	(8,076)	2,864,791	11,645,799
Loss after income tax for the year	-	(10,763,483)	-	-	(10,763,483)
Movement in fair value of available for sale investments	-	-	8,076	-	8,076
Total comprehensive income for the year, net of tax	-	(10,763,483)	8,076	-	(10,755,407)
Transfer of expired share option costs	-	1,530,373	-	(1,530,373)	-
Shares issued during the year, net of costs	622,765	-	-	-	622,765
As at 30 June 2014	75,226,229	(75,047,490)	-	1,334,418	1,513,157
2015					
As at 1 July 2014	75,226,229	(75,047,490)	-	1,334,418	1,513,157
Loss after income tax for the year	-	(774,451)	-	-	(774,451)
Total comprehensive income for the year, net of tax	-	(774,451)	-	-	(774,451)
Transfer of expired share option costs	-	1,334,418	-	(1,334,418)	-
Shares issued during the year, net of costs	1,025,493	-	-	-	-
As at 30 June 2015	76,251,722	(74,487,523)	-	-	1,764,199

The accompanying notes form an integral part of these financial statements.

KalNorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2015

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2015

	Note	2015	2014
		\$	\$
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		25,890	6,074,603
Payments to suppliers and employees (inclusive of GST)		(788,237)	(9,580,175)
Research and development tax refund		533,785	2,377,491
Interest received		6,923	21,392
Interest paid		(13,325)	(72,645)
Refund of office security bond		27,050	-
Net cash used in operating activities	19(a)	(207,914)	(1,179,334)
Cash flows from investing activities			
Proceeds from sale of investments		-	8,993
Proceeds from sale of tenements		1,800,000	12,500
Proceeds from sale of plant and equipment		-	269,173
Payment for mine tenements		(1,050,000)	(1,200,000)
Payments for plant and equipment		-	(27,033)
Payment for mineral exploration activities		(782,313)	(805,489)
Net cash used in investing activities		(32,313)	(1,741,856)
Cash flows from financing activities			
Proceeds from issue of shares		-	622,765
Proceeds from borrowings – convertible loan		350,000	-
Net cash provided by financing activities		350,000	622,765
Net increase / (decrease) in cash held		109,773	(2,298,425)
Cash and cash equivalents at the beginning of the financial year		128,867	2,427,292
Cash and cash equivalents at the end of the financial year	19(b)	238,640	128,867

The accompanying notes form an integral part of these financial statements.

KalNorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2015

Note 1: Statement of Significant Accounting Policies

The financial statements cover KalNorth Gold Mines Limited ("KalNorth" "Company") as a consolidated entity consisting of KalNorth Gold Mines Limited and the entities it controlled at the end of, or during, the year. The financial statements are presented in Australian dollars, which is KalNorth's functional and presentation currency.

The financial report was authorised for issue on 30 September 2015 by the Board of Directors.

Basis of preparation

The financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in financial statements containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards as issued by the IASB. Material accounting policies adopted in the preparation of these financial statements are presented below and have been consistently applied unless otherwise stated.

The financial statements have been prepared on an accruals basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

Going Concern

The financial statements have been prepared on a going concern basis, which contemplates continuity of normal business activities and the realisation of assets and discharge of liabilities in the normal course of business.

As disclosed in the financial statements, the Company and consolidated entity had net current liabilities of \$4,625,209 at 30 June 2015, incurred a net loss of \$774,551 and had net cash flows from operating activities of \$207,914 for the year then ended.

The Directors believe that it is reasonably foreseeable that the company and the consolidated entity will continue as going concerns and that it is appropriate to adopt the going concern basis in the preparation of the financial report after consideration of the following factors which are disclosed in events subsequent to reporting date (note 27):

- (a) As disclosed in Note 11, secured and unsecured loans as at 30 June 2015 are \$3.50 million and \$0.70 million, respectively. Interest payable was \$0.17 million and \$0.03 million, respectively. Subsequent to balance date, binding agreements were entered into with secured lenders Renenergy Pty Ltd and South Victory Global Limited as well as unsecured lenders Smarter Group (Australia) Pty Ltd and Mr John McKinstry, as a result of which \$3.50 million of secured debt plus interest payable and \$0.65 million of unsecured debt plus interest payable as at 30 June 2015 is proposed to be settled through the issuance of company shares at an issue price at \$0.01 share each;
- (b) On 15 September 2015, a convertible note facility agreement was entered into with the Company's largest shareholder, Cross-Strait, under the terms of which the Company will be able to draw down up to \$2 million. As at the date of the financial report \$0.3m was received from Cross-Strait. Cross-Strait will have the right to convert all or part of the amounts drawn down under the facility into shares in the Company at an issue price of \$0.01 per share. The facility will have a maturity date of 30 April 2017; and

KalNorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2015

Note 1: Statement of Significant Accounting Policies (cont'd)

Going Concern (cont'd)

- (c) On 29 July 2015, the Company issued a prospectus for a non-renounceable entitlement offer of shares at \$0.01 each. The rights offer has closed, however the issue of shares has not been completed as the Company is required to give applicants an opportunity to withdraw their applications on or before 16 October 2015. On 27 August 2015, the Company announced acceptances have been received for 44,730,803 shares. Assuming no material applications for the rights offer are withdrawn, an amount of approximately \$0.4 million is expected to be raised when the Company completes the rights issue on 19 October 2015.

The completion of the transactions referred to in (a) and (b) above is subject to shareholder and other regulatory approvals which must be obtained by 30 November 2015 (unless the parties agree to an extension).

As disclosed in Note 11, as at 30 June 2015 the convertible note facility totals \$350,000. The convertible note facility is with Gold Fresh Limited and has a maturity date of 5 March 2016 and, subject to completion of the transaction referred to in (a) above, the Company is seeking Gold Fresh's agreement to convert the convertible note to shares rather than require redemption.

The Company has the intent and ability to curtail corporate and administration cash outflows.

Adoption of new and revised standards

Changes in accounting policies on initial application of Accounting Standards

In the year ended 30 June 2015, the Group has reviewed and adopted all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for the current annual reporting period.

The Group has also reviewed all new Standards and Interpretations that have been issued but are not yet effective for the year ended 30 June 2015. As a result of these reviews the Directors have determined that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change is necessary to Group accounting policies.

Parent entity information

In accordance with the Corporations Act 2001, these financial statements present the results of the consolidated entity only. Supplementary information about the parent entity is disclosed in Note 26.

Principles of consolidation

The consolidated financial statements incorporate the assets, liabilities and results of entities controlled by KalNorth Gold Mines Limited at the end of the reporting period. A controlled entity is any entity over which KalNorth Gold Mines Limited has the ability and right to govern the financial and operating policies so as to obtain benefits from the entity's activities.

Where controlled entities have entered or left the Group during the year, the financial performance of those entities is included only for the period of the year that they were controlled. A list of controlled entities is contained in Note 21 to the financial statements.

In preparing the consolidated financial statements, all inter-group balances and transactions between entities in the consolidated group have been eliminated in full on consolidation.

KalNorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2015

Note 1: Statement of Significant Accounting Policies (cont'd)

Principles of consolidation (cont'd)

Non-controlling interests, being the equity in a subsidiary not attributable, directly or indirectly, to a parent, are reported separately within the equity section of the consolidated statement of financial position and statement of comprehensive income. The non-controlling interests in the net assets comprise their interests at the date of the original business combination and their share of changes in equity since that date.

Operating Segments

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers ('CODM'). The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

Income tax

The income tax expense (income) for the year comprises current income tax expense (income) and deferred tax expense (income).

Current income tax expense charged to the profit of loss is the tax payable on taxable income calculated using applicable income tax rates enacted, or substantially enacted, as at reporting date. Current tax liabilities (assets) are therefore measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well as unused tax losses.

Current and deferred income tax expense (income) is charged or credited directly to equity instead of profit or loss when the tax related to items that are credited or charged directly to equity.

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantially enacted at reporting date. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries, branches, associates, and joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

Current tax assets and liabilities are offset where a largely enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where a legally enforceable right of set-off exists, the deferred tax assets and liabilities related to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

Note 1: Statement of Significant Accounting Policies (cont'd)**Mining tenements and exploration and evaluation expenditure**

Mining tenements are carried at cost, less accumulated impairment losses.

Exploration, evaluation and development expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves. Accumulated costs in relation to an abandoned area are written off in full against profit in the year in which the decision to abandon the area is made.

When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

Costs of site restoration are provided over the life of the facility from when exploration commences and are included in the costs of that stage. Site restoration costs include the dismantling and removal of mining plant, equipment and building structures, waste removal, and rehabilitation of the site in accordance with clauses of the mining permits. Such costs have been determined using estimates of future costs, current legal requirements and technology on an undiscounted basis.

Any changes in the estimates for the costs are accounted on a prospective basis. In determining the costs of site restoration, there is uncertainty regarding the nature and extent of the restoration due to community expectations and future legislation. Accordingly the costs have been determined on the basis that the restoration will be completed within one year of abandoning the site.

Leases

Leases of fixed assets, where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership that are transferred to the economic entity, are classified as finance leases.

Leases where a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

Employee benefits*Short-term employee benefits*

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled within 12 months of the reporting date are recognised in current liabilities in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

Defined contribution superannuation expense

Contributions to defined contribution superannuation plans are expensed in the period in which they are incurred.

KalNorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2015

Note 1: Statement of Significant Accounting Policies (cont'd)

Property, plant and equipment

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses.

Property

Freehold land and buildings are measured on the cost basis less depreciation and impairment losses.

Plant and equipment

Plant and equipment are measured on the cost basis less depreciation and impairment losses.

The carrying amount of property, plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the assets employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Depreciation

The depreciable amount of all fixed assets including building and capitalised lease assets, but excluding freehold land, is depreciated on a straight-line basis over the useful lives to the consolidated entity commencing from the time the asset is held ready for use.

The depreciation rates used for each class of depreciable assets are:

Class of fixed asset	Depreciation rate
Plant and equipment	10-33%
Buildings	10%
Motor vehicles	25%
IT assets	33%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the statement of comprehensive income or loss. When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

Current and non-current classification

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is current when: it is expected to be realised or intended to be sold or consumed in normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within twelve months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period. All other assets are classified as non-current.

Note 1: Statement of Significant Accounting Policies (cont'd)**Current and non-current classification (cont'd)**

A liability is current when: it is expected to be settled in normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within twelve months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

Financial instruments

Financial instruments, incorporating financial assets and financial liabilities, are recognised when the entity becomes a party to the contractual provisions of the instrument. Trade date accounting is adopted for financial assets that are delivered within timeframes established by marketplace convention.

Financial instruments are initially measured at fair value plus transactions costs where the instrument is not classified as at fair value through profit or loss. Transaction costs related to instruments classified as at fair value through profit or loss are expensed to profit or loss immediately. Financial instruments are classified and measured as set out below.

Derecognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expire. The difference between the carrying value of the financial liability extinguished or transferred to another party and their fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

*Classification and subsequent measurement**Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost using the effective interest rate method.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated as such or that are not classified in any of the other categories. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

Financial liabilities

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost using the effective interest rate method.

Impairment of financial assets

The consolidated entity assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. Objective evidence includes significant financial difficulty of the issuer or obligor; a breach of contract such as default or delinquency in payments; the lender granting to a borrower concessions due to economic or legal reasons that the lender would not otherwise do; it becomes probable that the borrower will enter bankruptcy or other financial reorganisation; the disappearance of an active market for the financial asset; or observable data indicating that there is a measurable decrease in estimated future cash flows.

Note 1: Statement of Significant Accounting Policies (cont'd)*Impairment of financial assets (cont'd)*

The amount of the impairment allowance for financial assets carried at cost is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the current market rate of return for similar financial assets.

Available-for-sale financial assets are considered impaired when there has been a significant or prolonged decline in value below initial cost. Subsequent increments in value are recognised in other comprehensive income through the available-for-sale reserve.

Fair value

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principle market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interest. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Assets and liabilities measured at fair value are classified, into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed each reporting date and transfers between levels are determined based on a reassessment of the lowest level input that is significant to the fair value measurement.

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

Impairment of non-financial assets

At each reporting date, the group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the comprehensive statement of income.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

KalNorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2015

Note 1: Statement of Significant Accounting Policies (cont'd)

Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

Trade and Other Receivables

Trade and other receivables include amounts due from customers for goods sold and services performed in the ordinary course of business. Receivables expected to be collected within 12 months of the end of the reporting period are classified as current assets. All other receivables are classified as non-current assets. Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises all direct materials, direct labour and an appropriate portion of variable and fixed overheads. Fixed overheads are allocated on the basis of normal operating capacity. Costs are assigned to inventories using the first-in-first-out basis. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and selling expenses.

Trade and Other Payables

Trade and other payables represent the liabilities for goods and services received by the entity that remain unpaid at the end of the reporting period. The balance is recognised as a current liability with the amounts normally paid within 30 days of recognition of the liability.

Provision for restoration

Costs of site restoration are recognised in full at present value as a non-current liability and an equivalent amount capitalised as part of the cost of the asset when an obligation arises to decommission or restore a site to a certain condition after abandonment as a result of bringing the assets to their present location. The capitalised cost is amortised over the life of the project and the provision is accredited periodically as the discounting of the liability unwinds. The unwinding of the discount is recorded as interest expense. Site restoration costs include the dismantling and removal of mining plant, equipment and building structures, waste removal and rehabilitation of the site in accordance with clauses of the mining permits. Such costs are determined using estimates of future costs, current legal requirements and technology on an undiscounted basis.

Any changes in the estimates for the costs are accounted for on a prospective basis. In determining the costs of site restoration there is uncertainty regarding the nature and extent of the restoration due to community expectations and future legislation. Accordingly the costs are determined on the basis that restoration will be completed within one year of abandoning a site.

Borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method. Where there is an unconditional right to defer settlement of the liability for at least 12 months after the reporting date, the loans or borrowings are classified as non-current.

Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST. Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

Note 1: Statement of Significant Accounting Policies (cont'd)**Revenue***Sale of gold*

Revenue from sale of gold is recognised when the significant risks and rewards of ownership have passed to the buyer and can be reliably measured. Risks are considered passed to buyer when the customer takes possession of the ore, however, revenue is not reliably measurable until that ore has been processed. Therefore revenue from the sale of ore is recognised upon processing.

Interest income

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

Share-based payment transactions

The consolidated entity provides benefits to employees (including senior executives) in the form of share-based payments, whereby employees render services in exchange for shares or rights over shares (equity settled transactions). The consolidated entity does not provide cash settled share based payments.

The cost of equity settled transactions with employees are measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by reference to the market price of the consolidated entity's shares on the Australian Stock Exchange. The cost of equity settled transactions are recognised, together with a corresponding increase in equity, over the period in which the service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the vesting period).

The cumulative expense recognised for equity settled transactions at each reporting date until vesting date reflects the extent to which the vesting period has expired, and the consolidated entity's best estimate of the number of equity instruments that will ultimately vest. The profit or loss charge or credit for a period represents the movement in cumulative expense recognised for the period.

No cumulative expense is recognised for awards that ultimately do not vest (in respect of non-market vesting conditions).

Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

Earnings per share*Basic earnings per share*

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the consolidated entity, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year.

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

KalNorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2015

Note 1: Statement of Significant Accounting Policies (cont'd)

Comparative figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

Finance costs

Finance costs are expensed in the period in which they are incurred.

Note 2: Critical accounting estimates and judgments

The Directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the group.

The critical accounting estimates and judgments are:

Restoration provision

The Company is required to ensure that appropriate rehabilitation is carried out on tenements that are mined. The amount of rehabilitation cost is an estimate based upon the estimated life of each mined tenement, as well as the future timing and cost of such rehabilitation. The provision is constantly revised as information about the life of mine, type of mining and cost estimates are updated.

Deferred exploration and evaluation expenditure

Exploration and evaluation costs are carried forward where right of tenure of the area of interest is current. These costs are carried forward in respect of an area that has not at statement of financial position date reached a stage that permits reasonable assessment of the existence of economically recoverable reserves, refer to the accounting policy stated in Note 1.

Note 3: Other income

	2015 \$	2014 \$
Interest received on cash deposits	6,923	6,194
Refundable R&D tax offset	533,785	2,377,491
Gain on sale of tenements (i)	913,460	12,500
Profit on sale of property, plant and equipment	103	148,154
Other income	9,500	1,614
Total other income	1,463,771	2,545,953

- (i) On 7 November 2014, the Company settled its sale of the Mount Jewell project in the Goldfields region, Western Australia. The gain on sale consisting of the following components;

Proceeds from sale (exclusive of GST)	1,800,000
Deferred purchase consideration - early payment discount (Note 10(i))	50,000
Exploration & evaluation expenditure write-back on disposal (Note 9)	(1,000,000)
Rehabilitation provision write-back on disposal	63,460
Total gain on sale	913,460

Note 4: Impairment expenses

	2015 \$	2014 \$
Impairment of exploration and evaluation assets	-	10,124,900
Total impairment expenses	-	10,124,900

KalNorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2015

Note 5: Income tax

(a) Income tax recognised

No income tax is payable by the consolidated entity for the year as a loss was recorded for income tax purposes.

(b) Numerical reconciliation between income tax expense and the loss before income tax

	2015 \$	2014 \$
Loss before income tax	(774,451)	(10,763,483)
Income tax benefit at 30% (2014: 30%)	232,335	3,229,045
Tax effect of permanent differences – Impairment	(183,816)	(3,037,470)
Tax effect of temporary differences	77,472	(65,374)
Tax effect of deferred tax asset not recognised	(125,991)	(126,201)
Income tax expense	-	-

(c) Unrecognised deferred tax balances

Tax losses attributable to members of the tax consolidated group – revenue	78,063,584	75,596,401
Potential tax benefit at 30%	23,419,075	22,678,920

A deferred tax asset attributable to income tax losses has not been recognised at reporting date as the probability criteria disclosed in Note 1 (Income Tax) is not satisfied and such benefit will only be available if the conditions of deductibility also disclosed in Note 1 (Income Tax) are satisfied.

For the purposes of taxation, KalNorth Gold Mines Limited and its 100% owned Australian subsidiary are a tax consolidated group. The head entity of the tax consolidated group is KalNorth Gold Mines Limited. The group has not entered into a tax sharing agreement.

Note 6: Trade and other receivables

	2015 \$	2014 \$
Current		
GST receivable	15,993	16,534
Other receivables	-	15,969
	15,993	32,503

Note 7: Other assets

	2015 \$	2014 \$
Current		
Prepayments	-	27,048
Credit card facility deposit	7,500	7,500
Total other assets	7,500	34,548

KaiNorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2015

Note 8: Property, plant and equipment

	2015 \$	2014 \$
Plant and equipment		
At cost	381,136	381,136
Accumulated depreciation	(330,897)	(305,086)
	<u>50,239</u>	<u>76,050</u>
Motor vehicles		
At cost	113,887	113,887
Accumulated depreciation	(102,283)	(83,261)
	<u>11,604</u>	<u>30,626</u>
IT Assets		
At cost	302,008	302,008
Accumulated depreciation	(283,990)	(222,910)
	<u>18,018</u>	<u>79,098</u>
Land and buildings		
At cost	380,866	380,866
Accumulated depreciation	(70,807)	(61,807)
	<u>310,059</u>	<u>319,059</u>
Total written down value	<u>389,920</u>	<u>504,833</u>

(a) Movements in carrying amounts

	Land & Buildings	Plant & Equipment	Motor Vehicles	IT Assets	Total
Balance at 1 July 2013	328,059	147,284	197,123	177,858	850,324
Additions	-	300	25,702	1,231	27,233
Disposals	-	(9,091)	(142,652)	(3,067)	(154,810)
Depreciation expense	(9,000)	(62,443)	(49,547)	(96,924)	(217,914)
Balance at 30 June 2014	<u>319,059</u>	<u>76,050</u>	<u>30,626</u>	<u>79,098</u>	<u>504,833</u>
Balance at 1 July 2014	319,059	76,050	30,626	79,098	504,833
Depreciation expense	(9,000)	(25,811)	(19,022)	(61,080)	(114,913)
Balance at 30 June 2015	<u>310,059</u>	<u>50,239</u>	<u>11,604</u>	<u>18,018</u>	<u>389,920</u>

Note 9: Exploration and evaluation expenditure

	2015 \$	2014 \$
Cost	<u>7,147,846</u>	<u>8,035,398</u>
<i>Reconciliation</i>		
Balance at beginning of year	8,035,398	17,547,128
Exploration expenditure incurred	794,899	805,489
Exploration expenditure immediately expensed (i)	(794,899)	(805,489)
Disposal of tenements – Mt Jewell Project (ii)	(1,000,000)	-
Additional allowance for rehabilitation	112,448	613,170
Impairment (iii)	-	(10,124,900)
Balance at end of year	<u>7,147,846</u>	<u>8,035,398</u>

- (i) During the year the company incurred exploration expenditure costs which were immediately expensed as their recoverability was uncertain.
- (ii) The Mt Jewell Project was disposed of during the year (Note 3 (i)).
- (iii) During the prior year, the directors undertook an impairment assessment of the current carrying values of the exploration and evaluation assets. As a result, the carrying value of the exploration and evaluation asset was deemed to be impaired by \$10,124,900.

The ultimate recoupment of costs carried forward for exploration and evaluation phases is dependent on the successful development and commercial exploitation or sale of the respective mining areas. Amortisation of the costs carried forward for the development phase is not being charged pending the commencement of production.

KalNorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2015

Note 10: Trade and other payables

	2015 \$	2014 \$
Current		
Trade payables	67,997	57,182
Deferred consideration (i)	-	1,100,000
Sundry payables and accrued expenses	54,788	74,652
	<u>122,785</u>	<u>1,231,834</u>

- (i) A final cash payment of \$1,050,000 was made as part of the settlement on disposal of the Mt. Jewell project. The Company negotiated a \$50,000 early payment discount on this final deferred consideration (Note 3 (i)).

Note 11: Interest bearing liabilities

	2015 \$	2014 \$
Current		
Secured loans (ii)	3,500,000	3,500,000
Unsecured loans (ii)	700,000	700,000
Convertible notes (iii)	350,000	-
Interest payable on secured loans (i)	173,562	606,666
Interest payable on unsecured loans (i)	34,712	85,122
Interest payable on convertible notes (i)	6,283	-
Total interest bearing liabilities	<u>4,764,557</u>	<u>4,891,788</u>

- (i) *The interest payable movement for the year is as follows:*

Balance at beginning of year	691,788	39,139
Interest expense incurred for the year	563,765	725,294
Interest – equity settled on 2 September 2014 (Note 13 (i))	(358,420)	-
Interest – equity settled on 11 March 2015 (Note 13 (ii))	(667,073)	-
Interest paid for the year	(13,325)	(72,645)
Interest 10% withholding on the convertible note	(2,178)	-
Balance at end of year	<u>214,557</u>	<u>691,788</u>

- (ii) *Secured and unsecured loans*

On 2 September 2014, the company equity settled partial outstanding interest (\$358,420) on the loan from secured lender South Victory Global Limited ("SVG") by the issue of 35,842,004 ordinary fully paid shares (Note 13(i)).

On 10 and 11 March 2015, the Company announced it had reached agreement for the restructuring of all its secured and unsecured loans which had become due and payable on 29 November 2014. As a consequence of Deeds of Settlement and Release executed with all lenders, the revised loan arrangements are as follows and were in effect as at balance date:

- (i) Principal amounts of the loans (\$3,500,000 secured and \$700,000 unsecured for an aggregate of \$4,200,000) have a maturity date of 30 April 2016;
- (ii) Interest due and payable as at 31 December 2014 of \$667,073 on all loans was settled by the issue of 41,177,334 fully paid ordinary shares at an issue price of \$0.0162 per share (Note 13 (ii)); and
- (iii) With effect from 1 January 2015, the interest rate applicable to all loans was reduced to 10% per annum from either 15% (secured) or 18% (unsecured). With effect from 1 January 2015, interest is payable at six-monthly intervals across all loans.

On 27 July 2015, the Company was advised that Smarter Group (Australia) Pty Ltd had purchased two unsecured loans totalling \$600,000 (and the accrued interest as at 30 June 2015 of \$29,753) from Link Traders (Aust) Pty Limited.

See Events subsequent to reporting date (Note 27) for details of agreements with lenders to relieve liabilities.

KalNorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2015

Note 11: Interest bearing liabilities (cont'd)

(iii) Convertible notes

On 5 September 2014, the Company entered into a Converting Loan agreement with Goldfresh Limited, a Hong Kong based Investment Company, for an amount of \$350,000 to the Company with short term funding for its working capital. The loan was converted to convertible notes on 16 February 2015 and the key terms are as follows:

- (a) Principal - \$350,000
- (b) Interest – 8% p.a.
- (c) Maturity – 5 March 2016
- (d) Conversion price – lower of 1.5 cents or price of any shares issued after agreement execution date. Assuming completion of the rights issue of shares referred to in Note 27, the conversion price will be reduced to 1 cent per share.

Note 12: Restoration provision

	2015 \$	2014 \$
Non-current		
Restoration provision (i) (ii)	1,148,358	1,099,370
<i>(i) The provision movement for the year is as follows:</i>	2015 \$	2014 \$
Carrying amount at the start of the year	1,099,370	486,200
Sale of the Mt. Jewell Project	(63,460)	-
Additional provisions recognised	112,448	613,170
Carrying amount at the end of the year	1,148,358	1,099,370

- (ii) Costs of site restoration are recognised in full at present value as a non-current liability and an equivalent amount capitalised as part of the cost of the asset when an obligation arises to decommission or restore a site to a certain condition after abandonment as a result of bringing the assets to their present location.

Note 13: Contributed equity

	2015 \$	2014 \$
315,966,034 fully paid ordinary shares (2014: 238,946,696)	76,251,722	75,226,229
Movements in ordinary shares on issue for the year:	No. of shares	Paid up capital \$
Balance 1 July 2014	238,946,696	75,226,229
Share issue at 1.00 cent each – (i)	35,842,004	358,420
Share issue at 1.62 cents each – (ii)	41,177,334	667,073
Balance 30 June 2015	315,966,034	76,251,722

- (i) On 2 September 2014, the company issued 35,842,004 ordinary fully paid shares (at an issue price of 1.00 cent each) in partial settlement of outstanding interest on loans of \$358,420 (Note 11(i)).
- (ii) On 11 March 2015, the company issued 41,177,334 ordinary fully paid shares (at an issue price of 1.62 cents each) in settlement of outstanding interest on loans of \$667,073 (Note 11(ii)).

Ordinary shares

Ordinary shares have the right to receive dividends as declared and, in the event of winding up of the consolidated entity, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held.

KalNorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2015

Note 13: Contributed Equity (cont'd)

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Share buy-back

There is no current on-market share buy-back.

Capital risk management

The consolidated entity's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the consolidated entity may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The consolidated entity would look to raise capital when an opportunity to invest in a business or company was seen as value adding relative to the current company's share price at the time of the investment. The consolidated entity is not actively pursuing additional investments in the short term as it continues to integrate and grow its existing businesses in order to maximise synergies.

The consolidated entity is subject to certain financing arrangements covenants and meeting these is given priority in all capital risk management decisions. There have been no events of default on the financing arrangements during the financial year.

Note 14: Reserves

	2015 \$	2014 \$
Share based payment reserve	-	1,334,418
	-	1,334,418

(i) Movement in share based payments reserve

	No of Options	Paid up Capital \$
Balance at 1 July 2014	25,000,000	1,334,418
Share options expired – transfer to accumulated losses	(25,000,000)	(1,334,418)
Balance at 30 June 2015	-	-

(ii) Share based payments reserve

The share based payments reserve records items recognised as expenses on valuation of share options.

Note 15: Key management personnel compensation

Refer to the Remuneration Report contained in the Directors' Report for details of the remuneration paid to each member of the consolidated entity's key management personnel for the year ended 30 June 2015.

The totals of remuneration paid to key management personnel of the consolidated entity during the year are as follows:

	2015 \$	2014 \$
Short-term employee benefits	368,100	572,454
Post-employment benefits	35,088	39,206
	403,188	611,660

KalNorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2015

Note 16: Related party transactions

During the financial year, other than remuneration paid or payable to key management personnel, the Company did not engage in any related party transactions. In the prior year, the Company engaged Mercury Consulting Pty Ltd and IRM Pty Ltd, both former director-related entities, to perform investor relations activities on behalf of the consolidated entity for a fee of \$32,182. The services were provided on an arm's length basis.

Note 17: Loss per share

	2015	2014
	\$	\$
a) Basic loss per share		
Loss after income tax	(774,451)	(10,763,483)

Weighted average number of ordinary shares on issue during the year used as the denominator in calculating basic loss per share

281,026,497	203,923,588
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Diluted loss per share is the same as basic loss per share as there are no securities to be classified as dilutive potential ordinary shares on issue.

Note 18: Auditor's remuneration

	2015	2014
	\$	\$
Remuneration of the auditor for:		
- audit and review of financial reports	33,800	38,800
- taxation services	9,000	17,350
- other taxation services – R&D tax credit assistance	48,659	72,783
	91,459	128,933

Note 19: Cash flow information

	2015	2014
	\$	\$
a) Reconciliation of the net loss after income tax to the net cash flows from operating activities:		
Net loss for the year	(774,451)	(10,763,483)
<i>Non-cash items included in net loss:</i>		
Depreciation expense	114,913	217,914
Exploration expenses	794,899	805,489
Tenement impairment expense	-	10,124,900
Gain on sale of plant and equipment	-	(123,241)
Gain on sale of tenements	(913,460)	-
Share based settled interest expense	548,261	-
<i>Changes in assets and liabilities:</i>		
Decrease in inventories	-	1,038,501
Decrease in trade and other receivables	16,509	452,405
Decrease in other assets	27,050	93,766
Decrease in trade and other creditors	(21,636)	(3,025,585)
Net cash outflow from operating activities	(207,914)	(1,179,334)
b) Reconciliation of cash		
Cash balance comprises:		
- Cash at bank and on hand	238,640	128,867

c) Non-Cash Financing and Investing Activities

As disclosed in Note 13, the Company issued 77,019,338 shares during the year to settle outstanding interest expense of \$1,025,493.

KalNorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2015

Note 20: Commitments

(i) Mining tenements

The consolidated entity has certain commitments to meet minimum expenditure requirements on the mineral exploration assets in which it has an interest. The current annual minimum lease expenditure commitments on these tenements which covers the Lindsays, Kurnalpi, Kalpini and Mt. Jewell projects is \$791,520 (2014: \$1,316,037).

If the consolidated entity decides to relinquish certain leases and/or does not meet these obligations, assets recognised in the balance sheet may require review to determine the appropriateness of carrying values. The sale, transfer, or farm-out of exploration rights to third parties will reduce or extinguish these obligations.

	2015 \$	2014 \$
(b) Non-cancellable operating lease commitments		
- Not later than 12 months	8,004	50,051
- Between 12 months and 5 years	-	8,004
- Greater than 5 years	-	-
	8,004	58,055

The consolidated entity has an operating lease for a hand held data analyser at a rental of \$1,334 per month and expiring 31 December 2015.

Note 21: Controlled entities	Country of Incorporation	Percentage Owned (%)	
		2015	2014
Subsidiaries of KalNorth Gold Mines Limited:			
Shannon Resources Pty Ltd (dormant)	Australia	100	100
Lusitan Prospecting Pty Ltd (dormant)	Australia	100	100

Shannon Resources Pty Ltd and Lusitan Prospecting Pty Limited are the registered owners of various tenements. The parent entity owns 100% of both entities. There was no income earned and no expenses incurred by these entities for the year end 30 June 2015 (2014: nil).

KalNorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2015

Note 22: Segment information

Identification of reportable operating segments

The consolidated entity is organised into two operating segments: mine development and mineral exploration, both within Australia. During the year ended 30 June 2015, the consolidated entity's external revenue was derived solely from the sale of its share of prospector gold. In 2014, the consolidated entity's external revenue was most significantly from sales of ore recovered from the Lindsays mining operation to Saracen Mineral Holdings Limited (an Australian listed gold miner), however mining was suspended in August 2013.

30 June 2015	Mine development	Mineral exploration	Admin	Total consolidated group
Revenue	\$	\$	\$	\$
Sales to external customers	-	-	9,265	9,265
Other revenue	-	-	1,456,848	1,456,848
Total revenue	-	-	1,466,113	1,466,113
EBITDA	-	-	(102,696)	(102,696)
Depreciation and amortisation	-	(19,021)	(95,892)	(114,913)
Impairment expense	-	-	-	-
Interest revenue	-	-	6,923	6,923
Finance costs	-	-	(563,765)	(563,765)
Loss before income tax	-	(19,021)	(755,430)	(774,451)
Income tax benefit	-	-	-	-
Loss after income tax	-	(19,021)	(755,430)	(774,451)
30 June 2015				
Assets				
<i>Segment assets</i>				
Exploration assets	-	7,147,846	-	7,147,846
Property, plant and equipment	-	11,603	378,317	389,920
<i>Unallocated assets:</i>				
Cash and cash equivalents	-	-	238,640	238,640
Other current and non-current assets	-	-	23,493	23,493
Total assets	-	7,159,449	640,450	7,799,899
Liabilities				
<i>Segment liabilities</i>				
Trade and other payables	-	-	(122,785)	(122,785)
Restoration provision	(1,083,622)	(64,736)	-	(1,148,358)
<i>Unallocated liabilities:</i>				
Interest-bearing liabilities	-	-	(4,764,557)	(4,764,557)
Total liabilities	(1,083,622)	(64,736)	(4,887,342)	(6,035,700)

KalNorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2015

Note 22: Segment information (cont'd)

30 June 2014	Mine development	Mineral exploration	Admin	Total consolidated group
Revenue	\$	\$	\$	\$
Sales to external customers	5,211,564	-	-	5,211,564
Other revenue	-	-	2,539,759	2,539,759
Total revenue	5,192,150	-	2,539,759	7,751,323
EBITDA	(328,432)	-	627,582	299,150
Depreciation and amortisation	-	(49,547)	(168,367)	(217,914)
Impairment expense	-	(10,124,900)	-	(10,124,900)
Interest revenue	-	-	6,194	6,194
Finance costs	-	-	(726,013)	(726,013)
Loss before income tax	(328,432)	(10,174,447)	(260,604)	(10,763,483)
Income tax benefit	-	-	-	-
Loss after income tax	(328,432)	(10,174,447)	(260,604)	(10,763,483)
30 June 2014				
Assets				
<i>Segment assets</i>				
Exploration assets	-	8,035,399	-	8,035,399
Property, plant and equipment	-	30,626	474,207	504,833
<i>Unallocated assets:</i>				
Cash and cash equivalents	-	-	128,867	128,867
Other current and non-current assets	-	-	67,051	67,051
Total assets	-	8,066,025	670,125	8,736,150
Liabilities				
<i>Segment liabilities</i>				
Trade and other payables	-	(1,100,000)	(131,834)	(1,231,834)
Restoration provision	(972,814)	(126,556)	-	(1,099,370)
<i>Unallocated liabilities:</i>				
Interest-bearing liabilities	-	-	(4,891,788)	(4,891,788)
Total liabilities	(972,814)	(1,226,556)	(5,023,622)	(7,222,992)

KalNorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2015

Note 23: Financial risk management objectives and policies

The Consolidated entity's principal financial instruments comprise cash and short-term deposits.

The main purpose of these financial instruments is to finance the consolidated entity's operations. The Consolidated entity has various other financial assets and liabilities such as receivables and payables, which arise directly from its operations.

The main risks arising from the consolidated entity's financial instruments are interest rate risks, commodity price risks, and, indirectly, foreign exchange risk. Other minor risks have been summarised below. The Board reviews and agrees on policies for managing each of these risks.

(a) Interest rate risk

The Consolidated entity's exposure to market interest rate relates primarily to the consolidated entity's cash and short-term deposits. All other financial assets in the form of receivables and payables are non-interest bearing. The Consolidated entity does not engage in any hedging or derivative transactions to manage interest rate risk.

The following tables set out the carrying amount by maturity of the consolidated entity's exposure to interest rate risk and the effective weighted interest rate for each class of these financial instruments

	Weighted average interest Rate %	Floating interest rate \$	Fixed interest maturing 1 year or less \$	Fixed interest maturing 1 to 5 years \$
30 June 2015				
Cash at bank	1.97%	238,640	-	-
Total assets				
Interest bearing liabilities	10%	-	(734,712)	-
Interest bearing liabilities	10%	-	(3,673,563)	-
Interest bearing liabilities	8%	-	(356,282)	-
Total liabilities		-	(4,764,557)	-

	Weighted average interest Rate %	Floating interest rate \$	Fixed interest maturing 1 year or less \$	Fixed interest maturing 1 to 5 years \$
30 June 2014				
Cash at bank	0.37%	128,867	-	-
Total assets				
Interest bearing liabilities	18%	-	(785,120)	-
Interest bearing liabilities	15%	-	(4,106,668)	-
Total liabilities		-	(4,891,788)	-

Interest rate sensitivity analysis – cash at bank

At 30 June 2015, if interest rates had changed by 1% during the entire year with all other variables held constant, profit for the year and equity would have been \$3,507 higher/lower (2014: \$2,985), mainly as a result of higher/lower interest income from cash and cash equivalents.

(b) Credit risk

The maximum exposure to credit risk at reporting date on financial assets of the consolidated entity is the carrying amount, net of any provisions for doubtful debts, as disclosed in the statement of financial position and notes to the financial statements.

KalNorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2015

Note 23: Financial risk management objectives and policies (cont'd)

(c) Liquidity risk

The consolidated entity manages liquidity risk by monitoring forecast cash flows and ensuring that adequate unutilised borrowing facilities are maintained.

The table below analyses the entity's financial liabilities into relevant maturity groupings based on the remaining period from the statement of financial position date to the contractual maturity date. As the amounts disclosed in the table are the contractual undiscounted cash flows, these balances will not necessarily agree with the amounts disclosed in the statement of financial position.

	Less than 6 months \$	6 months to 1 year \$	1 to 5 years \$	Total \$
30 June 2015				
Financial liabilities due for payment				
Trade and other payables	(122,785)		-	(122,785)
Interest bearing liabilities	-	(4,764,557)	-	(4,764,557)
	(122,785)	(4,764,557)	-	(4,887,342)
Financial assets – cash flows realisable				
Cash assets	238,640	-	-	238,640
Trade and other receivables	15,993	7,500	-	23,493
	254,633	7,500	-	262,133
Net (outflow)/inflow from financial instruments	131,848	(4,757,057)	-	(4,625,209)

	Less than 6 months \$	6 months to 1 year \$	1 to 5 years \$	Total \$
30 June 2014				
Financial liabilities due for payment				
Trade and other payables	(1,231,834)	-	-	(1,231,834)
Interest bearing liabilities	(4,891,788)	-	-	(4,891,788)
	(6,123,622)	-	-	(6,123,622)
Financial assets – cash flows realisable				
Cash assets	128,867	-	-	128,867
Trade and other receivables	32,503	-	-	32,503
	161,370	-	-	161,370
Net outflow from financial instruments	(5,962,252)	-	-	(5,962,252)

KalNorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2015

Note 23: Financial risk management objectives and policies (cont'd)

(d) Foreign exchange risk

The Consolidated entity sold its ore in Australian Dollars (AUD) and costs of production are denominated in Australian Dollars (AUD). However the AUD gold price is set with reference to the USD price. A rapidly weakening US dollar exposes the consolidated entity to the downside risks related to movement in the AUD/USD exchange rate. The Consolidated entity's current policy is for the all of gold production to be exposed to foreign exchange risk. As production ceased during the prior year and all gold inventories were sold, there is no current intention to enter into any currency hedging contracts and none are outstanding at year end. There were no financial instruments with a foreign currency exposure at the reporting date or at the end of the preceding financial year.

(e) Net fair value of financial assets and liabilities

The carrying amounts of financial instruments included in the statement of financial position approximate their fair values due to their short terms of maturity.

Note 24: Share based payments

Options issued

The Consolidated entity may from time to time issue options to its directors and employees and third party lenders as part of its policy to continue to attract and retain the directors and employees of high calibre and maintain on-going commercial relationships with lenders.

During the year ended 30 June 2015 there were no options issued (2014: nil).

Set out below is a summary of those options on issue as at 30 June 2015 for the Consolidated entity:

Issue date	Expiry date	Balance at start of year	Number issued during year	Number expired during year	Balance at end of year	Number exercisable at end of year
28/05/2013	28/11/2014	25,000,000	-	(25,000,000)	-	-
		25,000,000	-	(25,000,000)	-	-

Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the year as part of share based payment expense were nil (2014: nil).

Note 25: Contingent liabilities and contingent assets

There are no contingent liabilities or assets at reporting date.

Note 26: Parent Information

As referred to in Note 21, the consolidated entity comprises KalNorth Gold Mines Limited, the parent entity and two wholly-owned subsidiaries. The Parent entity disclosures are not materially different to the consolidated entity's disclosures in the Statement of Financial Position and the Statement of Profit or Loss and Other Comprehensive Income. In addition, there are:

- no guarantees entered into by the parent entity in relation to the debts of its subsidiaries.
- no contingent liabilities of the parent entity as at the reporting date.
- no contractual commitments by the parent entity for the acquisition of property, plant and equipment as at the reporting date.

Note 27: Events subsequent to reporting date

Since the reporting date and to the date of this report no matter or circumstance has arisen which has significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations or the state of affairs of the consolidated entity in subsequent financial years other than the matters referred to below.

- (a) On 31 August 2015 and 11 September 2015, binding agreements were entered into with Renergy Pty Ltd, South Victory Global Limited, Smarter Group (Australia) Pty Ltd and Mr John McKinstry, 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.
- (b) On 15 September 2015, a convertible note facility agreement has been entered into with the Company's largest shareholder, Cross-Strait, under the terms of which the Company will be able to draw down up to \$2 million. As at the date of the financial report \$0.3m was received from Cross-Strait. Cross-Strait will have the right to convert all or part of the amounts drawn down under the facility into shares in the Company at an issue price of \$0.01 per share. The facility will have a maturity date of 30 April 2017.
- (c) On 29 July 2015, the Company issued a prospectus for a non-renounceable entitlement offer of shares at \$0.01 each. The rights offer has closed, however the issue of shares has not been completed as the Company is required to give applicants an opportunity to withdraw their applications on or before 16 October 2015. On 27 August 2015, the Company announced acceptances have been received for 44,730,803 shares. Assuming no material applications for the rights offer are withdrawn, an amount of approximately \$0.4 million is expected to be raised when the Company completes the rights issue on 19 October 2015.

The completion of the transactions referred to in (a) and (b) above is subject to shareholder and other regulatory approvals which must be obtained by 30 November 2015 (unless the parties agree to an extension).

KalNorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2015

DIRECTORS' DECLARATION

The directors of the company declare that, in the opinion of the directors:

- (a) the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2015 and its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards, including the Interpretations, and the Corporations Regulations 2001;
- (b) the financial statements and notes thereto also comply with International Financial Reporting Standards, as disclosed in Note 1; and
- (c) the directors have been given the declarations required by s295A of the Corporations Act 2001
- (d) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable;
Signed in accordance with a resolution of the directors made pursuant to s295(5) of the Corporations Act 2001.

On behalf of the Directors:



Lijun Yang
Executive Director

Dated at Perth this 30th September 2015

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AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the financial report of KalNorth Gold Mines Limited for the year ended 30 June 2015, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

RSM Bird Cameron Partners.

RSM BIRD CAMERON PARTNERS

D J Wall.

Perth, WA
Dated: 30 September 2015

D J WALL
Partner

**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF
KALNORTH GOLD MINES LIMITED**

Report on the Financial Report

We have audited the accompanying financial report of KalNorth Gold Mines Limited, which comprises the consolidated statement of financial position as at 30 June 2015, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity, and consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of KalNorth Gold Mines Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

In our opinion:

- (a) the financial report of KalNorth Gold Mines Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2015 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report contained within the directors' report for the year ended 30 June 2015. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion the Remuneration Report of KalNorth Gold Mines Limited for the year ended 30 June 2015 complies with section 300A of the *Corporations Act 2001*.



RSM BIRD CAMERON PARTNERS



D J WALL
Partner

Perth, WA
Dated: 30 September 2015