



19 October 2015

Dear Shareholder

## **2015 ANNUAL GENERAL MEETING**

Please find enclosed the Notice for the 2015 Annual General Meeting (AGM) and an accompanying Explanatory Statement (AGM Material). The meeting will deal with all the matters that are usually handled at annual general meetings including tabling of the Annual Report, approval of the Remuneration Report, re-election of directors and so on. In addition and, very importantly, the AGM will also deal with a number of resolutions seeking shareholder approval for:

- the issue of shares in settlement of secured and unsecured loans and outstanding interest; and
- the issue of convertible notes with respect to a \$2 Million funding facility and the issue of shares on the future conversion, if any, of these convertible notes.

These proposed share and convertible note issues have been announced to the market over the past few weeks.

Upon the completion of these transactions:

- each of South Victory Global Limited and Renergy Pty Ltd who are presently shareholders and secured lenders will increase its voting power beyond 20% of the Company's issued shares; and
- subject to the Company drawing down the full convertible note facility amount of \$2M, the Company's existing largest shareholder, Cross-Strait Common Development Fund Co., Limited will also increase its voting power beyond 20% of the Company's issued shares if it elects to convert all the convertible notes into shares. I point out that Cross-Strait, at the date of this letter, already has voting power of 26%. This percentage will however reduce to approximately 11% if shareholders approve the issue of shares in settlement of loans and outstanding interest. Thereafter, if it converts all the convertible notes, Cross-Strait's voting power could go up to 31%.

### ***Independent Expert's Report***

In order to assist shareholders in deciding whether to approve these transactions, the Directors engaged BDO Corporate Finance (WA) Pty Ltd to prepare an independent expert's report to assess whether these transactions are fair and reasonable to shareholders who are not associated with the entities to whom shares are proposed for issue. BDO's report is also enclosed with the AGM Material.

BDO has concluded that the transactions are not fair but reasonable.

### ***Board's Analysis***

An analysis of these transactions addressing the matter of "fair and reasonable" is also provided by the Board in the Explanatory Statement. For the reasons fully explained in the AGM material, each Director recommends that shareholders approve all of the resolutions relating to the proposed share issues.

The Board acknowledges that completion of these transactions will result in a significant dilution of the existing shareholders' interest in the Company's issued capital and that is the major disadvantage of approving the resolutions.



On the other hand, there are significant disadvantages and risks in rejecting the resolutions.

Shareholders should note that the Company is in default of its loan agreements for non-payment of interest which fell due for payment on 30 June 2015. The lenders, including the secured lenders, undertook not to take any action until such time as shareholders have had an opportunity to deal with the transaction at the AGM. Consequently, if these share issues in settlement of the loans are not completed, there is a significant risk that the lenders may initiate default action. Further, the availability of the convertible note facility is dependent on the passing of the resolutions for the settlement of the loans.

In summary, whilst the Directors are cognisant of the significant dilution of existing shareholders' interest, the Directors believe that the agreement by the majority of the lenders to accept Shares in settlement of their loan amounts (including interest) and the concurrent approval of the Cross-Strait convertible note facility gives the Company the best possible opportunity to remain a going concern in current market circumstances and remain viable for any improvement in the mineral exploration sector (including any exploration success from the use of funds under the convertible note facility) which may ultimately see some restoration in shareholder value.

You are encouraged to read the AGM Material including the independent expert's report in its entirety.

The Directors look forward to welcoming you to the AGM. If you are unable to attend, please lodge your completed proxy form.

Yours faithfully

A handwritten signature in dark ink, appearing to read "Jiajun Hu", is written over a light grey, faint circular watermark that contains the text "KALNORTH GOLD MINES LIMITED".

Jiajun Hu  
Chairman

# **Notice of Annual General Meeting and Explanatory Statement**

**KalNorth Gold Mines Limited**

**ACN 100 405 954**

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Date: Wednesday, 25 November 2015

Time: 9.00am

Venue: The Offices of RSM Bird Cameron

Level 7

8 St. George's Terrace

Perth, WA

***This Notice of Meeting should be read in its entirety. If shareholders are in doubt as to how they should vote, they should seek advice from their professional advisors prior to voting.***

## Notice

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Notice is hereby given that the 2015 Annual General Meeting of Shareholders of KalNorth Gold Mines Limited ACN 100 405 954 (“KGM” “KalNorth” or the “Company”) will be held at 9am on Wednesday, 25 November 2015 at the office of RSM Bird Cameron, Level 7, 8 St. George’s Terrace, Perth, WA.

The Explanatory Statement accompanying this Notice provides additional information on matters to be considered at the Meeting. The Explanatory Statement and the Proxy Form are part of this Notice. Terms and abbreviations used in this Notice are defined in the Glossary in Section 9 of the Explanatory Statement.

***If you are unable to attend the Meeting, you are encouraged to complete and return the proxy form attached to this Notice as your vote is important.***

## Voting Eligibility

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The Directors have determined pursuant to Regulation 7.11.37 of the Corporations Regulations 2001 that the persons eligible to vote at the Meeting are those who are registered as Shareholders at 7:00PM (Australian Eastern Standard Time) on Monday, 23 November 2015.

If you are not the registered holder of Shares at that time, you will not be entitled to vote at the Meeting.

## Voting by Proxy and Voting Exclusion

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A Shareholder has the right to appoint a proxy (who need not be a Shareholder). More details are provided later in this Notice.

Voting exclusions apply to certain Resolutions and details are provided elsewhere in this Notice.

Proxies must be received by the Company no later than 48 hours before the commencement time of the Meeting in order to be valid.

## Queries

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If you have any queries regarding matters contained in the Meeting documents, please call the Company Secretary on +61 8 9021 8327 or by emailing [info@kalnorthgoldmines.com](mailto:info@kalnorthgoldmines.com).

### ORDINARY BUSINESS

#### 1. Financial Report for the Year ended 30 June 2015

"To receive and consider the financial report of the Company for the year ended 30 June 2015, together with the reports of the directors and auditors thereon."

*There is no vote on this item of business.*

#### 2. Resolution 1 - Adoption of the Remuneration Report

To consider and, if thought fit, to pass, with or without amendment, the following resolution as a non-binding resolution:

*"That, for the purposes of section 250R(2) of the Corporations Act, the Remuneration Report forming part of the Company's 2015 annual financial report for the financial year ended 30 June 2015 be adopted."*

##### **Voting Exclusion:**

A vote on Resolution 1 must not be cast (in any capacity) by or on behalf of either of the following persons:

- (a) a member of the Key Management Personnel, details of whose remuneration are included in the Remuneration Report;
- (b) a Closely Related Party of such a member.

However, a person (the "**Voter**") described above may cast a vote on this Resolution as a proxy if the vote is not cast on behalf of a person described above and either:

- (a) the Voter is appointed as a proxy by writing that specifies the way the proxy is to vote on the resolution; or
- (b) the Voter is the Chairman of the Meeting and the appointment of the Chairman as proxy:
  - (i) does not specify the way the proxy is to vote on the resolution; and
  - (ii) expressly authorises the Chairman to exercise the proxy even if the resolution is connected directly or indirectly with the remuneration of a member of the key management personnel for the Company or, if the Company is part of a consolidated entity, for the entity.

If you wish to appoint a member of the key management personnel (which includes each of the directors and the Chairman) as your proxy, please read the voting exclusion above and in the proxy form carefully. **Shareholders are encouraged to direct their proxies how to vote.**

#### 3. Resolution 2 - Re-election of Mr Mr Yuanguang Yang as a Director

To consider and, if thought fit, to pass the following resolution as an *ordinary resolution*:

*"That Mr Yuanguang Yang, who retires in accordance with Clause 11.3 of the Constitution of the Company and, being eligible, offers himself for re-election, be and is hereby re-elected as a director of the Company."*

#### 4. Resolution 3 – Approval of issue of shares to Director, Mr Yuanguang Yang

To consider and, if thought fit, to pass with or without amendment, the following resolution as an ordinary resolution:

*"That, pursuant to and in accordance with Listing Rule 10.11 and for all other purposes, the issue of 2,375,300 Shares to Mr Yuanguang Yang (or his nominee), a Director, on the terms and conditions detailed in the Explanatory Statement be and is hereby approved."*

##### **Voting Exclusion:**

As Resolution 3 concerns Mr Yang's Director's remuneration, in accordance with section 250BD of the Corporations Act, a person appointed as a proxy must not vote, on the basis of that appointment, on this Resolution if:

- (a) the proxy is either:
  - (i) a member of the Key Management Personnel; or
  - (ii) a Closely Related Party of such a member; and
- (b) the appointment does not specify the way the proxy is to vote on this Resolution.

However, the above prohibition does not apply if:

- (a) the proxy is the Chairman of the Meeting; and
- (b) the appointment expressly authorises the Chairman to exercise the proxy even though the Resolution is connected directly or indirectly with the remuneration of a member of the Key Management Personnel.

If you wish to appoint a member of the Key Management Personnel (which includes each of the directors and the Chairman) or a Closely Related Party of such a member as your proxy, please read the voting exclusion above and in the proxy form carefully. **Shareholders are encouraged to direct their proxies how to vote.**

In addition, in accordance with the Listing Rules, the Company will disregard any votes cast on Resolution 3 by Mr Yuanguang Yang (and his nominee) and any of their associates. However, the Company need not disregard a vote if it is cast by the person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or it is cast by the person chairing the Meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

#### 5. Resolution 4 – Ratification of Prior Share Issue

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

*"That, in accordance with Listing Rule 7.4, Shareholders ratify the issue of 41,177,334 Shares at 1.62 cents each in settlement of loan interest on the terms and conditions in the Explanatory Statement."*

##### **Voting Exclusion:**

The Company will disregard any votes cast on Resolution 4 by any person who participated in the Share issue and any associate of that person. However, the Company need not disregard a vote if it is cast by the person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or it is cast by the person chairing the Meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

#### 6. Resolution 5 – Approval of 10% Placement Capacity

To consider and, if thought fit, to pass the following resolution as a **special resolution**:

*"That pursuant to and in accordance with Listing Rule 7.1A and for all other purposes, Shareholders approve the issue of Equity Securities up to 10% of the issued capital of the Company (at the time of the issue) calculated in accordance with the formula prescribed in Listing Rule 7.1A.2 and on the terms and conditions in the Explanatory Statement."*

##### **Voting Exclusion:**

The Company will disregard any votes cast on Resolution 5 by a person and any of their associates who may participate in the 10% Placement Capacity and a person who might obtain a benefit, except a benefit solely in the capacity of a Shareholder, if this Resolution is passed. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or it is cast by the person chairing the Meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

## **7. Resolution 6 – Approval for the issue of Shares to South Victory Global Limited**

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

*"Subject to the passing of Resolutions 7 and 8, that, for the purpose of Item 7 of section 611 of the Corporations Act and for all other purposes, Shareholders approve:*

- (i) the issue by the Company of up to 218,301,400 Shares to SVG; and*
- (ii) the acquisition by SVG of a Relevant Interest in up to an additional 218,301,400 Shares and an increase in its (and its associates if any) Voting Power from 13.06% to a maximum of 32.99%,*

*for the purpose and on the terms and conditions described in the Explanatory Statement."*

### **Voting Exclusion:**

No votes may be cast in favour of this Resolution by:

- (a) the person proposing to make the acquisition and their associates; or
- (b) the persons (if any) from whom the acquisition is to be made and their associates.

Accordingly, the Company will disregard any votes cast on this Resolution by SVG and any of its associates.

## **8. Resolution 7 – Approval for the issue of Shares to Renergy Pty Ltd**

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

*"Subject to the passing of Resolutions 6 and 8, that, for the purpose of Item 7 of section 611 of the Corporations Act and for all other purposes, Shareholders approve:*

- (i) the issue by the Company of up to 163,726,000 Shares to Renergy; and*
- (ii) the acquisition by Renergy of a Relevant Interest in up to an additional 163,726,000 Shares and an increase in its (and its associates if any) Voting Power from 7.20% to a maximum of 23.62%,*

*for the purpose and on the terms and conditions described in the Explanatory Statement."*

### **Voting Exclusion:**

No votes may be cast in favour of this Resolution by:

- (c) the person proposing to make the acquisition and their associates; or
- (d) the persons (if any) from whom the acquisition is to be made and their associates.

Accordingly, the Company will disregard any votes cast on this Resolution by Renergy and any of its associates.

## **9. Resolution 8 – Issue of Shares to Smarter Group (Australia) Pty Ltd**

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

*"Subject to the passing of Resolutions 6 and 7, that, for the purpose of Listing Rule 7.1, and for all other purposes, the issue of up to 65,490,400 Shares to Smarter, on the terms set out in the Explanatory Statement, be and is hereby approved."*

### **Voting Exclusion:**

The Company will disregard any votes cast on Resolution 7 by Smarter and its associates and any person who might obtain a benefit if the Resolution is passed, except a benefit solely in the capacity of a holder of Shares and any of their associates. However, the Company need not disregard a vote if it is cast by the person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or it is cast by the person chairing the Meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

## 10. Resolution 9 – Issue of Shares to Mr John McKinstry

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

*"Subject to the passing of Resolutions 6, 7 and 8, that, for the purpose of Listing Rule 7.1, and for all other purposes, the issue of up to 5,457,500 Shares to John McKinstry, on the terms set out in the Explanatory Statement, be and is hereby approved."*

### **Voting Exclusion:**

The Company will disregard any votes cast on Resolution 9 by John McKinstry and his associates and any person who might obtain a benefit if the Resolution is passed, except a benefit solely in the capacity of a holder of Shares and any of their associates. However, the Company need not disregard a vote if it is cast by the person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or it is cast by the person chairing the Meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

## 11. Resolution 10 – Approval in relation to Convertible Note Agreement with Cross-Strait

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

*"Subject to the passing of Resolutions 6, 7, and 8, that, for the purposes of Item 7 of section 611 of the Corporations Act, Listing Rule 10.1 and for all other purposes:*

- (i) Shareholders ratify the execution of the Convertible Note Agreement with Cross-Strait;*
- (ii) Shareholders approve the issue by the Company of up to:*
  - (a) 200 Convertible Notes to Cross-Strait;*
  - (b) 200,000,000 Shares to Cross-Strait on conversion of up to 200 Convertible Notes;*
  - (c) 22,836,164 Shares to Cross-Strait upon an election by Cross-Strait for the conversion of the interest accruing on the Convertible Notes to Shares; and*
- (iii) Shareholders approve the execution by the Company of a Security Agreement with Cross-Strait under the terms of which the Company grants to Cross-Strait a general security over all the assets of the Company,*

*resulting in the acquisition by Cross-Strait of a Relevant Interest in up to an additional 22,836,164 Shares and an increase in its (and its associates if any) Voting Power from 11.1% (assuming completion of the issues contemplated by Resolutions 6, 7 and 8) to a maximum of 30.5%, on the terms and conditions in the Explanatory Statement."*

### **Voting Exclusion:**

The Company will disregard any votes cast on Resolution 10 by Cross-Strait and its associates. However, the Company need not disregard a vote if it is cast by the person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or it is cast by the person chairing the Meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

## 12. OTHER BUSINESS

To conduct or transact any other business that may be properly brought before the Annual General Meeting.



## How the Chairman will vote available proxies

The Chairman of the Meeting intends to vote all available proxies in favour of all of the resolutions set out in the Notice. The proxy form expressly authorises the Chairman to exercise undirected proxies in favour of remuneration-related resolutions (Resolutions 1 and 3).

## Default to the Chairman

Any directed proxies that are not voted on a poll at the Meeting will automatically default to the Chairman of the Meeting, who is required to vote those proxies as directed.

## Proxies generally

A Shareholder may attend the Meeting in person or may be represented thereat by proxy. In accordance with section 249L of the Corporations Act, Shareholders are advised that:

- the proxy need not be a Shareholder;
- each Shareholder may specify the way in which the proxy is to vote on each resolution or may allow the proxy to vote at his discretion; and
- a Shareholder who is entitled to cast two or more votes may appoint two proxies and may specify the proportion or number of votes each proxy is appointed to exercise. If no proportion or number is specified, then in accordance with section 249X (3) of the Corporations Act, each proxy may exercise half of the votes.

Accordingly, if you are a Shareholder and are unable to attend the Meeting in person, please date and execute the accompanying form of proxy in accordance with the instructions contained in the form and return it as follows:

**By Mail:** **KalNorth Gold Mines Limited, C/- PO Box 131, Subiaco, Western Australia 6904**

**By Fax:** **+61 8 9380 6761**

**By Email:** **proxy@kalnorthgoldmines.com**

## Corporations

A corporation may elect to appoint a representative in accordance with the Corporations Act, in which case the Company will require written proof of the representative's appointment, which must be lodged with, or presented to the Company, before the Meeting.

## Revocation of Proxies

A Shareholder executing and delivering a proxy has the power to revoke it in accordance with the provisions of the Corporations Act, which provides that every proxy may be revoked by an instrument in writing executed by the Shareholder or by his or her attorney authorised in writing and delivered either to the registered office of the Company at any time up to and including the last business day preceding the day of the Meeting, or any adjournment thereof at which the proxy is to be used, or to the Chairman of the Meeting on the day of the Meeting or any adjournment thereof, or in any other manner permitted by law.

By Order of the Board of Directors

Lijun Yang  
Company Secretary  
Perth, Australia  
19 October 2015

# Explanatory Statement

This Explanatory Statement, incorporated in and forming part of the accompanying Notice of Meeting, has been prepared for the information of Shareholders of KalNorth Gold Mines Limited ACN 100 405 954 (Company) in connection with the business to be considered at the Annual General Meeting to be held at 9am on Wednesday, 25 November 2015 at the office of RSM Bird Cameron, Level 7, 8 St. Georges Terrace, Perth, WA.

It provides Shareholders with information which the Directors believe to be material to Shareholders in deciding whether or not to pass the Resolutions which are the subject of the business of the Meeting.

Details of the items of business to be considered at the Annual General Meeting are set out below.

## 1. 2015 Annual Report

In accordance with the requirements of the Company's Constitution and the Corporations Act, the Company's audited financial statements for the financial year ended 30 June 2015, together with the report of the auditor thereon and the Directors' Report (the "Annual Report"), will be tabled at the Meeting, and Shareholders will have the opportunity of discussing the Annual Report and making comments and raising queries in relation to it.

Representatives from the Company's auditors, RSM Bird Cameron, will be present to take Shareholders' questions and comments about the conduct of the audit and the preparation and content of the audit report.

The Annual Report is available on the Company's website at [www.kalnorthgoldmines.com](http://www.kalnorthgoldmines.com) for you to download or read online. Alternatively you can obtain a hard copy by contacting the Company.

## 2. Resolution 1 - Adoption of the Remuneration Report

Pursuant to section 250R(2) of the Corporations Act, the Company submits to Shareholders for consideration and adoption, by way of a non-binding resolution, its remuneration report for the year ended 30 June 2015 (the "Remuneration Report"). The Remuneration Report is a distinct section of the Annual Report which deals with the remuneration of directors and executives of the Company.

By way of summary, the Remuneration Report:

- (a) explains the Company's remuneration policy and the process for determining the remuneration of its directors and executive officers;
- (b) addresses the relationship between the Company's remuneration policy and the Company's performance; and
- (c) sets out the remuneration details for each director and executive officer named in the Remuneration Report for the financial year ended 30 June 2015.

**The Directors recommend that Shareholders vote in favour of the adoption of the Remuneration Report.** As previously stated, this resolution is advisory only and does not bind the Company. However, the Board will take the outcome of the vote on this resolution into consideration when reviewing the remuneration practices and policies of the Company in the future.

The Chairman of the Meeting will provide Shareholders with reasonable opportunity at the Meeting to ask questions about, or to make comments on, the Remuneration Report.

### ***Chairman authorised to exercise undirected proxies on remuneration-related resolutions:***

Where Shareholders have appointed the Chairman of the Meeting as their proxy, the Chairman will vote in favour of Resolution 1 "Adoption of Remuneration Report" unless the Shareholder has expressly indicated a different voting intention. This is so notwithstanding that the resolution is connected directly or indirectly with the remuneration of key management personnel, which includes the Chairman.

### 3. Resolution 2 – Re-election of Director

In accordance with the requirements of the Company's Constitution and the Listing Rules, one-third of the directors of the Company (excluding the Managing Director), and those who were last re-elected more than three years ago, must retire from office at the Meeting but if they are eligible, may offer themselves for re-election. The Directors to retire at an annual general meeting must be those who have been longest in office since their last election, but, as between persons who became Directors on the same day, those to retire must (unless they otherwise agree among themselves) be determined by lot. There are currently 3 Directors accordingly 1 must retire by rotation at the Meeting. As all of the Directors were last elected on the same day (28 November 2014) the Directors have agreed among themselves that Mr Yuanguang Yang must retire at the Meeting. Being eligible, Mr Yang has offered himself for re-election.

Details of Mr Yang's experience and qualifications are available in the Annual Report and on the Company's website and are summarised briefly below:

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 is a non-executive director and was first appointed as a director on 28 August 2014. He does not hold any securities in the Company (although Resolution 3 seeks Shareholder approval for the issue of Shares to Mr Yang in lieu of his fees). The Board does not consider Mr Yang to be an independent director in view of his nomination to the Board by South Victory Global Limited, a significant Shareholder. **The Directors (other than Mr Yuanguang Yang, who makes no recommendation) recommend the re-election of Mr Yuanguang Yang as a Director.**

Based on enquiries made by the Company, it is not aware of any criminal record and bankruptcy proceedings involving Mr Yang.

### 4. Resolution 3 – Issue of Shares to Director, Mr Yuanguang Yang

#### 4.1 General

Resolution 3 seeks Shareholder approval pursuant to Listing Rule 10.11 for the issue of Shares to Mr Yuanguang Yang (or his nominee). Mr Yang is a Director. The Company proposes to issue 2,375,300 Shares to Mr Yang in lieu of outstanding directorship fees of \$23,753 accruing from the date of his appointment on 28 August 2014 up to 30 June 2015.

The quantum of Shares (2,375,300) has been calculated by reference to a deemed issue price of \$0.01 per Share. The issue price of \$0.01 per Share is identical to the price at which the entitlement offer currently in progress is being conducted and also identical to the price at which various other transactions, the subject of this Notice, are being conducted, for example the settlement of outstanding loans and interest and the conversion price under the Convertible Note Agreement.

**The Directors, excluding Mr Yang, recommend that Shareholders approve this Resolution as it assists in conserving the Company's cash reserves.** If Shareholders do not approve Resolution 3, the Company will not issue the Shares to Mr Yang (or his nominee) and will instead pay him the outstanding fees in cash.

#### 4.2 Listing Rule 10.11

Listing Rule 10.11 restricts the Company's ability to issue securities to a related party unless the Company obtains Shareholder approval. Mr Yang is a related party of the Company by reason of his position as a Director.

As Shareholder approval is being sought pursuant to Listing Rule 10.11, Shareholder approval under Listing Rule 7.1 is not required, in accordance with Exception 14 of Listing Rule 7.2.

#### 4.3 Specific information required by Listing Rule 10.13

Pursuant to and in accordance with the requirements of Listing Rule 10.13, information in relation to the proposed issue of Shares to Mr Yang is as follows:

- (a) The related party to whom Shares will be issued is Mr Yuanguang Yang (or his nominee).
- (b) The number of Shares to be issued is 2,375,300 Shares.
- (c) The Company will issue the Shares no later than one month after the date of the Meeting (or such longer period of time as ASX may in its discretion allow).
- (d) The Shares will be fully paid ordinary shares in the capital of the Company and will have an issue price of \$0.01 each. No funds will be raised from the issue of these Shares as the issue is in settlement of directors fees owed to Mr Yang as at 30 June 2015.

A voting exclusion statement is included in the Notice. Other than the information above and otherwise in this Explanatory Statement, the Company believes that there is no other information that would be reasonably required by Shareholders to pass Resolution 3.

#### 5. Resolution 4 – Ratification of Prior Share Issue

##### 5.1 General

Between March 2013 and May 2013, the Company entered into agreements with various parties to borrow funds. In March 2015, the Company announced that it had reached agreement with all of the lenders for the restructuring of the loans including, amongst other things, agreement to settle interest accrued on the loans up to 31 December 2014 by issuing Shares. On 11 March 2015, the Company issued a total of 41,177,334 Shares in settlement of \$667,073 interest. The Shares were issued under the Company's 15% placement capacity permitted by the Listing Rules.

Resolution 4 seeks ratification of this prior securities issue so as to retain the flexibility to issue equity securities in the future up to the 15% annual placement capacity set out in Listing Rule 7.1 without the requirement to obtain prior Shareholder approval.

##### 5.2 Specific information required by Listing Rule 7.4

Pursuant to and in accordance with Listing Rule 7.5, the following information is provided in relation to ratification of the Share issue:

- (a) 41,177,334 Shares were issued on 11 March 2015;
- (b) The issue price for the shares was \$0.0162 per Share;
- (c) the Shares issued were fully paid ordinary shares in the capital of the Company and rank equally in all respects with the Company's existing Shares on issue;
- (d) the Shares were issued to :

Renenergy Pty Limited	24,130,646
South Victory Global Limited	9,268,912
Link Traders (Aust) Pty Ltd	6,666,666
John McKinstry	555,555
Jian Yu	555,555
<b>Total</b>	<b>41,177,334</b>

- (e) No funds were raised from the Share issue as the purpose of the Share issue was to settle the outstanding interest up to 31 December 2014 on loans due to the parties referred to in (d) above, who at the time were lenders to the Company.

A voting exclusion statement is included in the Notice.

## **6. Resolution 5 - Approval of 10% Placement Capacity**

Listing Rule 7.1A provides that “Eligible Entities” (as defined below) may seek Shareholder approval to issue “Equity Securities” (as defined below) up to 10% of its issued share capital through placements over a 12 month period after the Meeting (‘10% Placement Capacity’). The 10% Placement Capacity is in addition to the Company’s 15% placement capacity under Listing Rule 7.1.

### **6.1 Conditions of Approval**

Approval under Listing Rule 7.1A is subject to the following:

- a) shareholder approval by way of a special resolution at an annual general meeting; and
- b) the company qualifying as an eligible entity. The company is an eligible entity if the company is outside the S&P/ASX 300 Index and has a market capitalisation of \$300 million or less.

KalNorth Gold Mines Limited is an Eligible Entity as defined above.

### **6.2 Equity Securities**

Any Equity Securities issued under the 10% Placement Capacity must be in the same class as an existing quoted class of equity securities of the Company. As at the date of this Notice the Company has one class of quoted equity securities, being its ordinary shares.

### **6.3 Minimum Issue Price**

The minimum price at which the Equity Securities may be issued for the purposes of Listing Rule 7.1A.3 is 75% of the volume weighted average price for Equity Securities in that particular class calculated over the 15 Trading Days on which trades in that class were recorded immediately before:

- a) the date on which the price at which the Equity Securities are to be issued is agreed; or
- b) if the Equity Securities are not issued within five (5) Trading Days of the date in paragraph (a), the date on which the Equity Securities are issued.

### **6.4 Date of issue (10% Placement Capacity Period)**

The date by which the Equity Securities may be issued pursuant to Listing Rule 7.1A.1 is the earlier of:

- a) 12 months after the date of this Meeting; and
- b) the date of approval by Shareholders of any transaction under Listing Rules 11.1.2 (a significant change to the nature or scale of the Company’s activities) or 11.2 (disposal of the Company’s main undertaking) (after which date, an approval under Listing Rule 7.1A ceases to be valid).

### **6.5 Risks associated with the Issue**

Any issue of Equity Securities under the 10% Placement Capacity will dilute the interests of Shareholders who do not receive any Shares under the issue.

If Resolution 5 is approved by Shareholders and the Company issues the maximum number of Equity Securities available under the 10% Placement Capacity, the economic and voting dilution of existing Shares would be as shown in the table below.

Listing Rule 7.3A.2 requires the Company to provide a table demonstrating the potential dilution effect based on three different assumed prices of the Company’s Shares and three different numbers of Shares on issue in the Company (Variable ‘A’ in Listing Rule 7.1 and 7.1A). For convenience, we will refer to the latter as Variable ‘A’.

Table A below shows the dilution of existing Shareholdings on the basis of the current market price of Shares and the current number of Shares for Variable ‘A’ calculated in accordance with the formula in Listing Rule 7.1A.2 as at the date of this Notice.

The table (\*) also shows:

- two examples where Variable 'A' has increased by 50% and 100%. The number of ordinary Shares on issue may increase as a result of issues of ordinary Shares that do not require Shareholder approval or future specific placements under Listing Rule 7.1 that are approved at a future Shareholders' meeting; and
- two examples of where the issue price of ordinary Shares has decreased by 50% and increased by 100% as against the current market price.

Variable 'A' in Listing Rule 7.1A.2		Dilution		
		\$0.005 50% decrease in issue price	\$0.01 Issue price	\$0.02 100% increase in issue price
Current Variable 'A' 800,848,698 (NB: this number is the aggregate of the 345,498,098 Shares on issue as at the date of preparing this Notice and the total of 455,350,600 Shares that would be issued if Resolutions 3, 6, 7, 8 and 9 are approved)	10% Voting Dilution	80,084,870 shares	80,084,870 shares	80,084,870 shares
	Funds Raised	\$400,424	\$800,849	\$1,601,697
50% increase in current Variable 'A' 1,201,273,047	10% Voting Dilution	120,127,305 shares	120,127,305 shares	120,127,305 shares
	Funds Raised	\$600,637	\$1,201,273	\$2,402,546
100% increase in current Variable 'A' 1,601,697,396	10% Voting Dilution	160,169,740 shares	160,169,740 shares	160,169,740 shares
	Funds Raised	\$800,849	\$1,601,697	\$3,203,395

(\*) Table A has been prepared on the following assumptions:

- The Company issues the maximum number of Equity Securities available under the 10% Placement Capacity.
- No options or other convertible securities are exercised into Shares before the date of the issue of Shares.
- The 10% voting dilution reflects the aggregate percentage dilution against the issued share capital at the time of issue. This is why the voting dilution is shown in each example as 10%.
- The table does not show an example of dilution that may be caused to a particular Shareholder by reason of placements under the 10% Placement Facility, based on that Shareholder's holding at the date of the AGM.
- The table shows only the effect of issues of Equity Securities under Listing Rule 7.1A, not under the 15% placement capacity under Listing Rule 7.1.
- The issue of securities under the 10% Placement Facility consists only of Shares.
- The issue price of \$0.01 used above is identical to the price of Shares issued under a right issue immediately prior to the time of preparing this Notice.

Shareholders should note that there is a risk that:

- the market price for the Company's Shares may be significantly lower on the issue date than on the date of the Meeting; and
- the Shares may be issued at a price that is at a discount to the market price for those Shares on the date of issue.

## 6.6 Purpose of Issue under 10% Placement Capacity

The Company may issue Equity Securities under the 10% Placement Capacity for the following purposes:

- for cash consideration, in which case the Company may use the funds raised towards making (or to securing the right to make) one or more acquisitions and/or to further its existing projects; meet some of its debt obligations, and/or general working capital; so that the Company has the necessary working capital and flexibility to consider, and if thought fit, to put it in a stronger position to make (or to secure the right to make) one or more acquisitions and/or to further its existing projects; or
- non-cash consideration for the acquisition of (or securing the right to make acquisitions of) new projects and investments or to further its existing projects. In such circumstances the Company will provide a valuation of the non-cash consideration as required by Listing Rule 7.1A.3.

The Company will comply with the disclosure obligations under Listing Rules 7.1A(4) and 3.10.5A upon issue of any Equity Securities.



## 6.7 The Company's Allocation Policy

The Company's allocation policy is dependent on the prevailing market conditions at the time of any proposed issue pursuant to the 10% Placement Facility. The identity of allottees of Equity Securities will be determined on a case-by-case basis having regard to the factors including but not limited to the following:

- a) the purpose of the issue;
- b) the methods of raising funds that are available to the Company including but not limited to, rights issue or other issue in which existing Shareholders can participate;
- c) the effect of the issue of the equity Securities on the control of the Company;
- d) the financial situation and solvency of the Company; and
- e) advice from corporate, legal, financial and broking advisors (if applicable).

The allottees under the 10% Placement Facility have not been determined as at the date of this Notice but may include existing substantial Shareholders and/or new Shareholders who are not related parties or associates of a related party of the Company.

A voting exclusion statement is included in this Notice. At the date of this Notice, the Company has not approached any particular existing Shareholder or security holder or an identifiable class of existing security holder to participate in the issue of the Equity Securities. No existing Shareholder's votes will therefore be excluded under the voting exclusion in this Notice.

## 6.8 Previous Approval under Listing Rule 7.1A

The Company previously obtained Shareholder approval under Listing Rule 7.1A. at the 2014 Annual General Meeting (**Previous Approval**).

## 6.9 Equity Securities issued or expected to be issued in the 12 months prior to the Meeting

The Company has not issued any Equity Securities pursuant to the Previous Approval.

In the period following the 2014 Annual General Meeting and to the date of this Notice, the Company has issued a total of 94,042,731 Equity Securities which represented 34.22% of the total Equity Securities on issue at the commencement of that 12 month period. This information is provided for compliance with Listing Rule 7.3A.6. Refer to Appendix 1 for further details.

## 6.10 Compliance with Listing Rules 7.1A.4 and 3.10.5A

When the Company issues Equity Securities pursuant to the 10% Placement Capacity, it must give to ASX:

- (i) a list of the recipients of the Equity Securities and the number of Equity Securities issued to each recipient (not for release to the market), in accordance with Listing Rule 7.1A.4; and
- (ii) the information required by Listing Rule 3.10.5A for release to the market.

## 6.11 Board Recommendation

The Board recommends that Shareholders vote in favour of this Resolution.

A voting exclusion statement is included in the Notice.

## 7. Resolutions 6, 7, 8 and 9 – Settlement of Loans and Interest

### 7.1 General

All of the resolutions from Resolution 6 through to Resolution 9 deal with loans owed by the Company and the proposal to settle the loans and interest accruing on the loans by issue of Shares. Background and general information is presented in this section to assist Shareholders.

Between March 2013 and May 2013, the Company entered into various loan agreements for funding gold mining operations which had commenced previously in January 2013 at the Company's Lindsay's Project. Loan amounts and lender names are noted below:

Lender	Principal (\$)
South Victory Global Limited <sup>1</sup>	2,000,000
Renergy Pty Ltd <sup>1</sup>	1,500,000
Smarter Group (Australia) Pty Ltd <sup>2</sup>	600,000
Xin Gu and Henry Jian Yu <sup>3</sup>	50,000
John McKinstry	50,000
<b>Total Loans</b>	<b>4,200,000</b>

<sup>1</sup> Loans are secured by a fixed and floating charge over the Company's assets, including mineral tenements, freehold land and buildings

<sup>2</sup> The loan was previously owed to Link Traders (Aust) Pty Ltd, who assigned it to Smarter Group (Australia) Pty Ltd

<sup>3</sup> The loan was previously owed to Xin Gu and subsequently assigned to Xin Gu and Henry Jian Yu

Due to changed market and technical conditions, the mining operations were suspended in August 2013. During this time and subsequently, the proceeds from sale of ore extracted from the mining operations were not sufficient to enable repayment of the loans. Consequently these loans (aggregate principal amount of \$4.2 Million) have been a legacy debt since that time and have hampered the Company's ability to raise equity capital for exploration purposes. Against a backdrop of loans (secured and unsecured) and interest commitments, it has been extremely challenging for the Board to attract new investors to provide equity funds. This is evidenced by the relatively poor result of the entitlement offer in December 2013 (at an issue price of \$0.01 per Share) when only approximately \$0.7 million was raised from the total offer amount of \$1.7 million.

Since the December 2013 right issue, the Company's working capital has been supplemented by the following:

- Research and development tax offset refunds (\$2.37 million and \$0.5 million in financial years ended June 2014 and June 2015 respectively). The Directors do not anticipate any further such offset refunds as no qualifying expenditure is being incurred;
- Sale of assets, including the Mt Jewell tenements; and
- Proceeds from a \$0.35 million convertible note in the financial year ended June 2015

The rights offer (at an issue price of \$0.01 per Share) that was commenced in August 2015 has only just concluded with an even poorer result. An amount only slightly in excess of the minimum subscription amount of \$0.25 million was raised from the total offer amount of \$1.6 million. Of the subscription amounts, the largest, being \$0.25 million, was from the Company's largest Shareholder, Cross-Strait.

From time to time, interest payments on the loans have been settled by the issue of Shares – the last one being in March 2015 and the subject of Resolution 4. For quite some time now the Board has attempted to reach agreement with the lenders for settlement of the loans by issue of Shares. In March 2015, the Directors managed to negotiate amendments to loan terms. The interest rate was reduced to 10% per annum and the loans, being repayable on demand at that stage, had the maturity date extended to 30 April 2016.

The Directors continued to work towards a permanent and sustainable solution for the loans and, towards the end of August 2015, managed to secure an agreement with the three major lenders, South Victory Global Limited, Renergy Pty Ltd and Smarter Group (Australia) Pty Ltd. Agreement has also subsequently been reached with Mr John McKinstry.



## 7.2 Key Commercial Terms and Conditions

The key commercial terms and conditions of the loan settlement agreements are as follows:

- (i) Loans shall be settled by the issue of Shares at an issue price of \$0.01 per Share;
- (ii) For the purposes of settlement, loans shall comprise the principal amount, the interest that became due and payable at 30 June 2015 (for the period from 1 January 2015 to 30 June 2015) and the interest accruing from 1 July 2015 up to and including the day prior to the issue of Shares (hereinafter referred to as the "Loan Amount")
- (iii) Settlement is conditional upon the satisfaction of:
  - a. Shareholder approval for the purposes of the Listing Rules, the Corporations Act and for any other purpose;
  - b. Such other Australian regulatory approvals as may be necessary;
  - c. The Company entering into identical loan settlement agreements with each of SVG, Renergy and Smarter (for the benefit of each of these parties);
  - d. For the benefit of Mr John McKinstry, the Company entering into loan settlement agreements with each of SVG, Renergy and Smarter; and
- (iv) If Loan Amounts are not settled on or before 30 November 2015 (or such later date as agreed between the parties), the loan settlements agreements shall terminate and the loans will revert to the terms of the present loan agreement between the parties.

## 7.3 Interdependent Nature of Resolutions

In order to satisfy the requirements of the loan settlement agreements, the passing of each of Resolutions 6, 7 and 8 is dependent on the passing of the other two resolutions. Similarly the passing of Resolution 9 is dependent on the passing of each of Resolutions 6, 7 and 8.

This is essentially to ensure that a very substantial proportion of the Loans Amounts, if not all of the Loan Amounts, are settled by issue of Shares.

## 7.4 Effect on Capital Structure

Assuming settlement of the Loan Amounts takes place with each of SVG, Renergy, Smarter and John McKinstry on 30 November 2015, the Shares to be issued will be as follows:

Lender	Principal \$  (i)	Outstanding Interest at 30 June 2015 \$ (ii)	Interest from 1 July 2015 to 30 November 2015 \$ (iii)	Loan Amount \$ [(i)+(ii)+(iii)]	Number of Shares to be issued on settlement of Loan Amounts
South Victory Global Limited	2,000,000	99,178	83,836	2,183,014	218,301,400
Renergy Pty Ltd	1,500,000	74,384	62,876	1,637,260	163,726,000
Smarter Group (Australia) Pty Ltd	600,000	29,753	25,151	654,904	65,490,400
John McKinstry	50,000	2,479	2,096	54,575	5,457,500
<b>Total</b>	<b>4,150,000</b>	<b>205,794</b>	<b>173,959</b>	<b>4,529,753</b>	<b>452,975,300</b>

The effect on capital structure and the change in voting power of SVG and Renergy will be as follows:

	Total Shares	SVG's Shareholding and % interest	Renergy's Shareholding and % interest
Shares on issue at the date of this Notice	345,498,098	45,110,916 13.06%	24,868,646 7.20%
Shares issued for Loan Amount settlement (refer table above)	452,975,300	218,301,400	163,726,000
<b>Shares on issue post Loan Amount settlement</b>	<b>798,473,398</b>	<b>263,412,316</b> <b>32.99%</b>	<b>188,594,646</b> <b>23.62%</b>

The effect of the issue of Shares in settlement of the Loan Amounts is that both SVG's and Renergy's voting power will increase to more than 20% as illustrated in the table above. Consequently, Shareholder approval is required in accordance with item 7 of section 611 of the Corporations Act to permit this increase in voting power.

#### **7.5 Resolution 6 and 7 - Approval under item 7 of section 611 of the Corporations Act for the issue of Shares to SVG and Renergy**

The Company is seeking Shareholder approval under these Resolutions for the purposes of item 7 of Section 611 of the Corporations Act in relation to the acquisition of a Relevant Interest of up to:

- (i) a total of 263,412,316 Shares by SVG through the issue of up to 218,301,400 Shares to SVG, which would increase its Voting Power in the Company from 13.06%% to a maximum of 32.99%; and
- (ii) a total of 188,594,646 Shares by Renergy through the issue of up to 163,726,000 Shares to Renergy, which would increase its Voting Power in the Company from 7.20%% to a maximum of 23.62%,

pursuant to the settlement of the Loan Amounts due to each of SVG and Renergy.

Pursuant to ASX Listing Rule 7.2 (Exception 16), shareholder approval pursuant to ASX Listing Rule 7.1 is not required where approval is being obtained pursuant to section 611 (Item 7) of the Corporations Act. Accordingly, if Resolutions 6 and 7 are passed by the requisite majority, the issue of Shares contemplated by those Resolutions will be made without using the Company's 15% annual placement capacity and the Company will retain the flexibility to issue equity securities in the future up to the 15% annual placement capacity set out in ASX Listing Rule 7.1.

#### **7.6 Regulatory Requirements**

##### **(a) Item 7 of Section 611 of the Corporations Act**

Section 606(1) of the Corporations Act provides that a person must not acquire a Relevant Interest in issued voting shares of a listed company, such as KalNorth Gold Mines Ltd, if the person acquiring the interest does so through a transaction in relation to the securities entered into by or on behalf of the person and, because of the transaction, that person's or someone else's Voting Power in the listed company increases:

- (a) from 20% or below to more than 20%; or
- (b) from a starting point that is above 20% and below 90%.

Under section 608(1) of the Corporations Act, a person will have a Relevant Interest in securities if they are the holder of those shares, or, has the power to exercise, or control the exercise of, a right to vote attached to the securities, or, have power to dispose of, or control the exercise of a power to dispose of, the securities. Under section 608(3) of the Corporations Act, a person will have a relevant interest in securities held by a body corporate if that person's Voting Power in the body corporate is above 20% or if that person controls the body corporate.

Section 606(1A) of the Corporations Act provides that a person may acquire a Relevant Interest under one of the exceptions set out in section 611 of the Corporations Act without contravening section 606(1) of the Corporations Act.

Under Item 7 of section 611 of the Corporations Act, an acquisition that was approved by a resolution passed at a general meeting of shareholders of the listed company in which the acquisition is made is exempt from section 606(1) of the Corporations Act.

**(b) Relevant Interest and Voting Power of SVG and Renergy**

The Relevant Interest and Voting Power of each of SVG and Renergy is noted in the table under section 7.4 above.

Each of SVG and Renergy has advised as follows:

- it does not have any Associates who hold Shares in the Company;
- Cross-Strait is not its Associate; and
- that they (SVG and Renergy) are not each other's Associate.

**(c) Information about SVG and Renergy**

SVG is overseas registered and has its principal place of business in Hong Kong, whereas Renergy is an Australian registered entity. The Company has been advised and understands from enquiries made by it that both entities are investment entities with passive investments in a number of diverse industries and locations.

**(d) Statement of the intentions of SVG and Renergy regarding the future of Company if Shareholders pass Resolutions 6 and 7**

The Company requested each of SVG and Renergy to provide to the Company the following information regarding their current intentions in relation to the Company and issues relating to control of the Company.

Each of SVG and Renergy would only consider making any decisions in respect of the following matters in light of the material circumstances at the relevant time and following receipt of appropriate legal, taxation and financial advice, having regard to the obligations of the Company's Directors to act in the best interests of the Company.

*Any intention to change the business of the Company*

Each of SVG and Renergy has informed the Company that, in the event it does acquire Voting Power of up to 32.99% and 23.62% respectively, on the facts and circumstances presently known to them, they are supportive of the Company's current strategy and direction, and accordingly do not currently intend to make any major changes to the direction and objectives of the Company. The Board will continue to make decisions for the Company independently from SVG and Renergy.

*Any intention to inject further capital into the Company*

Each of SVG and Renergy may participate in capital raisings undertaken by the Company in the future, in accordance with the Listing Rules and the Corporations Act. Neither of them has decided whether it will participate in such raisings, as that will be dependent upon the market conditions at the time, but each of them reserves its right to do so.

*Intentions regarding future employment of present employees*

Neither SVG nor Renergy intend to change the overall operational structure or future employment of any present employees of the Company. However each of them may seek to encourage the management of the Company to make those changes which are necessary to improve operational efficiencies and generally add shareholder value.

*Any proposal where assets will be transferred between the Company and SVG or Renergy or their Associates*

There is no proposal in place at this time to transfer any assets between the Company and each of SVG or Renergy or any of their Associates.

*Any intention to otherwise significantly change the fixed assets, including mineral assets, of the Company*

Each of SVG and Renergy has said that it does not intend to change the overall operational structure of the Company at this time, including the fixed and mineral assets of the Company. However each of SVG and Renergy may seek to encourage the management of the Company to make those changes which are necessary to develop the Company's current projects.

*Any intention of SVG, Renergy or their Associates to significantly change the financial or dividend distribution policies of the Company*

Neither SVG or Renergy or any of their Associates has an intention to significantly change the financial or dividend distribution policies of the Company.

## **7.7 Interests of Directors**

No Director has any interest in the outcome of Resolutions 6 or 7 other than in his capacity as a Shareholder. Mr Yuanguang Yang's accounting and corporate services firm based in Hong Kong provides limited services to SVG. Mr Yang's initial appointment as a director in August 2014 was proposed by SVG but Mr Yang has advised that services provided by his firm to SVG are a very small part of the firm's overall business.

## **7.8 Details of any person who is intended to become a director if Shareholders approve Resolutions 6 and 7**

Neither of SVG or Renergy has proposed the appointment of any person as a Director of the Company at this stage.

## **7.9 Recommendation of each Director and reasons for recommendation**

The Directors are Mr Jiajun Hu (Chairman), Mr Lijun Yang (Executive Director) and Mr Yuanguang Yang (Non-Executive Director).

Each Director recommends that Shareholders vote in favour of Resolution 6 and Resolution 7 for the reasons set out below. The Directors are not aware of any information other than as set out in this Notice that is material to the decision on how to vote on Resolutions 6 and 7.

### **7.9.1 Independent Experts Report**

The Company obtained a report from an independent expert in relation to the issue of Shares to SVG and Renergy, which reports whether the Share issue is fair and reasonable to Shareholders not associated with SVG or Renergy.

In a report dated 19 October 2015, BDO Corporate Finance (WA) Pty Ltd reported that the issue of Shares to each of SVG and Renergy is not fair but reasonable to Shareholders not associated with SVG or Renergy.

The Independent Expert's Report accompanies the Notice and this Explanatory Statement.

### **7.9.2 Impact on Company, its Financial Position and Capital Structure if Resolutions 6 and 7 are passed**

As Resolutions 6, 7 and 8 are inter-dependent, the following commentary assumes all three Resolutions are passed.

Loan Amounts of just over \$4.5 million will be settled. This amount represents a current liability of the Company and its settlement will therefore result in a significant improvement to the Company's working capital position. Thereafter, interest (calculated at 10% per annum) will no longer be charged to the profit and loss account.

Existing Shareholders', but excluding SVG and Renergy, interest in the Company's share capital will be significantly diluted, reducing from 80% down to 43%. The impact on the Company's capital structure is illustrated in Section 7.4 above.

### 7.9.3 Impact on Company's Prospects

If Resolutions 6, 7 and 8 are passed, there will be no immediate impact on the Company's prospects. However, the Directors believe that the absence of these Loan Amounts and interest commitments will improve the Company's ability to raise equity capital in the future.

### 7.9.4 Advantages and Disadvantages of Resolutions 6 and 7 being passed

As Resolutions 6, 7 and 8 are inter-dependent, the following commentary assumes all three Resolutions are passed.

Set out below are the key advantages and disadvantages, for consideration by Shareholders.

#### (a) *Advantages of Resolutions being passed*

The key advantages to Shareholders are:

- Shares will be issued in settlement of the Loan Amounts of around \$4.5 million and the Company will not have to repay these Loan Amounts.
- The Directors believe that the Company's ability to raise equity capital in the future will be significantly improved in the absence of these Loan Amounts and the continuing interest commitments.
- Loans from a number of different parties will be settled. It has been challenging for the Board to have to deal with up to five different lenders and get all parties to provide substantive agreement on key matters. If Resolution 10 is passed and the Company secures a \$2M convertible note facility with Cross-Strait, it will only have one party to deal with in the future.

#### (b) *Disadvantages of Resolutions being passed*

The key disadvantage to the Resolutions being passed is that, as noted previously, the existing Shareholders interest in the Company's share capital will be significantly diluted, reducing from 80% (existing Shareholders' excluding SVG and Renergy who hold 20% in aggregate at the date of this Notice) down to 43%.

#### (c) *Advantages of Resolutions NOT being passed*

The key advantage to the Resolutions NOT being passed is that the significant dilution to the Existing Shareholders interest in the Company's share capital (reducing from 80% down to 43%) will be avoided.

#### (d) *Disadvantages of Resolutions NOT being passed*

- As noted previously, the Company is already in default of its obligations under the various loan agreements for the reason that it did not pay the interest that became due and payable on 30 June 2015. Each of SVG, Renergy, Smarter and John McKinstry have agreed not to take any action until Shareholders have had an opportunity to approve the settlement of these Loan Amounts by issue of Shares. Borrowings from SVG and Renergy are secured over all the assets of the Company. If these Resolutions are NOT passed, the Company will remain in default of its loan obligations and there is a significant risk that the lenders will take default action including, in the case of SVG and Renergy, the appointment of receivers to take control of the secured assets. Whilst the principal amounts of the loans are not due and payable until 30 April 2016, the Company is not in a position to pay the outstanding interest of over \$200,000. Consequently the Company would be in breach of the loan conditions and the lenders could seek repayment of the entire Loan Amounts.
- The transaction, the subject of Resolution 10, is the convertible note facility under the Convertible Note Agreement. As will be evident from information presented later in the Explanatory Statement, the convertible note facility is subject to settlement of the Loans Amounts with SVG, Renergy and Smarter. Therefore if Resolutions 6, 7 and 8 are NOT passed, not only will the Company be in default of the loan agreements (with the risk of enforcement action by the lenders) but it will also have no access to funds from its existing largest Shareholder, Cross-Strait as the Convertible Note Agreement shall terminate. At that stage, the Company would have a liability under the existing convertible note to Gold Fresh Limited of \$350,000 due for redemption on 5 March 2016 as well as a liability to Cross-Strait of \$300,000 which amount was drawn down by the Company in September 2015 as an advance under the proposed convertible note facility.

- If the lenders, particularly SVG and Renergy, take default action and enforce security charges, given the depressed state of the mineral exploration sector the quantum of proceeds from a forced sale of the Company's assets is open to conjecture. Arguably, after discharge of the Loan Amounts, there may be no surplus funds left for the benefit of Shareholders.

In summary, whilst the Directors are cognisant of the significant dilution of existing Shareholders' interest, the Directors believe that the agreement by SVG, Renergy, Smarter and John McKinstry to accept Shares in settlement of their Loan Amounts and the concurrent approval of the Cross-Strait convertible note facility gives the Company the best possible opportunity to remain a going concern in current market circumstances and remain viable for any improvement in the mineral exploration sector (including any exploration success from the use of funds under the convertible note facility) which may ultimately see some restoration in Shareholder value.

## **7.10 Resolutions 8 and 9 - Specific information required by the Listing Rules**

### **7.10.1 General**

Resolutions 8 and 9 for the issue of Shares in settlement of Loan Amounts due to Smarter and John McKinstry respectively require Shareholder approval under Listing Rule 7.1.

The effect of approving Resolutions 8 and 9 will be to allow the Directors to issue Shares in settlement of the Loan Amounts due to these parties without using up the Company's 15% placement capacity under Listing Rule 7.1.

As previously noted, the passing of Resolution 8 is a condition of passing Resolutions 6 and 7 (and vice versa) and also Resolution 10 for the convertible note facility. Passing of Resolution 9 also requires the passing of Resolutions 6, 7 and 8.

The Directors recommend that Shareholders approve each of Resolutions 8 and 9 for the reasons set out in Section 7.9 above and, in particular, the advantages and disadvantages outlined in Section 7.9.4 for the purposes of Resolutions 6 and 7 also apply generally to Resolutions 8 and 9.

### **7.10.2 Specific Information required by Listing Rule 7.3**

For the purposes of Shareholder approval of the issue of Shares under Resolutions 8 and 9 and the requirements of Listing Rule 7.3, information is provided as follows

- (a) The maximum number of Shares to be issued and the names of the entities to whom Shares will be issued is as follows:  
 Resolution 8: 65,490,400 Shares to Smarter Group (Australia) Pty Ltd; and  
 Resolution 9: 5,457,500 Shares to John McKinstry.
- (b) The Shares will be issued as soon as practicable after the date of the Meeting but no later than 3 months after the date of the Meeting (or such later date to the extent permitted by any ASX waiver or modification of the Listing Rules) and will be issued in full (not progressively).
- (c) The Shares will be issued at a deemed issue price of \$0.01 each.
- (d) The Shares will be fully paid ordinary shares in the capital of the Company issued on the same terms and conditions as the Company's existing Shares.
- (f) The Company will not raise any funds from the issue of these Shares as the issue of the Shares will be in settlement of Loan Amounts due to the parties named in (a) above.

A voting exclusion applying to each of Resolutions 8 and 9 is set out in the Notice.

## **8. Resolution 10 – Approval in relation to Convertible Note Agreement with Cross-Strait**

### **8.1 General Information and Key Commercial Terms and Conditions**

The Company and its largest Shareholder, Cross-Strait entered into a convertible note facility agreement on 15 September 2015 for up to \$2,000,000. The key terms and conditions of the Convertible Note Agreement are as follows:



### **Conditions Precedent**

- (a) Shareholder approval for the purposes of Listing Rules, the Corporations Act and for any other purpose;
- (b) such other Australian regulatory approvals as may be necessary;
- (c) Issue of Shares to each of South Victory Global Limited, Renergy Pty Ltd, and Smarter Group (Australia) Pty Ltd in settlement of their respective Loan Amounts (refer Resolutions 6, 7 and 8); and
- (d) the Company and Cross-Strait entering into the Security Agreement pursuant to which the Company grants a general security over all the assets of the Company to Cross-Strait.

### **Commercial Terms**

- (i) Within 10 business days of the execution of the Convertible Note Agreement, Cross-Strait will provide an advance of \$300,000 to the Company ("Initial Advance"). Upon satisfaction of the conditions precedent referred to above, the Company will issue 30 convertible notes to Cross-Strait with respect to the Initial Advance. The Initial Advance was received by the Company on 24 September 2015.
- (ii) Within 30 days of satisfaction of the conditions precedent referred to above, the Company may, at its sole discretion, issue a notice for the drawdown of a further \$700,000. Upon receipt of these funds, the Company will issue 70 convertible notes to Cross-Strait.
- (iii) The Company may issue a notice for the drawdown of a further \$1,000,000 at any time between that date on which the Company receives the amount referred to in (ii) above and 31 December 2016. In support of the draw down notice for this amount, the Company shall provide Cross-Strait with its latest management accounts as well as a use of funds statement for this amount. Upon receipt of these funds, the Company will issue 100 convertible notes to Cross-Strait.
- (iv) Each convertible note has a principal amount of \$10,000. Each note may be converted at the sole discretion of Cross-Strait for 1,000,000 Shares in the capital of the Company on or before the maturity date of 30 April 2017. If the Company draws down the full facility amount of \$2,000,000 and Cross-Strait converts all the convertible notes, it will be issued 200,000,000 Shares. Any convertible notes that have not previously been converted or redeemed are redeemable on the maturity date of 30 April 2017.
- (v) If the conditions precedent referred to above are not satisfied (or waived) by 5.00pm (WST) on 30 November 2015, the Convertible Note Agreement shall automatically terminate. In that case the Initial Advance together with accrued interest thereon shall be repaid by the Company on or before 30 June 2016 either in cash or by the issue of Shares in the Company at an issue price of \$0.01 per Share (subject to the receipt of any Shareholder approvals that may be necessary), at the election of the Company.
- (vi) Cross-Strait may issue a conversion notice to convert the convertible notes to Shares at any time and similarly the Company may issue a redemption notice to redeem the convertible notes by repaying the principal amount at any time. If the Company issues a redemption notice, Cross-Strait may issue a conversion notice within 7 days of the Company issuing a redemption notice and the conversion notice will then take precedence over the redemption notice.
- (v) Interest on the principal amount of the convertible notes will accrue daily from the date of receipt of the relevant advance in cleared funds at an annual rate of 8% up to the earlier of the date of receipt of the conversion notice for the relevant convertible notes or the redemption date.

Interest will be converted into Shares at the conversion price of \$0.01 per Share at the same time as conversion of the convertible note to which that interest relates, subject to Cross-Strait providing the Company with written notice of its election to convert the accrued interest at the same time as the conversion notice. If Cross-Strait makes no such election, interest shall be payable in cash on the redemption date or the date of issue of Shares (as the context requires).

Refer also to Appendix 2 for other key terms of the Convertible Note Agreement, not summarised above.

### **8.2 Interdependent Nature of Resolutions**

As noted in Section 8.1(c) above, the passing of Resolution 10 is subject to the passing of Resolutions 6, 7 and 8 and the convertible note facility with Cross-Strait only becomes effective

after the issue of Shares to each of SVG, Renergy and Smarter in settlement of their respective Loan Amounts.

### 8.3 Maximum Number of Shares that may be issued and Effect on Capital Structure

The maximum number of Shares to be issued on conversion of the convertible notes is as follows:

	Number
Conversion of principal amount of \$2,000,000 (note i)	200,000,000
Conversion of interest accruing on convertible notes to Shares (\$228,362) (note ii)	22,836,164
<b>Total</b>	<b>222,836,164</b>

Note (i) – this assumes that the Company draws down the maximum facility amount of \$2,000,000 and that Cross-Strait chooses to convert all of the convertible notes into Shares.

Note (ii) – Interest accruing on the convertible notes has been calculated on the basis that the Initial Advance of \$300,000 was received on 24 September 2015 and assuming that the remaining facility amount of \$1,700,000 is drawn in early December 2015. The assumption in relation to the remaining facility amount of \$1.7m is notwithstanding the existing terms for drawdown referred to in Section 8.1 (ii) and (iii) above. This presumes Cross-Straits agrees to early drawdown of the remaining amount, but enables the interest accruing on the convertible notes to be maximised. For illustration purposes, it therefore allows for the calculation of the maximum number of Shares that may be required to be issued to Cross-Strait if it elects to convert the interest into Shares. The calculation also assumes that the conversion takes place on the redemption date of 30 April 2017.

The effect on the capital structure and Cross-Straits voting power is as follows:

	Total Shares	Cross-Strait's Shareholding and % interest
Shares on issue at the date of this Notice	345,498,098	88,703,335 <b>25.67%</b>
Shares issued for Loan Amount settlement (refer first table under Section 7.4 above)	452,975,300	n/a
<b>Shares on issue post Loan Amount settlement</b>	<b>798,473,398</b>	<b>88,703,335</b> <b>11.1%</b>
Issue of Shares to Cross-Strait on conversion of convertible notes and interest – refer to the above table	222,836,164	222,836,164
<b>Shares on issue post conversion of convertible notes and interest</b>	<b>1,021,309,562</b>	<b>311,539,499</b> <b>30.5%</b>

As is noted in the table above, following the settlement of the Loan Amounts with SVG, Renergy, Smarter and John McKinstry, Cross-Strait's relevant interest is 88,703,335 Shares and its Voting Power reduces from 25.67% to 11.1%. Thereafter, if Cross-Strait converts all the convertible notes and the interest accruing on the convertible notes it will have a relevant interest in up to 311,539,499 Shares and its Voting Power will increase from 11.1% to up to 30.5%.

### 8.4 Resolution 10 - Approval under item 7 of section 611 of the Corporations Act

The Company is seeking Shareholder approval for Resolution 10 for the purposes of item 7 of Section 611 of the Corporations Act in relation to the acquisition of a Relevant Interest of up to a total of 311,539,499 Shares by Cross-Strait, which would increase its Voting Power in the Company from 11.1% to a maximum of 30.5%.



Pursuant to ASX Listing Rule 7.2 (Exception 16), shareholder approval pursuant to ASX Listing Rule 7.1 is not required where approval is being obtained pursuant to section 611 (Item 7) of the Corporations Act. Accordingly, if Resolution 10 is passed by the requisite majority, the issue of Shares contemplated will be made without using the Company's 15% annual placement capacity and the Company will retain the flexibility to issue equity securities in the future up to the 15% annual placement capacity set out in ASX Listing Rule 7.1.

## **8.5 Regulatory Requirements**

Section 7.6 of the Explanatory Statement provides background information on Item 7 of Section 611 of the Corporations Act. That information also applies to Resolution 10.

### **(a) Relevant Interest and Voting Power of Cross-Strait**

The Relevant Interest and Voting Power of Cross-Strait is noted in the table under section 8.3 above. Cross-Strait has advised as follows:

- it does not have any Associates who hold Shares in the Company; and
- SVG and / or Renergy are not its Associates.

### **(b) Information about Cross-Strait**

Cross-Strait, with its global headquarters in Hong Kong, first became a Shareholder in November 2010 and it has been the largest Shareholder in the Company since that time.

It owns and manages a number of investment projects in diverse industry sectors in North America, Africa, Asia and Oceania.

### **(c) Statement of the intentions of Cross-Strait regarding the future of Company if Shareholders pass Resolution 10**

The Company requested Cross-Strait to provide to the Company the following information regarding its current intentions in relation to the Company and issues relating to control of the Company.

Cross-Strait would only consider making any decisions in respect of the following matters in light of the material circumstances at the relevant time and following receipt of appropriate legal, taxation and financial advice, having regard to the obligations of the Company's Directors to act in the best interests of the Company.

#### *Any intention to change the business of the Company*

Cross-Strait has informed the Company that, in the event it does acquire voting power of up to 30.5%, on the facts and circumstances presently known to it, it is supportive of the Company's current strategy and direction, and accordingly does not currently intend to make any major changes to the direction and objectives of the Company. The Board will continue to make decisions for the Company independently from Cross-Strait.

#### *Any intention to inject further capital into the Company*

Cross-Strait may participate in capital raisings undertaken by the Company in the future, in accordance with the Listing Rules and the Corporations Act. It has not decided whether it will participate in such raisings, as that will be dependent upon the market conditions at the time, but it reserves its right to do so.

#### *Intentions regarding future employment of present employees*

Cross-Strait does not intend to change the overall operational structure or future employment of any present employees of the Company. However it may seek to encourage the management of the Company to make those changes which are necessary to improve operational efficiencies and generally add shareholder value.

*Any proposal where assets will be transferred between the Company and Cross-Strait or its Associates*

There is no proposal in place at this time to transfer any assets between the Company and Cross-Strait or any of its Associates.

*Any intention to otherwise significantly change the fixed assets, including mineral assets, of the Company*

Cross-Strait has said that it does not intend to change the overall operational structure of the Company at this time, including the fixed and mineral assets of the Company. However it may seek to encourage the management of the Company to make those changes which are necessary to develop the Company's current projects.

*Any intention of Cross-Strait or its Associates to significantly change the financial or dividend distribution policies of the Company*

Cross-Strait nor any of its Associates has an intention to significantly change the financial or dividend distribution policies of the Company.

## **8.6 Interests of Directors**

No Director has any interest in the outcome of Resolution 10 other than in his capacity as a Shareholder. Mr Jiajun Hu, the Company's Chairman is a Regional Manager of Cross-Strait and has been nominated to the Company's Board by Cross-Strait. Mr Hu has confirmed that he has no significant influence or control over Cross-Strait nor is he a stakeholder in Cross-Strait.

## **8.7 Details of any person who is intended to become a director if Shareholders approve Resolution 10**

As noted in Section 8.6 above, Mr Hu, an existing Director, has been nominated to the Company Board by Cross-Strait. Cross-Strait has not proposed the appointment of any other person as a Director of the Company at this stage.

## **8.8 Recommendation of each Director and reasons for recommendation**

The Directors are Mr Jiajun Hu (Chairman), Mr Lijun Yang (Executive Director) and Mr Yuanguang Yang (Non-Executive Director).

Each Director recommends that Shareholders vote in favour of Resolution 10 for the reasons set out below. The Directors are not aware of any information other than as set out in this Notice that is material to the decision on how to vote on Resolution 10.

### **8.8.1 Independent Experts Report**

The Company obtained a report from an independent expert in relation to the possible future issue of Shares to Cross-Strait, which reports whether the Share issue is fair and reasonable to Shareholders not associated with Cross-Strait.

In a report dated 19 October 2015, BDO Corporate Finance (WA) Pty Ltd reported that the issue of Shares to Cross-Strait upon conversion of convertible notes and accrued interest is not fair but reasonable to Shareholders not associated with Cross-Strait.

The Independent Expert's Report accompanies the Notice and this Explanatory Statement.

### **8.8.2 Impact on Company, its Financial Position and Capital Structure if Resolution 10 is passed**

The Company will have access to a \$2,000,000 finance facility, available for draw-down up to 31 December 2016. The Directors intend to use this facility to provide funds for exploration activity on the Company's gold projects as well as working capital for administration and corporate costs. There will be no immediate impact on the capital structure, until such time as Cross-Strait (at its sole discretion) elects to convert the convertible notes and accrued interest into Shares at an issue price of \$0.01 per Share. The table in Section 8.3 above illustrates the effect on the capital structure if conversion takes place in the future.

### 8.8.3 Impact on Company's Prospects

If Resolution 10 is passed, there will be no immediate impact on the Company's prospects. However, the procurement of this convertible note facility secures funds for exploration activity and thus creates the potential for Shareholder value to be enhanced through exploration success.

### 8.8.4 Advantages and Disadvantages of Resolution 10 being passed

Set out below are the key advantages and disadvantages, for consideration by Shareholders.

#### (a) *Advantages of Resolution being passed*

The key advantages to Shareholders are:

- The convertible note facility procures funding of up to \$2 million, thus enabling the Company to invest a substantial proportion of those funds into exploration programs on its gold project in the Western Australian East Goldfields region. Shareholder value has the potential to be enhanced from any exploration success.
- Due to the size of the convertible note facility, the Company is not likely to require raising equity capital in the near future. Given the poor result of the recent entitlement offer (largely supported by Cross-Strait in any case) and the continuing poor outlook for the mineral exploration sector, not having to raise equity capital in these circumstances is a significant advantage.
- Whilst the convertible note facility may ultimately require redemption on or around 30 April 2017, Cross-Strait as a significant existing Shareholder will have more at stake in the Company and be more inclined to elect to convert the convertible notes into Shares.

#### (b) *Disadvantages of Resolution being passed*

The key disadvantage to the Resolution being passed is that, as noted previously, Shareholders interest in the Company's share capital immediately prior to conversion of the convertible notes and accrued interest will be significantly diluted, reducing from 88.9% (Shareholders' interest excluding the 11.1% interest that Cross-Strait would hold at that stage) down to 69.5%.

The existence of convertible notes giving the holder the right to acquire Voting Power of up to 30.5% in the Company may be a disincentive to any third party reviewing the possibility of an M&A type transaction (merger and acquisition activity) with the Company in the future.

It could also be argued that the conversion price of \$0.01 per Share for the convertible notes has not factored in any significant premium over the last traded market price of the Company's Shares on the ASX. Transactions involving convertible notes usually factor in a premium to market price for the conversion price.

#### (c) *Advantages of Resolutions NOT being passed*

The key advantage to the Resolution NOT being passed is that the significant dilution to the existing Shareholders interest in the Company's share capital (reducing from 88.9% down to 69.5%) will be avoided.

#### (d) *Disadvantages of Resolutions NOT being passed*

- The Company will not have a finance facility of up to \$2,000,000. Even if all of the Resolutions in relation to settlement of the Loan Amounts were to be approved with a consequential strengthening in the Company's Balance Sheet (Loan Amounts settled by issue of Shares), it would be extremely difficult to raise equity capital in the current market circumstances. This was evidenced by the poor result in the recently completed entitlement offer where an amount of \$295,321 was subscribed of which \$250,000 was subscribed by Cross-Strait.
- In (b) above it was argued that the conversion price does not factor in any premium to the recently traded market price of the Shares. However, the last traded price of the Company's Shares prior to this Notice (also prior to going into a voluntary suspension) was \$0.009 and around 12 June 2015, the Shares traded as low as \$0.007. As already noted, the recent entitlement offer at \$0.01 per Share was very poorly supported with \$250,000 of the subscription funds out of the total of \$295,321 being provided by Cross-Strait. In these circumstances, it could also be argued that the conversion price of \$0.01 is fair and does represent a premium to the present fair value of the Company's Shares.

- Cross-Strait has been the Company's largest Shareholder since November 2010 and has consistently supported the Company since that time through participation in entitlement offers (October 2012, December 2013 and October 2015). Whilst each offer of support from Cross-Strait must be judged on its own merit and by reference to whether it is fair and reasonable to other Shareholders, the Directors note their concern that in the event the convertible note facility proposal is not approved it may be very difficult to negotiate any other support, including equity participation, from Cross-Strait.

In summary, whilst the Directors are cognisant of the significant dilution of existing Shareholders' interest, the Directors believe that the agreement by SVG, Renergy, Smarter and John McKinstry to accept Shares in settlement of their Loan Amounts and the concurrent approval of the Cross-Strait convertible note facility gives the Company the best possible opportunity to remain a going concern in current market circumstances and remain viable for any improvement in the mineral exploration sector (including any exploration success from the use of funds under the convertible note facility) which may ultimately see some restoration in Shareholder value.

## **8.9 Resolution 10 - Specific information required by the Listing Rules**

Resolution 10 requires Shareholder approval for the purposes of Listing Rule 10.1.

Listing Rule 10.1 provides that an entity must ensure that neither it, nor any of its child entities, acquires a substantial asset from, or disposes of a substantial asset to, amongst other persons, a substantial holder or one of its associates, without the prior approval of holders of the entity's ordinary shareholders.

### **8.9.1 Specific information required by Listing Rule 10.10**

The Convertible Note Agreement requires the Company to enter into the Security Agreement pursuant to which the Company will grant Cross-Strait a general security over all the assets of the Company. In the event Cross-Strait exercised its rights under the Security Agreement this would potentially lead to a disposal of a substantial asset (an asset with a value, or the value of the consideration for the asset is, or in ASX's opinion is, 5% or more of the equity interests of the Company as set out in the latest accounts given to ASX under the Listing Rules) by the Company to a substantial holder (as defined under Chapter 10 of the Listing Rules and which definition applies to Cross-Strait) is a breach of Listing Rule 10.1 without prior approval of Shareholders.

Listing Rule 10.10 requires the notice of meeting for the purposes of Listing Rule 10.1 to include the following:

- A voting exclusion statement – this is provided in the Notice; and
- A report on the transaction by an independent expert – the report prepared by BDO Corporate Finance (WA) Pty Ltd for this purpose (amongst others) is included with this Explanatory Statement. BDO has concluded that the transaction is fair and reasonable to holders of Shares whose votes are not to be disregarded for Resolution 10.

The Company also confirms that the BDO report is available on the Company's website at [www.kalnorthgoldmines.com](http://www.kalnorthgoldmines.com) and can be downloaded from that site or viewed online.

## 9. Definitions

Unless the context requires otherwise, the following words shall have the following meanings in this Explanatory Statement, the Notice of Meeting and the Proxy Form:

**10% Placement Capacity** has the meaning given in Section 6.1 of the Explanatory Statement.

**Associate** has the meaning given to the term "associate" in sections 12 and 16 (only) of the Corporations Act.

**ASX** means ASX Limited.

**Board** means the board of Directors of the Company.

**Business Day** means Monday to Friday inclusive, except New Year's Day, Good Friday, Easter Monday, Christmas Day, Boxing Day, and any other day that ASX declares is not a business day.

**Chair** means chair of the Meeting.

**Closely Related Party** has the meaning given in section 9 of the Corporations Act and includes a spouse, dependent and certain other close family members, as well as companies controlled by a KMP.

**Company** means KalNorth Gold Mines Limited ACN 100 405 954.

**Constitution** means the Company's constitution.

**Convertible Note Agreement** means the Convertible Note Facility Agreement entered into between the Company and Cross-Strait, dated 15 September 2015.

**Corporations Act** means Corporations Act 2001 (Cth);

**Cross-Strait** means Cross-Strait Common Development Fund Co., Limited of Unit A1, 6/F One Capital Place, 18 Luard Road, Wanchai, Hong Kong, a company registered in Hong Kong and which, at the date of the Notice, is the Company's largest Shareholder.

**Directors** means the current directors of the Company;

**Eligible Entity** means an entity that, at the date of the relevant general meeting:

- (a) is not included in the A&P/ASX 300 Index; and
- (b) has a maximum market capitalisation (excluding restricted securities and securities quoted on a deferred settlement basis) of \$300,000,000.

**Equity Securities** has the same meaning as in the Listing Rules;

**Explanatory Statement** means the explanatory Statement accompanying this Notice;

**Key Management Personnel** has the same meaning as in the accounting standards issued by the Australian Accounting Standards Board and means those persons having authority and responsibility for planning, directing and controlling the activities of the Company, or if the Company is part of a consolidated entity, of the consolidated entity, directly or indirectly, including any director (whether executive or otherwise) of the Company, or if the Company is part of a consolidated entity, of an entity within the consolidated group;

**Listing Rules** means the Listing Rules of the ASX;

**Meeting** or Annual General Meeting means the meeting convened by this Notice;

**Notice** or **Notice of Meeting** means this Notice of annual general meeting;

**Ordinary Securities** has the meaning set out in the ASX Listing Rules.

**Option** means an option to acquire a Share.

**Proxy Form** means the proxy form attached to this Notice.

**Relevant Interest** has the meaning given to the term "relevant interest" in sections 608 and 609 of the Corporations Act.

**Renenergy** means Renenergy Pty Ltd of Suite 326, Level3, 401 Sussex Street, Sydney, NSW 2000, a Shareholder at the date of this Notice and a secured lender to the Company.

**Remuneration Report** means the remuneration report of the Company contained in the Director's Report.

**Resolution** means a resolution contained in this Notice.

**Security Agreement** means an agreement to be entered into between the Company and Cross-Strait pursuant to which the Company grants to Cross-Strait a general security over all the assets of the Company.

**Share** means a fully paid ordinary share in the capital of the Company.

**Shareholder** means the holder of a Share.

**Smarter** means Smarter Group (Australia) Pty Ltd of 67 Kingsland Road, Berala NSW 2141, a lender to the Company.

**SVG** means South Victory Global Limited of PO Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands, a Shareholder at the date of this Notice and a secured lender to the Company.

**Trading Day** has the same meaning as set out in the Listing Rules.

**Voting Power** has the meaning given to the term "voting power" in section 610 of the Corporations Act.

**VWAP** means volume weighted average price.

**WST** or **Western Standard Time** means Australian Western Standard Time.

## APPENDIX 1 (in relation to Resolution 5)

(Section 6.9 of the Explanatory Statement - Equity Securities issued or expected to be issued in the 12 months prior to the Meeting)

The details of issues of all Equity Securities made in the 12 months preceding the date of the Meeting are as follows:

<b>Date of issue:</b>	16 February 2015	11 March 2015	19 October 2015
<b>Number issued:</b>	23,333,333	41,177,334 Shares	29,532,064 Shares
<b>Class:</b>	Convertible notes	Ordinary shares	Ordinary shares
<b>Summary of terms:</b>	23,333,333 convertible notes with a total face value of \$350,000 <sup>1</sup>  Maturity date is 5 March 2016	Shares were issued in settlement of outstanding loan interest of \$667,073	Shares were issued pursuant to a non-renounceable entitlement offer
<b>Names of persons who received securities or basis on which those persons was determined:</b>	Gold Fresh Limited	Refer to Section 5.2 of the Explanatory Statement for a breakdown	Applicants under a non-renounceable entitlement offer to Shareholders on the record date of 6 August 2015 pursuant to a prospectus dated 29 July 2015.
<b>Price:</b>	\$0.015 per note <sup>1</sup>	\$0.0162 per Share	\$0.01 per Share
<b>Discount to market price (if any):</b>	The Shares had been suspended from trading on ASX from 8 October 2014 until the issue of these Shares. The last market sale price of the Shares on ASX prior to the suspension from trading on 8 October 2014 was \$0.025.		N/A (a premium to the traded price prior to issue of the prospectus offer)
<b>Total cash consideration received:</b>	\$350,000	Non-cash	\$295,321
<b>Amount of cash consideration spent:</b>	All	N/A	Nil
<b>Use of cash consideration</b>	Exploration and evaluation expenditure, including administration costs	N/A	N/A
<b>Intended use for remaining amount of cash (if any)</b>	N/A	N/A	Exploration and evaluation expenditure, including administration costs
<b>Current value of non-cash consideration</b>	N/A	\$411,773  Based on \$0.01 per Share being the issue price of Shares issued on 19 October 2015 pursuant to the prospectus dated 29 July 2015.	N/A

<sup>1</sup>under the terms of their issue, the notes will be convertible to Shares at the lower of \$0.015 per Share or the price at which Shares are issued by the Company up to 5 March 2016



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## APPENDIX 2 – OTHER KEY TERMS OF THE CONVERTIBLE NOTE AGREEMENT

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Convertible Note Facility Amount	\$2,000,000
Principal	\$10,000 per note
Interest Rate	8% per annum
Maturity Date	30 April 2017
Conversion Price	\$0.01
Security	As per the Security Agreement
Quotation	The Company will not apply for quotation on ASX of the Convertible Notes.
Voting rights	The Convertible Notes shall not provide for any voting rights at shareholder meetings of the Company (unless otherwise required by the ASX Listing Rules or the Corporations Act).
Transferability	The Noteholder shall only be permitted to transfer the Convertible Notes to a Related Body Corporate (or equivalent entity under the laws in which the Noteholder is incorporated) with the prior written consent of the Company which shall not be unreasonably withheld.
Conversion Notice	At any time prior to, or within 7 days of, the delivery of a Redemption Notice the Noteholder is entitled, at its sole election, to convert any or all Convertible Notes into Shares by delivering to the Company a Conversion Notice and the Note Certificate, or such other evidence of title as to ownership of the Convertible Notes being converted as is acceptable to the Company. A Conversion Notice, once delivered, cannot be withdrawn without the written consent of the Company.



Redemption Notice	<p>At any time prior to the delivery of a Conversion Notice the Company is entitled, at its sole election, to deliver to the Noteholder a Redemption Notice.</p> <p>Upon issue of redemption notice and provided that the Noteholder does not, within 7 days of the delivery of the Redemption Notice, deliver to the Company a Conversion Notice, the Company shall on the Redemption Date deliver to the Noteholder, in cleared funds, the amount of the Principal and interest being redeemed.</p>
Participation Rights	<p>There are no participation rights or entitlements inherent in the Convertible Note and the Noteholder will not be entitled to participate in new issues of Securities offered to Shareholders during the currency of the Convertible Note in respect of the Convertible Notes without first converting the Convertible Note prior to the date for determining entitlements to participate in any such issue.</p>
Reconstruction	<p>In the event of a reconstruction of the capital of the Company prior to the Conversion Date by way of consolidation, subdivision, reduction, return, scheme of arrangement or otherwise (but other than by way of a bonus issue, rights issue or other security issue), a proportionate adjustment will be made to the number and issue price of Shares to which the Noteholder is entitled upon conversion of a Convertible Note so that:</p> <ul style="list-style-type: none"> <li>(i) the value of the Convertible Note is not adversely affected by the reconstruction;</li> <li>(ii) the Noteholder is not conferred with any additional benefits which are not also conferred on the holders of Shares (subject to the same provisions with respect to rounding of entitlements as sanctioned by the meeting of holders of Shares approving the reconstruction of capital); and</li> <li>(iii) in all other respects the terms for the conversion of the Convertible Note shall remain unchanged.</li> </ul>

## STEP 1 APPOINTMENT OF PROXY

I/We being a member/s of KalNorth Gold Mines Limited and entitled to attend and vote hereby appoint

The Chairman  
of the Meeting  
(mark with an "X")

OR

If you are not appointing the Chairman of the Meeting as your proxy please write here the full name of the individual or body corporate (excluding your own name) you are appointing as your proxy.

Or failing the individual or body corporate named, or if no individual or body corporate is named, the Chairman of the Meeting, as my/our proxy to act generally at the meeting on my/our behalf and to vote in accordance with the following directions (or if no directions have been given, as the proxy sees fit) at the Annual General Meeting of KalNorth Gold Mines Limited to be held on 25 November 2015 and at any adjournment of that meeting.

**Chairman authorised to exercise undirected proxies on remuneration related resolutions:** Where I/we have appointed the Chairman of the Meeting as my/our proxy (or the Chairman becomes my/our proxy by default), I/we expressly authorise the Chairman to exercise my/our proxy on Resolution 1 and Resolution 3 (except where I/we have indicated a different voting intention below) even though Resolution 1 and 3 are connected directly or indirectly with the remuneration of a member of key management personnel, which includes the Chairman.

**Important Note:** If the Chairman of the Meeting is (or becomes) your proxy you can direct the Chairman to vote for or against or abstain from voting on Resolutions 1 and 3 by marking the appropriate box below under **VOTING DIRECTIONS (STEP 2)**.

## STEP 2 VOTING DIRECTIONS TO YOUR PROXY

PLEASE MARK ☒ TO INDICATE YOUR DIRECTIONS

	For	Against	Abstain*
Resolution 1 – Adoption of Remuneration Report	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 2 – Re-Election of Mr Yuanguang Yang	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 3 – Issue of Shares to Director, Mr Yuanguang Yang	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 4 – Ratification of Share Issue	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 5 – Approval of 10% Placement Capacity	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 6 – Issue of Shares to South Victory Global Limited	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 7 – Issue of Shares to Renergy Pty Ltd	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 8 – Issue of Shares to Smarter Group (Australia) Pty Ltd	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 9 – Issue of Shares to John McInstry	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 10 – Approval in relation to Convertible Note Agreement with Cross-Strait	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**The Chairman of the Meeting intends to vote all available proxies in favour of each item of business**

\* If you mark the Abstain box for a particular item, you are directing your proxy not to vote on your behalf on a show of hands or on a poll and your votes will not be counted in computing the required majority on a poll.

## SIGN

This section **must** be signed in accordance with the instructions overleaf to enable your directions to be implemented.

Individual or Securityholder 1

Sole Director and  
Sole Company Secretary  
Dated: \_\_\_/\_\_\_/2015

Securityholder 2

Director

Securityholder 3

Director/Company Secretary

**Completed Proxy can be lodged:**

BY MAIL: **Level 1, Suite 5, The Business Centre,  
55 Salvado Road, Subiaco,  
Western Australia 6008  
Or  
P O Box 131  
Subiaco, Western Australia 6904**

BY FAX: **(61 8) 9380 6761**

BY EMAIL: **proxy@kalnorthgoldmines.com**

For your vote to be effective, the completed proxy form must be received by 9.00am (Perth time),  
23 November 2015

**How to complete the Proxy Form**

**1 Appointment of a Proxy**

If you wish to appoint the Chairman of the Meeting as your proxy, mark the box. If the individual or body corporate you wish to appoint as your proxy is someone other than the Chairman of the Meeting please write the full name of that individual or body corporate in the space provided. If you leave this section blank, or your named proxy does not attend the meeting, the Chairman of the Meeting will be your proxy. A proxy need not be a securityholder of the company. Do not write the name of the issuer company or the registered securityholder in the space.

**2 Votes on Items of Business**

You may direct your proxy how to vote by placing a mark in one of the three boxes opposite each item of business. All your securities will be voted in accordance with such a direction unless you indicate only a portion of voting rights are to be voted on any item by inserting the percentage or number of securities you wish to vote in the appropriate box or boxes. If you do not mark any of the boxes on a given item, your proxy may vote as he or she chooses. If you mark more than one box on an item your vote on that item will be invalid.

**3 Appointment of a Second Proxy**

You are entitled to appoint up to two proxies to attend the meeting and vote on a poll. If you wish to appoint a second proxy, an additional Proxy Form may be obtained by telephoning the company's share registry or you may copy this form.

To appoint a second proxy you must:

(a) on each of the first Proxy Form and the second Proxy Form state the percentage of your voting rights or number of securities applicable to that form. If the appointments do not specify the percentage or number of votes that each proxy may exercise, each proxy may exercise half your votes.

Fractions of votes will be disregarded.

(b) return both forms together.

**4 Signing Instructions**

You must sign this form as follows in the spaces provided:

**Individual:** where the holding is in one name, the holder must sign.

**Joint Holding:** where the holding is in more than one name, all of the security holders should sign.

**Power of Attorney:** to sign under Power of Attorney, you must have already lodged this document with the registry. If you have not previously lodged this document for notation, please attach a certified photocopy of the Power of Attorney to this form when you return it.

**Companies:** where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the Corporations Act 2001) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please indicate the office held by signing in the appropriate place.

If a representative of a corporate Securityholder or proxy is to attend the meeting the appropriate "Certificate of Appointment of Corporate Representative" should be produced prior to admission. A form of the certificate may be obtained from the company's share registry.

**Lodgement of a Proxy**

This Proxy Form (and any Power of Attorney under which it is signed) must be received at an address given above no later than 48 hours before the time of the Annual General Meeting. Any Proxy Form received after that time will not be valid for the scheduled meeting.



## KALNORTH GOLD MINES LIMITED Independent Expert's Report

### Opinions:

The Financing Transaction is not fair but reasonable  
The Security Transaction is fair and reasonable

19 October 2015



## Financial Services Guide

19 October 2015

**BDO Corporate Finance (WA) Pty Ltd** ABN 27 124 031 045 ('we' or 'us' or 'ours' as appropriate) has been engaged by KalNorth Gold Mines Limited ('KalNorth') to provide an independent expert's report in relation to the loan settlement agreements KalNorth has entered into with South Victory Global Limited and Renergy Pty Ltd, and the issue of a convertible note facility with Cross-Strait Common Development Fund Co. Limited. You will be provided with a copy of our report as a retail client because you are a shareholder of KalNorth.

### Financial Services Guide

In the above circumstances we are required to issue to you, as a retail client, a Financial Services Guide ('FSG'). This FSG is designed to help retail clients make a decision as to their use of the general financial product advice and to ensure that we comply with our obligations as financial services licensees.

This FSG includes information about:

- ◆ Who we are and how we can be contacted;
- ◆ The services we are authorised to provide under our Australian Financial Services Licence, Licence No. 316158;
- ◆ Remuneration that we and/or our staff and any associates receive in connection with the general financial product advice;
- ◆ Any relevant associations or relationships we have; and
- ◆ Our internal and external complaints handling procedures and how you may access them.

### Information about us

BDO Corporate Finance (WA) Pty Ltd is a member firm of the BDO network in Australia, a national association of separate entities (each of which has appointed BDO (Australia) Limited ACN 050 110 275 to represent it in BDO International). The financial product advice in our report is provided by BDO Corporate Finance (WA) Pty Ltd and not by BDO or its related entities. BDO and its related entities provide services primarily in the areas of audit, tax, consulting and financial advisory services.

We do not have any formal associations or relationships with any entities that are issuers of financial products. However, you should note that we and BDO (and its related entities) might from time to time provide professional services to financial product issuers in the ordinary course of business.

### Financial services we are licensed to provide

We hold an Australian Financial Services Licence that authorises us to provide general financial product advice for securities to retail and wholesale clients.

When we provide the authorised financial services we are engaged to provide expert reports in connection with the financial product of another person. Our reports indicate who has engaged us and the nature of the report we have been engaged to provide. When we provide the authorised services we are not acting for you.

### General Financial Product Advice

We only provide general financial product advice, not personal financial product advice. Our report does not take into account your personal objectives, financial situation or needs. You should consider the appropriateness of this general advice having regard to your own objectives, financial situation and needs before you act on the advice.

**Fees, commissions and other benefits that we may receive**

We charge fees for providing reports, including this report. These fees are negotiated and agreed with the person who engages us to provide the report. Fees are agreed on an hourly basis or as a fixed amount depending on the terms of the agreement. The fee payable to BDO Corporate Finance (WA) Pty Ltd for this engagement is approximately \$15,000.

Except for the fees referred to above, neither BDO, nor any of its directors, employees or related entities, receive any pecuniary benefit or other benefit, directly or indirectly, for or in connection with the provision of the report.

**Remuneration or other benefits received by our employees**

All our employees receive a salary. Our employees are eligible for bonuses based on overall productivity but not directly in connection with any engagement for the provision of a report. We have received a fee from KalNorth for our professional services in providing this report. That fee is not linked in any way with our opinion as expressed in this report.

**Referrals**

We do not pay commissions or provide any other benefits to any person for referring customers to us in connection with the reports that we are licensed to provide.

**Complaints resolution***Internal complaints resolution process*

As the holder of an Australian Financial Services Licence, we are required to have a system for handling complaints from persons to whom we provide financial product advice. All complaints must be in writing addressed to The Complaints Officer, BDO Corporate Finance (WA) Pty Ltd, PO Box 700 West Perth WA 6872.

When we receive a written complaint we will record the complaint, acknowledge receipt of the complaint within 15 days and investigate the issues raised. As soon as practical, and not more than **45 days** after receiving the written complaint, we will advise the complainant in writing of our determination.

**Referral to External Dispute Resolution Scheme**

A complainant not satisfied with the outcome of the above process, or our determination, has the right to refer the matter to the Financial Ombudsman Service ('FOS'). FOS is an independent organisation that has been established to provide free advice and assistance to consumers to help in resolving complaints relating to the financial service industry. FOS will be able to advise you as to whether or not they can be of assistance in this matter. Our FOS Membership Number is 12561. Further details about FOS are available at the FOS website [www.fos.org.au](http://www.fos.org.au) or by contacting them directly via the details set out below.

Financial Ombudsman Service  
GPO Box 3  
Melbourne VIC 3001  
Toll free: 1300 78 08 08  
Facsimile: (03) 9613 6399  
Email: [info@fos.org.au](mailto:info@fos.org.au)

**Contact details**

You may contact us using the details set out on page 1 of the accompanying report.

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Appendix 1 - Glossary and copyright notice

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19 October 2015

The Directors  
KalNorth Gold Mines Limited  
224 Dugan Street  
Kalgoorlie, WA 6430

Dear Directors

## INDEPENDENT EXPERT'S REPORT

### 1. Introduction

On 1 September 2015, KalNorth Gold Mines Limited ('**KalNorth**' or '**the Company**') announced that it had entered into binding loan settlement agreements ('**Settlement Agreements**') with South Victory Global Limited ('**SVG**'), Renergy Pty Ltd ('**Renergy**') and Smarter Group (Australia) Pty Ltd ('**Smarter Group**') on 31 August 2015, 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 the issue of shares at a price of \$0.01 each.

The Settlement Agreements also provide that the loan settlement must take place on or before 30 November 2015 ('**End Date**'), unless all parties agree in writing to extend the date. Based on the amounts outstanding to SVG, Renergy and Smarter Group, and assuming issue of shares on the End Date, the settlement will involve the issue of 447,517,800 fully paid shares in KalNorth.

KalNorth has also entered into a binding agreement ('**Convertible Note Facility**'), subject to the Settlement Agreements, with Cross-Strait Common Development Fund Co. Limited ('**Cross-Strait**') on 15 September 2015, in which Cross-Strait will provide a facility up to an aggregate of \$2 million to the Company and be issued 200 convertible notes ('**New Convertible Note**'). If KalNorth's shareholders approve the facility, the Convertible Notes will convert to 200 million shares at a conversion price of \$0.01 per share on the principal component. Additionally, should Cross-Strait elect to convert the accrued interest on the facility, up to an additional 22.84 million shares in the Company would be issued. The issue of shares towards SVG, Renergy and the Convertible Note Facility are collectively referred to as the **Financing Transaction**.

Additionally, as part of the Convertible Note Facility, the Company is seeking shareholder approval for the execution of a Security Agreement with Cross-Strait under the terms of which, the Company grants a general security over all the assets of the Company to Cross-Strait ('**Security Transaction**').

The Financing Transaction and Security Transaction are collectively referred to as '**the Transactions**'.

Our Report is prepared pursuant to the requirements of section 611 of the Corporations Act 2001 ('**Corporations Act**' or '**the Act**') and the Australian Securities Exchange ('**ASX**') Listing Rule 10.1 for the following reasons:

- **Financing Transaction** - Section 611 item 7 of the Act as a result of SVG and Renergy increasing their respective voting power in the Company in excess of 20 per cent, and Cross-Strait increasing their



voting power in the Company from a starting point that is in excess of 20 per cent and below 90 per cent, by more than 3 per cent and in a manner which would otherwise be in breach of section 606 of the Act; and

- **Security Transaction** - ASX Listing Rule 10.1 as a result of the Company being deemed to have disposed of a substantial asset (being entering into a mortgage deed to grant security) to a substantial holder (being Cross-Strait who currently hold a relevant interest of 25.67 per cent of KalNorth's issued share capital) to secure repayment of the New Convertible Note.

## 2. Summary and Opinion

### 2.1 Purpose of the report

The directors of KalNorth have requested that BDO Corporate Finance (WA) Pty Ltd ('BDO') prepare an independent expert's report ('our Report') to express an opinion as to whether or not the Transactions are fair and reasonable to the non-associated shareholders of KalNorth ('Shareholders').

Our Report is prepared pursuant to the requirements of ASX Listing Rule 10.1 and section 611 of the Act. Our Report is to be included in the Notice of Meeting to assist Shareholders in their decision whether to approve the Transactions.

### 2.2 Approach

Our Report has been prepared having regard to Australian Securities and Investments Commission ('ASIC') Regulatory Guide 74 'Acquisitions Approved by Members' ('RG 74'), Regulatory Guide 111 'Content of Expert's Reports' ('RG 111') and Regulatory Guide 112 'Independence of Experts' ('RG 112').

In arriving at our opinion, we have assessed the terms of the Transactions as outlined in the body of this report. We have considered:

- How the value of a KalNorth share prior to the Financing Transaction on a controlling basis compares to the value of a KalNorth share following the Financing Transaction on a minority basis;
- How the value of the proceeds of the sale of assets that would be provided to Cross-Strait under a mortgage deed in relation to the New Convertible Note in the event of a default compare to the value of the liabilities that would be settled;
- The likelihood of a superior alternative offer being available to KalNorth;
- Other factors which we consider to be relevant to the Shareholders in their assessment of the Transactions; and
- The position of Shareholders should the Transactions not proceed.

### 2.3 Opinion

We have considered the terms of the Financing Transaction as outlined in the body of this report and have concluded that, in the absence of a superior offer, **the Financing Transaction is not fair but reasonable to Shareholders.**

In our opinion, the Financing Transaction is not fair because the value of a KalNorth share following the Financing Transaction on a minority interest basis is lower than the value of a KalNorth share prior to the Financing Transaction on a controlling interest basis. However, we consider the Financing Transaction to be reasonable because the advantages of the Financing Transaction to Shareholders are greater than the

disadvantages. In particular, the following were key considerations in our determination of reasonableness.

- A significant proportion of the Company's borrowings will be settled, which the Company would not be in a position to repay, given the difficulty in raising capital for mineral resources companies and the absence of operating revenue and recurring cash flows.
- Cash received as part of the Financing Transaction will put the Company under less cash flow strain and strengthen the balance sheet.
- The ability of KalNorth to raise additional funds may increase as a result of the cash injection from the New Convertible Note, which will help improve the Company's cash position and reduce the level of gearing, ultimately improving the likelihood of attracting additional debt and equity funding.
- The Financing Transaction provides an alternate avenue for funds at a time when demand for the Company's equity is low, as evidenced by the offtake of the most recent rights offer made to existing Shareholders.

We have separately considered the terms of the Security Transaction as outlined in the body of this report and have concluded that, in the absence of any other relevant information, **the Security Transaction is fair and reasonable to Shareholders.**

## 2.4 Fairness

### Financing Transaction

In section 12 we determined how the value of a KalNorth share prior to the Financing Transaction on a controlling basis compares to the value of a KalNorth share following the Financing Transaction on a minority basis. This is set out below:

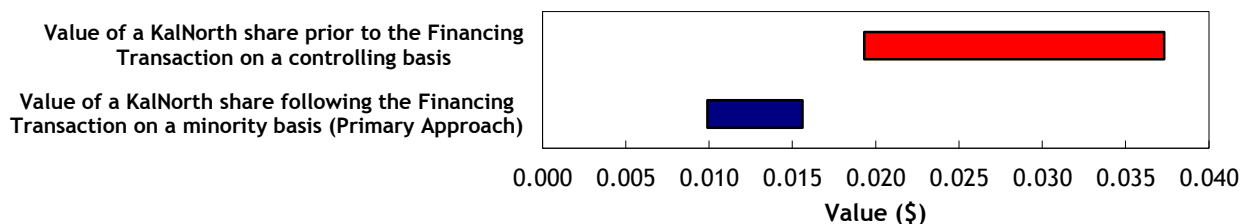
	Ref	Low \$	Preferred \$	High \$
Value of a KalNorth share prior to the Financing Transaction on a controlling basis	9.1	\$0.0193	\$0.0284	\$0.0374
Value of a KalNorth share following the Financing Transaction on a minority basis (Primary Approach)	10.1	\$0.0099	\$0.0127	\$0.0157

Source: BDO analysis

We note from the analysis above that the range of values of a KalNorth share following the Financing Transaction on a minority interest basis, is lower than the range of values of a KalNorth share prior to the Financing Transaction on a controlling interest basis.

The above valuation ranges are graphically presented below:

### Valuation Summary



Source: BDO analysis

The above pricing indicates that, in the absence of any other relevant information, the Financing Transaction is not fair for Shareholders.

### Security Transaction

We also concluded that the value of the proceeds of the sale of the Secured Assets that would be provided to Cross-Strait under a mortgage deed in relation to the New Convertible Note in the event of a default is equivalent or lower than the value of the liabilities that would be settled. This is discussed in section 11 of our Report. Therefore, in the absence of any other relevant information, this indicates that the Security Transaction is fair for Shareholders.

## 2.5 Reasonableness

We have considered the analysis in section 13 of this report, in terms of both

- Advantages and disadvantages of the Transactions; and
- Other considerations, including the position of Shareholders if the Transactions do not proceed and the consequences of not approving the Transactions.

In our opinion, the position of Shareholders if the Transactions are approved is more advantageous than the position if the Transactions are not approved. Accordingly, in the absence of any other relevant information, we believe that:

- The Financing Transaction is reasonable for Shareholders; and
- The Security Transaction is reasonable for Shareholders.

The respective advantages and disadvantages considered are summarised below:

ADVANTAGES AND DISADVANTAGES			
Section	Advantages	Section	Disadvantages
Financing transaction			
13.4	A significant proportion of the Company's borrowings will be settled	13.5	Dilution of existing Shareholders' interest

ADVANTAGES AND DISADVANTAGES			
Section	Advantages	Section	Disadvantages
13.4	Cash received as part of the Financing Transaction will put the Company under less cash flow strain		
13.4	The ability of KalNorth to raise additional funds may increase		
13.4	Liquidity of KalNorth shares may increase		
13.4	Alternate avenue for funds given the low offtake noted during the recent rights issue made to existing Shareholders		

Security Transaction			
13.6	The Security Transaction is fair	13.7	Onerous restrictions on dealing with the Company's assets
13.6	Supports debt funding		

Other key matters we have considered include:

Section	Description
13.1	Alternative proposals
13.2	Practical Level of Control
13.3	Consequences of not approving the Transactions

### 3. Scope of the Report

#### 3.1 Purpose of the Report

##### Financing Transaction

As at the date of this Report, SVG, Renergy and Cross-Strait currently own 13.06 per cent, 7.20 per cent and 25.67 per cent of the issued capital in KalNorth, respectively. Section 606 of the Act expressly prohibits the acquisition of shares by a party who already holds (with associates) 20 per cent or more of the issued shares of public company or if that acquisition will result in that person (or someone else) obtaining an interest in 20 per cent or more of the issued shares of a public company, unless a full takeover offer is made to all Shareholders.

Following the Financing Transaction, SVG and Renergy will increase their respective shareholding in KalNorth from the current levels to hold up to 32.99 per cent and 23.62 per cent, on an undiluted basis and 24.89 per cent and 17.82 per cent on a diluted basis. Similarly, Cross-Strait will increase their shareholding in KalNorth from the current level of 25.67 per cent to 29.44 per cent on a diluted basis.

Section 611 permits such an acquisition if the shareholders of that entity have agreed to the issue of such shares. This agreement must be by resolution passed at a general meeting at which no votes are cast in favour of the resolution by any party who is associated with the party acquiring the shares, or by the party acquiring the shares. Section 611 states that shareholders of the Company must be given all information that is material to the decision on how to vote at the meeting.

RG 74 states that the obligation to supply shareholders with all information that is material can be satisfied by the non-associated directors of KalNorth, by either:

- Undertaking a detailed examination of the Financing Transaction themselves, if they consider that they have sufficient expertise; or
- By commissioning an Independent Expert's Report.

The directors of KalNorth have commissioned this Independent Expert's Report to satisfy this obligation.

##### Security Transaction

ASX Listing Rule 10.1 requires that a listed entity must obtain shareholders' approval before it acquires or disposes of a substantial asset from a substantial shareholder (a party and its associates holding a relevant interest in 10 per cent or more of the voting shares in KalNorth), when the consideration to be paid for the asset or the value of the asset being disposed constitutes more than 5 per cent of the equity interest at the date of the last accounts. The equity interests of the Company as set out in the 30 June 2015 audited accounts were \$1,764,199. The value of the Assets is greater than \$88,210.

Listing Rule 10.1 applies where the vendor or acquirer of the substantial assets holds a relevant interest in 10 per cent or more of the voting shares in the listed entity. Cross-Strait is a substantial shareholder of KalNorth because they hold a relevant interest of more than 10 per cent of the total votes attaching to KalNorth voting securities. As at the date of this report, Cross-Strait holds a relevant interest of 25.67 per cent in KalNorth.

Listing Rule 10.10.2 requires the Notice of Meeting for shareholders' approval to be accompanied by a report by an independent expert expressing their opinion as to whether the transaction is fair and

reasonable to the shareholders whose votes are not to be disregarded in respect of the transaction (non-associated shareholders).

Accordingly, an independent experts' report is required for the Security Transaction. The report should provide an opinion by the expert stating whether or not the terms and conditions in relation thereto are fair and reasonable to non-associated shareholders of KalNorth.

### **3.2 Regulatory guidance**

Neither the Listing Rules nor the Corporations Act defines the meaning of 'fair and reasonable'. In determining whether the Transactions are fair and reasonable, we have had regard to the views expressed by ASIC in RG 111. This regulatory guide provides guidance as to what matters an independent expert should consider to assist security holders to make informed decisions about transactions.

#### **Financing Transaction - A control transaction**

RG 111 suggests that where the transaction is a control transaction, the expert should focus on the substance of the control transaction rather than the legal mechanism to affect it. RG 111 suggests that where a transaction is a control transaction, it should be analysed on a basis consistent with a takeover bid.

In our opinion, the Financing Transaction is a control transaction as defined by RG 111 and we have therefore assessed the Financing Transaction as a control transaction to consider whether, in our opinion, it is fair and reasonable to Shareholders.

#### **Security Transaction - Related party transaction**

RG 111 suggests that, where an expert assesses whether a related party transaction is 'fair and reasonable' for the purpose of ASX Listing Rule 10.1, this should not be applied as a composite test - that is, there should be a separate assessment of whether the transaction is 'fair' and 'reasonable', as in a control transaction. An expert should not assess whether the transaction is 'fair and reasonable' based simply on a consideration of the advantages and disadvantages of the proposal.

We do not consider the Security Transaction to be a control transaction.

### **3.3 Adopted basis of evaluation**

RG 111 states that a transaction is fair if the value of the offer price or consideration is greater than the value of the securities subject of the offer. This comparison should be made assuming a knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious, seller acting at arm's length. When considering the value of the securities subject of the offer in a control transaction the expert should consider this value inclusive of a control premium.

Further to this, RG 111 states that a transaction is reasonable if it is fair. It might also be reasonable if despite being 'not fair' the expert believes that there are sufficient reasons for security holders to accept the offer in the absence of any higher bid.

RG 111.31 stipulates that in a control transaction a comparison should be made between the value of the target entity's securities prior to the transaction on a controlling basis and the value of the target entity's securities following the transaction allowing for a minority discount. This comparison reflects the fact that the acquirer is obtaining or increasing control of the target entity and the security holders in the target entity will no longer hold a controlling interest. As such we have valued a share in KalNorth prior to the

Financing Transaction on a controlling basis and compared this to the value of a share in KalNorth following the Financing Transaction on a minority basis.

### Financing Transaction

Having regard to the above, BDO has completed this comparison in two parts:

- A comparison between the value of a KalNorth share prior to the Financing Transaction on a controlling basis and the value of a KalNorth share following the Financing Transaction on a minority basis (fairness - see Section 12 'Are the Transactions Fair?'); and
- An investigation into other significant factors to which Shareholders might give consideration, prior to approving the resolution, after reference to the value derived above (reasonableness - see Section 13 'Are the Transactions Reasonable?').

### Security Transaction

In the case of the Security Transaction, the provision of general security over the assets of the Company to Cross-Strait to secure repayment of the New Convertible Note is the subject of the offer.

As stated in section 3.2, we do not consider that the Security Transaction is a control transaction. As such, we have not included a premium for control when considering the value of the assets deemed to have been disposed by KalNorth.

Having regard to the above, BDO has completed this comparison in two parts:

- A comparison between the value of the assets being disposed and the value of the consideration (fairness-see section 12 'Are the Transactions fair?'); and
- An investigation into other significant factors to which Shareholders might give consideration, prior to approving the resolution, after reference to the value derived above (reasonableness - see section 13 'Are the Transactions reasonable?')

This assignment is a Valuation Engagement as defined by Accounting Professional & Ethical Standards Board professional standard APES 225 'Valuation Services' ('APES 225').

A Valuation Engagement is defined by APES 225 as follows:

*'an Engagement or Assignment to perform a Valuation and provide a Valuation Report where the Valuer is free to employ the Valuation Approaches, Valuation Methods, and Valuation Procedures that a reasonable and informed third party would perform taking into consideration all the specific facts and circumstances of the Engagement or Assignment available to the Valuer at that time.'*

This Valuation Engagement has been undertaken in accordance with the requirements set out in APES 225.



## 4. Outline of the Transactions

On 1 September 2015, KalNorth announced it had entered binding loan settlement agreements with SVG, Renergy and Smarter Group, 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. Additionally, the Company entered into a Convertible Note Facility with Cross-Strait for an amount of up to \$2 million.

Completion of the Financing Transaction requires Shareholders' approval pursuant to section 611 item 7 of the Act because the issue of the shares to SVG, Renergy and Cross-Strait will result in SVG and Renergy increasing their respective voting power in the Company in excess of 20 per cent, and Cross-Strait increasing their voting power in the Company from a starting point in excess of 20 per cent and below 90 per cent, by more than 3 per cent.

As at the date of our Report, SVG and Renergy hold 13.06 per cent and 7.20 per cent of the issued shares in KalNorth, respectively. The issue of shares to SVG and Renergy will increase their respective holding to a maximum of 32.99 per cent and 23.62 per cent following the Financing Transaction, on an undiluted basis, as seen in the table below.

Shareholding following the Financing Transaction (undiluted)	SVG	Renergy	Cross-Strait	Other Shareholders	Total
Shares on issue at the date of our Report	45,110,916	24,868,646	88,703,335	186,815,201	345,498,098
% holdings at date of our Report	13.06%	7.20%	25.67%	54.07%	100.00%
Shares issued as Consideration	218,301,400	163,726,000	-	70,947,900	452,975,300
<b>Shares on issue following completion of the Financing Transaction</b>	<b>263,412,316</b>	<b>188,594,646</b>	<b>88,703,335</b>	<b>257,763,101</b>	<b>798,473,398</b>
% holdings following completion of the Financing Transaction	32.99%	23.62%	11.11%	32.28%	100.00%

Source: Management information

We have also considered the shareholding of SVG and Renergy following the Financing Transaction on a fully diluted basis, assuming the existing convertible loan agreement ('Existing Convertible Note') with Gold Fresh Limited ('Gold Fresh') and the New Convertible Note to be issued as per the agreement with Cross-Strait, collectively referred to as ('the Convertible Notes'), are converted to KalNorth shares.

### Convertible Notes

#### Existing Convertible Note

On 16 February 2015, KalNorth issued 23,333,333 convertible notes to Gold Fresh in settlement of an outstanding loan of \$350,000. Under the terms of issue, if KalNorth were to issue shares during the term of the notes (i.e. up to March 2016) at an issue price of less than 1.5 cents per share, then the conversion ratio for the Existing Convertible Note would be required to be revised on a pro rata basis. Consequently, upon approval of the Settlement Agreements, the Existing Convertible Note will have the right to convert to up to 35,000,000 shares (on the principal component).

## New Convertible Note

On 15 September 2015, KalNorth entered a convertible note agreement with Cross-Strait, which is conditional upon the Settlement Agreements being approved. The key terms of the New Convertible Note are detailed below:

- Principal of \$2,000,000;
- Conversion price of \$0.01 per share;
- Interest is payable per annum in arrears and carries a coupon rate of 8 per cent; and
- Cross-Strait may issue a conversion notice to convert the convertible notes to shares at any time on or before the maturity date of 30 April 2017. Similarly, KalNorth can issue a redemption notice to redeem the convertible notes by repaying the principal amount at any time.

The shareholding following the exercise of the Convertible Notes is as shown below:

Shareholding following the Financing Transaction (diluted)	Note	SVG	Renergy	Cross-Strait	Other Shareholders	Total
Shares on issue after the completion of the Financing Transaction		263,412,316	188,594,646	88,703,335	257,763,101	798,473,398
Shares to be issued upon exercise of the Existing Convertible Note	1	-		-	36,871,800	36,871,800
Shares to be issued upon exercise of New Convertible Note	2	-		222,836,164	-	222,836,164
<b>Shares on issue after the completion of the Financing Transaction</b>		<b>263,412,316</b>	<b>188,594,646</b>	<b>311,539,499</b>	<b>294,634,901</b>	<b>1,058,181,362</b>
% holdings following the completion of the Financing Transaction		24.89%	17.82%	29.44%	27.84%	100.00%

Source: Management information

## Note 1: Shares to be issued upon conversion of Existing Convertible Note

The number of ordinary shares that the Existing Convertible Note will convert into is as follows:

	Number of shares
Conversion of principal amount of \$350,000*	35,000,000
Conversion of accrued interest as at 30 November 2015*	1,871,800
<b>Total shares issued on conversion of Convertible Notes</b>	<b>36,871,800</b>

\*The principal and accrued interest has been converted at the rate of \$0.01 per share

## Note 2: Shares to be issued upon conversion of New Convertible Note

The number of ordinary shares that the New Convertible Note will convert into is as follows:

	Note	Number of shares
Conversion of principal amount of \$2,000,000	a	200,000,000
Conversion of interest accruing on convertible notes	b	22,836,164
<b>Total shares issued on conversion of Convertible Notes</b>		<b>222,836,164</b>

Source: Management information

### a) Conversion of principal amount

The issue of 200 million shares assumes that the Company draws down the maximum facility amount of \$2 million and that Cross-Strait chooses to convert all of the convertible notes into shares.

### b) Conversion of interest accruing on the convertible notes to Shares

Interest accruing on the convertible notes has been calculated on the basis that the initial advance of \$300,000 was received on 25 September 2015 and assuming that the remaining facility amount of \$1,700,000 is drawn in early December 2015. Further, the calculation also assumes that the conversion takes place on the redemption date of 30 April 2017.

## 5. Profile of KalNorth

### 5.1 History

KalNorth, formerly known as Carrick Gold Limited and Carrick Resources Limited, is a gold exploration company that was incorporated on 1 May 2002 and officially listed on the ASX on 20 January 2005. The current board members of the Company are:

- Mr Jiajun Hu - Chairman;
- Mr Lijun Yang - Executive Director and Company Secretary; and
- Mr Yuanguang Yang - Non-Executive Director.

KalNorth has a tenement portfolio that covers approximately 400km<sup>2</sup> of the Kalgoorlie goldfields region of Western Australia. The tenement holdings, collectively known as the KalNorth Gold Field, comprise five 100 per cent owned projects, namely the Lindsays, Kurnalpi, Kalpini, Spargoville and Roe projects.

KalNorth officially transitioned from an explorer to gold miner in January 2013, when production commenced at the Parrot Feathers open cut mine at Lindsays field. However, a rapidly deteriorating gold price, subsequent to commissioning, resulted in the mining program being suspended in August 2013 and the mine being put on care and maintenance.

### 5.2 Projects

#### Lindsays Project

The Lindsays field is located 65km north north-east of Kalgoorlie and comprises three main gold bearing structures - the Eastern Structure, the Central Structure and the Western Structure. The Parrot Feathers open pit mine, which was in operation for seven months during 2013, is located on the Eastern Structure

and targets high grade gold mineralisation at depths of less than 80m. Despite a short-lived mining program, Parrot Feathers has all the required regulatory approvals and infrastructure in place to recommence production under more favourable gold pricing conditions, in addition to further expanding its existing resources and reserves through future underground mining operations.

### Kurnalpi Project

The Kurnalpi Project is located 85km north-east of Kalgoorlie on the Norseman-Wiluna greenstone belt. KalNorth has discovered several deposits in the Kurnalpi project area and identified the Brilliant deposit as a key target of gold mineralisation. During 2012 the Company commenced a drilling program in order to test the strike extensions of the Brilliant ore system. Results showed mineralisation extensions of the host rock and located an additional altered and mineralised dolerite. More recent geophysical interpretation of the Kurnalpi project has generated over 40 target areas. Five high priority targets are highlighted for first pass drill testing in 2015, two of which are considered to be of the highest ranking in KalNorth's portfolio.

### Kalpini Project

The Kalpini Project is located 75km northeast of Kalgoorlie, approximately halfway between the Lindsays and Kurnalpi fields. The Kalpini Project comprises two contrasting lines of quartz veined mineralisation, namely Gambia and Atlas. Gambia has a flat mineralised orientation that extends over a kilometre in length and differs from the Atlas mineralisation, which is much smaller and has a steep vertical orientation. Exploration activity over the past five years has focused on improving the Atlas and Gambia mineral resources and searching for new gold mineralisations. Current activities at Kalpini include interpretation of all available past exploration data, geographical mapping and re-logging of drill core.

### Spargoville Project

The Spargoville Project is located 50km south of Kalgoorlie and comprises 16 tenements covering a total area of 55km<sup>2</sup>. KalNorth entered a joint venture project ('JV') with Mithril Resources Limited ('Mithril') in December 2012, to farm out the Spargoville Project and by March 2014, Mithril had earned a 20 per cent interest in Spargoville. However, on 19 March 2015, Mithril issued a notice to withdraw from the JV and agreed to transfer its existing 20 per cent interest in Spargoville for nil consideration. Consequently, KalNorth resumed 100 per cent ownership of Spargoville in May 2015 after Mithril's notice period had been completed.

### Roe Project

The Roe Project is located 140km east north-east of Kalgoorlie and 50km east of Kurnalpi. KalNorth acquired the Roe project in 2013, which comprises two early stage greenfield tenements. Both exploration licenses are at an early exploration stage, with initial exploration activity limited to the compilation of previous exploration data and geographical appraisal, and ranking of the prospectivity of gold and base metal targets.

**Note:** All the above projects are 100 per cent owned by KalNorth

### 5.3 Historical Balance Sheet

Statement of Financial Position	Audited as at 30-Jun-15 \$	Reviewed as at 31-Dec-14 \$	Audited as at 30-Jun-14 \$
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	238,640	714,373	128,867
Trade and other receivables	15,993	556,076	32,503
Other assets	7,500	7,500	34,548
<b>TOTAL CURRENT ASSETS</b>	<b>262,133</b>	<b>1,277,949</b>	<b>195,918</b>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	389,920	440,739	504,833
Exploration and evaluation expenditure	7,147,846	7,035,398	8,035,398
<b>TOTAL NON-CURRENT ASSETS</b>	<b>7,537,766</b>	<b>7,476,137</b>	<b>8,540,231</b>
<b>TOTAL ASSETS</b>	<b>7,799,899</b>	<b>8,754,086</b>	<b>8,736,149</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	122,785	332,719	1,231,834
Interest bearing liabilities	4,764,557	4,875,818	4,891,788
<b>TOTAL CURRENT LIABILITIES</b>	<b>4,887,342</b>	<b>5,208,537</b>	<b>6,123,622</b>
<b>NON-CURRENT LIABILITIES</b>			
Interest bearing liabilities	-	350,000	-
Restoration provision	1,148,358	1,035,910	1,099,370
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>1,148,358</b>	<b>1,385,910</b>	<b>1,099,370</b>
<b>TOTAL LIABILITIES</b>	<b>6,035,700</b>	<b>6,594,447</b>	<b>7,222,992</b>
<b>NET ASSETS</b>	<b>1,764,199</b>	<b>2,159,639</b>	<b>1,513,157</b>
<b>EQUITY</b>			
Issued capital	76,251,722	75,584,649	75,226,229
Reserves	-	58,864	1,334,418
Accumulated losses	(74,487,523)	(73,483,874)	(75,047,490)
<b>TOTAL EQUITY</b>	<b>1,764,199</b>	<b>2,159,639</b>	<b>1,513,157</b>

Source: KalNorth's audited financial statements for the years ended 30 June 2014, 30 June 2015 and reviewed half year report for the period ended 31 December 2014

#### Commentary on Historical Statement of Financial Position:

We note that KalNorth's auditor, RSM Bird Cameron Partners issued an unmodified audit opinion for the year ended 30 June 2015. We note the following with regard to the Company's financial position.

- Cash and cash equivalents increased from \$128,867 as at 30 June 2014 to \$714,373 as at 31 December 2014 primarily on account of the proceeds from sale of exploration tenements of \$1,800,000 and significantly reduced payments to suppliers and employees.
- Trade and other receivables of \$556,076 as at 31 December 2014 primarily comprised a Research and Development ('R&D') tax credit receivable, which related to the year ended 30 June 2014 and was subsequently received on 28 January 2015.

- Exploration expenditure incurred for the year ended 30 June 2014 and 30 June 2015 was immediately expensed by the Company as their recoverability was uncertain. During the year ended 30 June 2014, the Directors of KalNorth undertook an impairment assessment of the exploration and evaluation assets, which resulted in the carrying value being impaired by \$10,124,900.
- Trade and other payables of \$1,231,834 as at 30 June 2014 mainly comprised the outstanding settlement amount of \$1,050,000 due on disposal of the Mt Jewell Project, which was subsequently paid during the half year ended 31 December 2014.
- Interest bearing liabilities of \$4,764,557 as at 30 June 2015 comprised the following:

Interest bearing liabilities	Principal \$	Accrued Interest \$	Total \$
SVG	2,000,000	99,178	2,099,178
Renergy	1,500,000	74,384	1,574,384
Smarter Group	600,000	29,753	629,753
John McKinstry	50,000	2,479	52,479
Xin Gu and Henry Jian	50,000	2,479	52,479
Existing Convertible Note to Gold Fresh	350,000	6,283	356,283
	<b>4,550,000</b>	<b>214,556</b>	<b>4,764,557</b>

- The non-current interest bearing liability of \$350,000 as at 31 December 2014 pertained to a convertible loan agreement that the Company entered into with Gold Fresh in September 2014. The loan was used to provide KalNorth with short-term funding for its working capital and was later converted to convertible notes on 16 February 2015, and forms a part of interest bearing liabilities (current) as at 30 June 2015 as evidenced above.
- Reserves declined from \$1,334,418 as at 30 June 2014 to \$58,864 as at December 2014 due to options valued at \$1,275,554 lapsing during the period.

## 5.4 Historical Statement of Comprehensive Income

Statement of Comprehensive Income	Audited for the year ended 30-Jun- 15 \$	Audited for the year ended 30- Jun-14 \$	Audited for the year ended 30- Jun-13 \$
<b>Revenue</b>			
Revenue from gold sales	9,295	5,211,564	3,629,630
Cost of sales	-	(5,520,582)	(8,144,071)
<b>Gross profit/(loss)</b>	<b>9,295</b>	<b>(309,018)</b>	<b>(4,514,441)</b>
Other Income	1,463,771	2,545,953	176,527
<b>Expenses</b>			
Share based payments expense	-	(10,124,900)	(47,852,280)
Director and corporate employee costs	(794,899)	(805,489)	-
Professional fees and consultants	(563,765)	(726,013)	(128,167)
Advertising and promotion cost	(256,851)	(447,710)	(408,722)
Depreciation expenses	(178,812)	(430,498)	(1,022,491)
Amortisation expenses	(114,913)	(217,914)	(235,285)
Listing and registry fees	(303,285)	(184,228)	(210,936)
Exploration costs	(29,047)	(38,030)	(44,056)
Impairment expenses	(5,945)	(25,636)	(239,676)
Interest expenses	-	-	(1,698,598)
Other administration expenses	-	-	(314,833)
<b>Loss from continuing operations before income tax</b>	<b>(774,451)</b>	<b>(10,763,483)</b>	<b>(56,492,958)</b>
Income tax expense	-	-	-
<b>Loss from continuing operations after income tax</b>	<b>(774,451)</b>	<b>(10,763,483)</b>	<b>(56,492,958)</b>
<b>Other comprehensive income</b>			
<i>Items that may be reclassified subsequently to profit and loss</i>			
Movement in fair value of available for sale investments	-	8,076	(8,076)
<b>Other comprehensive income for the year, net of tax</b>	<b>-</b>	<b>8,076</b>	<b>(8,076)</b>
<b>Total comprehensive income/(loss) for the year</b>	<b>(774,451)</b>	<b>(10,755,407)</b>	<b>(56,501,034)</b>

Source: KalNorth's audited financial statements for the years ended 30 June 2013, 30 June 2014 and 30 June 2015

### Commentary on the Statement of Comprehensive Income

- Mining of the three open pits at Lindsays over the period from January 2013 to August 2013 produced 138,229 tonnes of ore, for the recovery of 6,153 ounces of gold, from which revenue of \$3,629,630 and \$5,211,564 were recognised during the years ended 30 June 2013 and 30 June 2014 respectively.
- Other income of \$2,545,953 during the year ended 30 June 2014 represents a refundable R&D tax offset of \$2,377,491 and profit on sale of property, plant and equipment of \$148,154. Other income of \$1,463,771 for the year ended 30 June 2015 includes a refundable R&D tax offset of \$533,785 in addition to a gain of \$913,460 on the sale of the Mt Jewell Project.



- Share based payments for the year ended 30 June 2013 of \$1,698,598 comprised the following:

Expenses arising from share-based payment transactions	Audited for the year ended 30 June 2013 \$
Options issued to secured lenders	1,274,848
Loans issued to directors and other key management personnel	120,479
Non-recourse share loans to employees	416,149
Total share based payment expense	1,811,476
Transfer of options expense to exploration costs capitalised	(112,878)
<b>Total</b>	<b>1,698,598</b>

Source: KalNorth's audited financial statements for the year ended 30 June 2013

- Director and corporate employee costs of \$1,022,491 for the year ended 30 June 2013 declined to \$430,498 for the year ended 30 June 2014 and \$178,812 for the year ended 30 June 2015. This can be attributed to Management's ability to curtail corporate and administration cash outflows.
- Amortisation expenses declined from \$314,833 for the year ended 30 June 2013 to nil for the year ended 30 June 2014. This relates to an amount of \$2,388,562 that was transferred from the exploration assets to mine development assets as a result of the Company commencing mining activities at the Parrot Feathers deposit. Mining operations were suspended on 5 August 2013 and resulted in the directors impairing the carrying value of the mine development asset at 30 June 2014 to nil.

## 5.5 Capital Structure

The share structure of KalNorth as at 2 September 2015 is outlined below:

	Number
Total ordinary shares on issue	315,966,034
Top 20 shareholders	272,098,981
Top 20 shareholders - % of shares on issue	86.12%

The range of shares held in KalNorth as at 2 September 2015 is as follows:

Range of Shares Held	Number of Ordinary Shareholders	Number of Ordinary Shares	Percentage of Issued Shares (%)
1 - 1,000	130	47,509	0.02%
1,001 - 5,000	200	655,239	0.21%
5,001 - 10,000	166	1,383,420	0.44%
10,001 - 100,000	368	12,989,305	4.11%
100,001 - and over	122	300,890,561	95.23%
<b>TOTAL</b>	<b>986</b>	<b>315,966,034</b>	<b>100.00%</b>

The ordinary shares held by the most significant shareholders as at 2 September 2015 are detailed below:

Name	Number of Ordinary Shares Held	Percentage of Issued Shares (%)
HSBC Custody Nominees (Australia) Limited	85,856,551	27.17%
South Victory Global Limited	45,110,916	14.28%
Link Enterprises	33,470,170	10.59%
Iron Mountain Pty Ltd	30,308,963	9.59%
Renenergy Pty Ltd	24,868,646	7.87%
Subtotal	219,615,246	69.51%
Others	96,350,788	30.49%
<b>Total ordinary shares on Issue</b>	<b>315,966,034</b>	<b>100.00%</b>

Source: Share registry information

## 6. Economic analysis

### Economic growth

The global economy is expanding at a moderate pace, with further softening of conditions in China and East Asia being offset by stronger growth in the United States of America ('US'). Key commodity prices are much lower than a year ago and reflect increased world supply, including from Australia. This has resulted in Australia's terms of trade falling significantly.

The Australian economy has continued to expand at a moderate pace, albeit at a rate below the long-term average. Scarce business capital expenditure in both the mining and non-mining sectors has contributed to subdued growth levels, a trend expected to persist over the coming year. Furthermore, investment in the resources sector is forecast to decline significantly over the next few years as current projects reach completion stages.

Employment levels have exhibited some growth, accompanied by a steady rate of unemployment over the past year, however the economy is likely to be operating with a degree of spare capacity for some time yet. Recent information confirms that domestic inflationary pressures have been contained and despite a lower exchange rate, should remain consistent with the target over the next few years.

### Commodities

Global commodity production is being scaled back with the intention to rebalance the demand and supply of commodities. China has been able to take advantage of cheaper commodity prices that prevailed in 2014, importing record amounts of copper and iron ore.

The price of gold has recently seen an increase amid new concerns over Greece's finances. However, scope for a significant improvement in the gold price remains limited due to anticipation of US monetary policy tightening.

## Interest Rates

The Reserve Bank of Australia ('RBA') decided to leave the cash rate unchanged at 2.00 per cent for the fourth consecutive month in September. However, the governor Glenn Stevens has stated that the RBA expects to begin increasing its policy rate later in the year.

The RBA's decision to maintain low interest rates has been made in order to support borrowing and spending in the Australian economy. Credit is recording moderate growth overall, driven by stronger borrowing by businesses and increased lending to the housing market in recent months. Furthermore, prices for equities and commercial property have been supported by lower long-term interest rates.

Globally, financial conditions remain very accommodative. Despite fluctuations in markets associated with developments in China and Greece, long-term borrowing rates for most sovereigns and creditworthy private borrowers remain remarkably low.

KalNorth may be positively affected by an overall increase in Australian equities as investors seek investments returning higher yields than long term interest rates can provide.

## Foreign Exchange

Foreign exchange markets have continued to be influenced by the stance, both current and prospective, of monetary policy in the major advanced economies. The Australian dollar has declined noticeably against a rising US dollar over the past year, though less so against a basket of currencies. Further depreciation seems both likely and necessary, particularly given the significant decline in key commodity prices. A lower exchange rate is likely required in order to achieve balanced growth in the economy.

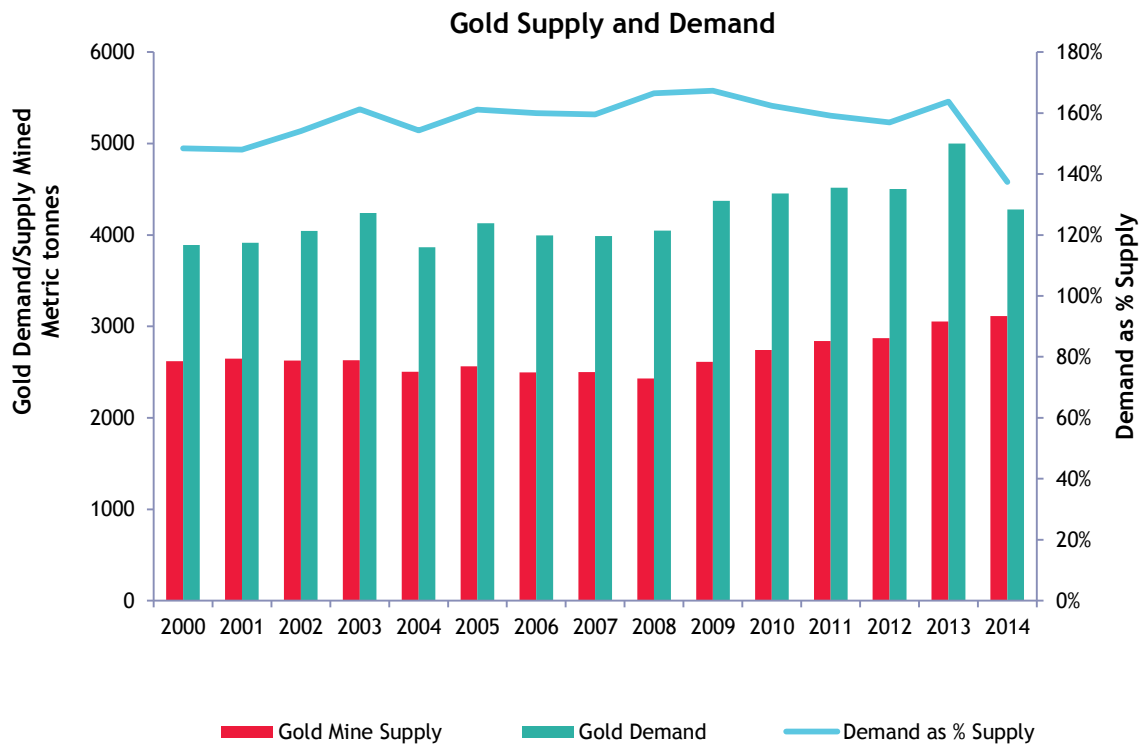
A weaker Australian dollar is likely to attract additional foreign investment in Australian assets. KalNorth is well placed to benefit from the increased capital flows and resultant demand for Australian equities, particularly as gold contracts are generally denominated in US dollars. This also means that KalNorth is highly sensitive to exchange rate movements.

Source: [www.rba.gov.au](http://www.rba.gov.au) Statement by Glenn Stevens, Governor: Monetary Policy Decision 6 October 2015

## 7. Industry analysis

Gold is both a commodity and an international store of monetary value. Once mined, gold continues to exist indefinitely, often melted down and recycled to produce alternative or replacement products. This characteristic means that gold demand is supported by both mine production and gold recycling.

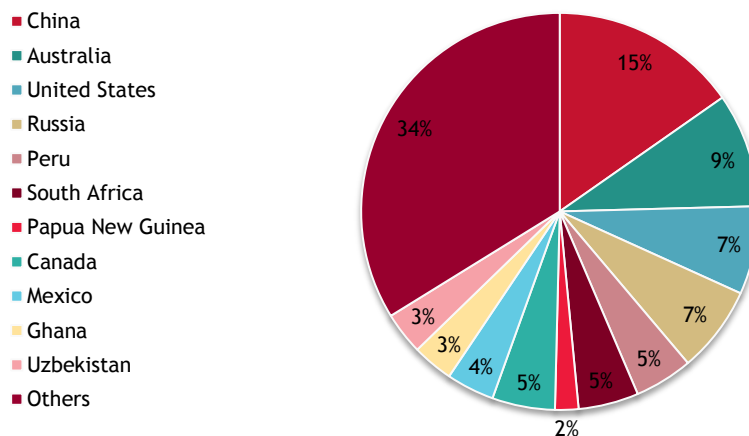
As illustrated in the chart below, gold mine production was approximately 3,114 metric tonnes in 2014 and gold consumption was 4,278 metric tonnes. Demand for gold has consistently exceeded supply over the last 10 years, and the escalated level of economic and financial uncertainty during recent years has caused investors to move capital from risky assets to gold assets, which are perceived to be a good store of monetary value. As a result, total gold demand increased at a compound annual growth rate of 4 per cent between 2008 and 2013, but then decreased by 14.6 per cent in 2014. Over the same period, demand as a percentage of supply was on average greater than 150 per cent.



Source: Bloomberg and BDO analysis

Until the late 1980's, South Africa produced approximately half of the total gold produced. More recently however, gold production has become geographically segmented, as shown in the chart below, with production dominated by China, Australia and the United States.

### Global Gold Production - 2014



Source: Bloomberg and BDO analysis

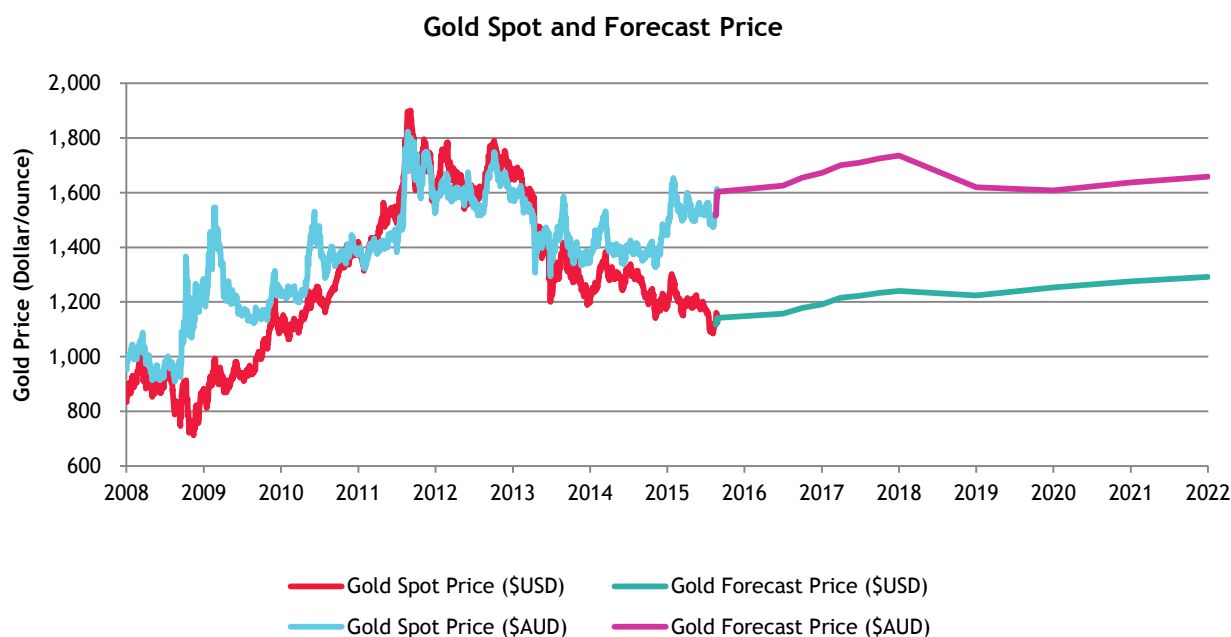
## Gold prices

The price of gold fluctuates on a daily basis depending on global demand and supply factors. The softening of gold prices over the last two years is reflective of the recovery of global economic conditions. The

value of gold peaked at US\$1,900 per ounce on 5 September 2011. This peak was largely caused by the debt market crisis in Europe, but it was also driven by the Standard and Poor's downgrade of the US credit rating. This sent global stock markets tumbling and a flood of investors towards safer havens such as gold.

Prices contracted in December 2011 reaching a low of US\$1,545 per ounce followed by a recovery in 2012, reaching US\$1,790 per ounce on 4 October 2012 before declining to US\$1,675 per ounce at 31 December 2012. Gold prices have modestly declined over 2013 and 2014. For the first six months of 2015, gold prices have averaged US\$1,206 per ounce, ranging from a low of US\$1,150 on 17 March 2015 to a high of US\$1,302 on 22 January 2015.

According to Consensus Economics, gold prices are forecast to stabilise in the short to medium term, followed by a moderate increase with a long term nominal price forecast of approximately US\$1,292 (approximately AU\$1,658) per ounce.



Source: Bloomberg, Consensus Economics and BDO analysis

## 8. Valuation approach adopted

There are a number of methodologies that can be used to value a business or the shares in a company. The principal methodologies which can be used are as follows:

- Capitalisation of future maintainable earnings ('FME');
- Discounted cash flow ('DCF');
- Quoted market price basis ('QMP');
- Net asset value ('NAV'); and
- Market based assessment.

Different methodologies are appropriate in valuing particular companies, based on the individual circumstances of that company and available information. A summary of each of these methodologies is outlined in Appendix 2.

RG 111.53 states that where a related party transaction is one component of a broader transaction, the expert should carefully consider what level of analysis of the related party aspect is required. In consideration of this, the expert should bear in mind whether the report has been sought to ensure that members are provided with sufficient information to decide whether to approve giving a financial benefit to the related party as well as the broader transaction. As such, our assessment of the fairness of the Transactions utilises the valuation methodology predicated by the requirement of our report under section 611 of the Act.

Under RG 111.31, we are required to assess the value of a KalNorth share prior to the Financing Transaction on a controlling interest basis and the value of a KalNorth share following the Financing Transaction on a minority interest basis.

## 8.1 Valuation of KalNorth shares prior to the Transactions

### Financing Transaction

In our assessment of the value of a KalNorth share prior to the Financing Transaction, we have chosen to employ the following methodologies:

- NAV approach as our primary method; and
- QMP approach as our secondary method.

We have chosen these methodologies for the following reasons:

- The NAV methodology is the most appropriate to consider given that KalNorth is an exploration company and its core value is in the exploration assets that it holds. We have instructed Ravensgate International Pty Ltd ('Ravensgate') to act as independent specialists and provide an independent market valuation of the Company's material exploration assets in accordance with the Code for the Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities of Independent Expert Reports 2005 ('Valmin Code'). Ravensgate's full report is found in Appendix 3. We have considered this in the context of KalNorth's other assets and liabilities on a NAV basis;
- The QMP approach is relevant because KalNorth's shares are listed on the ASX. This means there is a regulated and observable market where the Company's shares can be traded. However, in order for the QMP methodology to be considered appropriate, the Company's shares should be liquid and the market should be fully informed as to its activities. We have considered these factors in section 9.2 of our Report;
- KalNorth does not generate regular trading income. Consequently there are no historical profits that could be used to represent future earnings. This means the FME valuation methodology is not appropriate; and
- KalNorth has no foreseeable future net cash inflows and therefore the application of the DCF valuation approach is not suitable. Under RG111, it is considered appropriate to use a DCF valuation methodology only where reserves are present. KalNorth previously reported ore reserves; however Ravensgate no longer considers these applicable due to the dated parameters and economic conditions under which they were prepared.

## 8.2 Valuation of KalNorth shares following the Transactions

### Primary approach

We have provided two alternative valuation approaches in assessing the NAV of a KalNorth share following the Financing Transaction.

The value of a KalNorth share following the Financing Transaction using our primary approach will involve the following items:

- The value of KalNorth prior to the Financing Transaction;
- Incorporate the effects of the Financing Transaction in the context of KalNorth's other assets and liabilities on a NAV basis; and
- The number of shares on issue will incorporate the shares to be issued upon conversion of the Convertible Notes, inclusive of any accrued interest amounts. As outlined in section 4 of our Report, the conversion price of the principal and accrued interest on the existing Convertible Note and New Convertible Note is set at \$0.01.

### Secondary approach

The value of a KalNorth share following the Financing Transaction using our secondary approach will involve the following items:

- The value of KalNorth prior to the Financing Transaction; and
- Incorporate the effects of the Financing Transaction on KalNorth's equity value and level of debt.

Under Australian Accounting Standards, the fair value of a convertible note is apportioned between debt and equity. The debt component of a convertible note that converts into a fixed number of shares is valued at the present value of its cash flows (coupons and principal). The discount rate used in the present value calculation is the interest rate that the issuer could obtain from the market on a similar debt instrument without the conversion feature. The equity component of the convertible note is the residual between the face value of the note and the value of the debt.

Similarly, for a convertible note that is convertible to a variable number of shares, the fair value of the instruments is apportioned between debt and equity. However, the valuation methodology differs in that the equity component of the instrument is fair valued, with the residual between the face value and the value of the equity being classified as debt.

In the case of KalNorth, we have calculated the net present value of the debt component, with the residual between the debt value and the face value being classified as equity given that the New Convertible Note converts to a fixed number of shares.

### Security Transaction

In the case of the Security Transaction for the purpose of ASX Listing Rule 10.1, the value of the proceeds of the sale of the Secured Assets, that would be provided to Cross-Strait in the event of default would be less than or equal to the value of the liabilities to be settled. Therefore, we do not consider it necessary or relevant to value the Company or the Assets.

In our assessment of the value of the liabilities to be settled, we consider the nominal value of the amount payable in the event of default to represent the fair market value.



## 9. Valuation of KalNorth prior to the Financing Transaction

### 9.1 Net Asset Valuation of KalNorth prior to the Financing Transaction

The value of KalNorth assets on a going concern basis is reflected in our valuation below:

Statement of Financial Position	Note	Audited as at 30-Jun-15 \$	Low valuation \$	Preferred valuation \$	High valuation \$
<b>CURRENT ASSETS</b>					
Cash and cash equivalents	1	238,640	533,961	533,961	533,961
Trade and other receivables		15,993	15,993	15,993	15,993
Other assets		7,500	7,500	7,500	7,500
<b>TOTAL CURRENT ASSETS</b>		<b>262,133</b>	<b>557,454</b>	<b>557,454</b>	<b>557,454</b>
<b>NON-CURRENT ASSETS</b>					
Property, plant and equipment		389,920	389,920	389,920	389,920
Exploration and evaluation expenditure	2	7,147,846	11,950,000	15,083,000	18,215,000
<b>TOTAL NON-CURRENT ASSETS</b>		<b>7,537,766</b>	<b>12,339,920</b>	<b>15,472,920</b>	<b>18,604,920</b>
<b>TOTAL ASSETS</b>		<b>7,799,899</b>	<b>12,897,374</b>	<b>16,030,374</b>	<b>19,162,374</b>
<b>CURRENT LIABILITIES</b>					
Trade and other payables		122,785	122,785	122,785	122,785
Interest bearing liabilities	3	4,764,557	4,953,047	4,953,047	4,953,047
<b>TOTAL CURRENT LIABILITIES</b>		<b>4,887,342</b>	<b>5,075,832</b>	<b>5,075,832</b>	<b>5,075,832</b>
<b>NON-CURRENT LIABILITIES</b>					
Restoration provision		1,148,358	1,148,358	1,148,358	1,148,358
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>1,148,358</b>	<b>1,148,358</b>	<b>1,148,358</b>	<b>1,148,358</b>
<b>TOTAL LIABILITIES</b>		<b>6,035,700</b>	<b>6,224,190</b>	<b>6,224,190</b>	<b>6,224,190</b>
<b>NET ASSETS</b>		<b>1,764,199</b>	<b>6,673,184</b>	<b>9,806,184</b>	<b>12,938,184</b>
Shares on issue (Number)	4		345,498,098	345,498,098	345,498,098
<b>Value per share (\$)</b>			<b>0.0193</b>	<b>0.0284</b>	<b>0.0374</b>

Source: Audited financial statements for the year ended 30 June 2015, BDO analysis

We have been advised by the Management of the Company that there has not been a significant change in the net assets of KalNorth since 30 June 2015. The table above indicates the net asset value of a KalNorth share is between \$0.0193 and \$0.0374. The following adjustments were made to the net assets of KalNorth as at 30 June 2015 in arriving at our valuation.

#### Note 1: Cash and cash equivalents

On 29 July 2015 KalNorth issued a prospectus towards a non-renounceable rights issue of approximately 157,983,017 new shares at \$0.01 per Share, on the basis of one new share for every two shares held by Shareholders ('Rights Issue or Rights Offer').

Upon completion of the Rights Issue 29,532,064 shares were subscribed for. We have adjusted the cash balance as at 30 June 2015 to reflect the amount raised as a result of the Rights Issue.

Cash and cash equivalents	\$
Balance as at 30 June 2015	238,640
Cash raised from Rights Issue at \$0.01 per share	295,321
<b>Cash and cash equivalents balance after the Rights Issue</b>	<b>533,961</b>

## Note 2: Valuation of KalNorth's mineral assets

We instructed Ravensgate to provide an independent market valuation of the exploration assets held by KalNorth. Ravensgate considered the comparable transactions method (market value) to be the most reliable indicator of the Fair Market Value. The Comparable Transaction method involves calculating a value per common attribute in a comparable transaction and applying that value to the subject asset. A common attribute could be the amount of resource or the size of a tenement.

The range of values for each of KalNorth's exploration assets as calculated by Ravensgate is set out below:

Mineral Asset	Low Value \$m	Preferred Value \$m	High Value \$m
Lindsays	4.644	5.829	7.013
Kurnalpi	3.414	4.363	5.311
Kalpini	3.245	4.064	4.884
Spargoville	0.638	0.809	0.979
Roe	0.009	0.018	0.027
<b>Total</b>	<b>11.950</b>	<b>15.083</b>	<b>18.215</b>

Source: Ravensgate valuation report dated 18 September 2015 (Refer Appendix 3)

The table above indicates a range of values between \$11.95 million and \$18.215 million, with a preferred value of \$15.083 million.

## Note 3: Interest bearing liabilities

The interest bearing liabilities as at 30 June 2015 of approximately \$4.7 million has been adjusted to reflect the principal and accrued interest outstanding as at 30 November 2015.

## Note 4: Shares on Issue

We have adjusted the number of shares on issue to account for the Rights issue made to Existing Shareholders below:

Shares on Issue	Number
Shares on Issue as at the date of our Report	315,966,034
Shares issued towards the Rights Issue	29,532,064
<b>Total number of Shares on issue as at the date of our Report</b>	<b>345,498,098</b>

Source: Management information

## 9.2 Quoted Market Prices for KalNorth Securities prior to the Financing Transaction

To provide a comparison to the valuation of KalNorth in section 9.1, we have also assessed the quoted market price for a KalNorth share.

The quoted market value of a company's shares is reflective of a minority interest. A minority interest is an interest in a company that is not significant enough for the holder to have an individual influence in the operations and value of that company.

RG 111.11 suggests that when considering the value of a company's shares for the purposes of approval under Item 7 of s611, the expert should consider a premium for control. An acquirer could be expected to pay a premium for control due to the advantages they will receive should they obtain 100 per cent control of another company. These advantages include the following:

- Control over decision making and strategic direction;
- Access to underlying cash flows;
- Control over dividend policies; and
- Access to potential tax losses.

Whilst SVG, Renergy and Cross-Strait will not be obtaining 100 per cent of KalNorth, RG 111 states that the expert should calculate the value of a target's shares as if 100 per cent control were being obtained. RG 111.13 states that the expert can then consider an acquirer's practical level of control when considering reasonableness. Reasonableness has been considered in section 13.

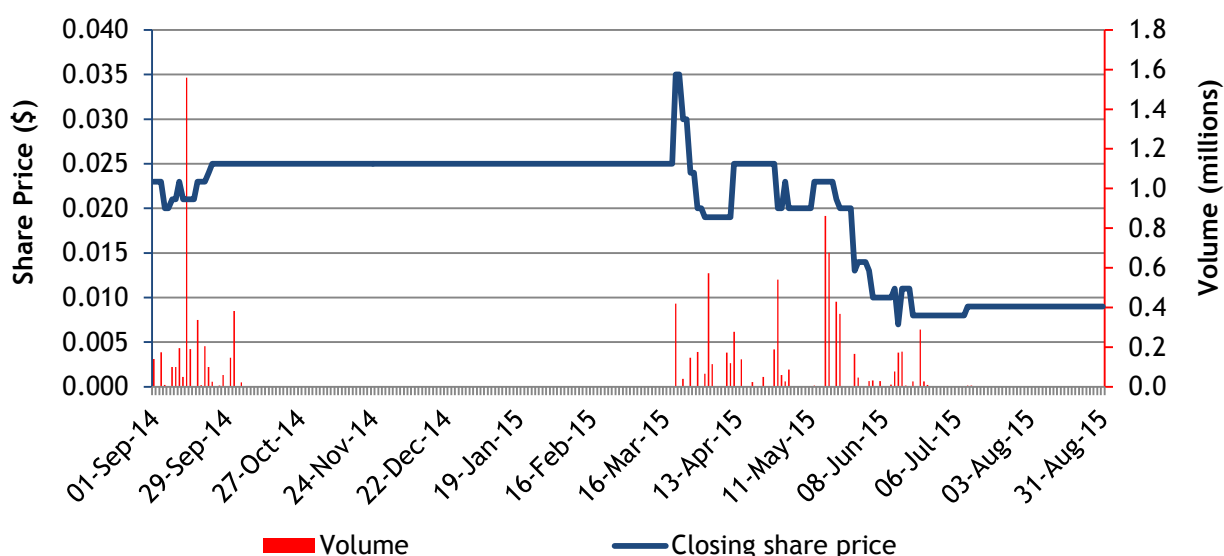
Therefore, our calculation of the quoted market price of a KalNorth share including a premium for control has been prepared in two parts. The first part is to calculate the quoted market price on a minority interest basis. The second part is to add a premium for control to the minority interest value to arrive at a quoted market price value that includes a premium for control.

### Minority interest value

Our analysis of the quoted market price of a KalNorth share is based on the pricing prior to the announcement of the Financing Transaction. This is because the value of a KalNorth share after the announcement may include the effects of any change in value as a result of the Financing Transaction. However, we have considered the value of a KalNorth share following the announcement when we have considered reasonableness in section 13.

Information on the Settlement Agreements was announced to the market on 1 September 2015. Therefore, the following chart provides a summary of the share price movement over the twelve months to 31 August 2015, which was the last trading day prior to the announcement.

### KGM share price and trading volume history



Source: Bloomberg

The daily price of KalNorth shares from 1 September 2014 to 31 August 2015 has ranged from a low of \$0.007 on 12 June 2015 to a high of \$0.035 on 19 March 2015. On 8 October 2014, KalNorth voluntarily suspended the official quotation of its securities, pending the release of an announcement. The share price remained at \$0.025 until 19 March 2015 when the Company made an announcement regarding its financial position and made an application to be reinstated to official quotation.

The share price subsequently increased to its high of \$0.035, before entering a downward trend that continued for the rest of the period. The most significant trading volumes were experienced during September 2014 and May 2015, with the highest single day of trading occurring on 12 September 2014, where 1,559,820 shares were traded.

During this period a number of announcements were made to the market. The key announcements are set out below:

Date	Announcement	Closing Share Price Following Announcement			Closing Share Price Three Days After Announcement		
		\$ (movement)			\$ (movement)		
08/07/2015	Kalpini Project - High grade intersections	0.008	►	0.0%	0.009	▲	12.5%
31/03/2015	Lindsays Project-Parrot Feathers High grade gold intersection	0.019	▼	5.0%	0.019	►	0.0%
19/03/2015	Reinstatement to Official Quotation	0.035	▲	40.0%	0.030	▼	14.3%
08/09/2014	Converting Loan Agreement	0.021	▲	5.0%	0.021	►	0.0%

On 8 July 2015, KalNorth announced positive drilling results at its Kalpini Project. The Company's share price remained unchanged on the day of the announcement, and increased by 12.50 per cent in the subsequent three days.

On 31 March 2015, the Company released drilling results from the first round of drilling completed at the Lindsays Project since mining operations were suspended in August 2013 and its share price decreased by 5.00 per cent.

On 19 March 2015, KalNorth announced that it had been reinstated to official quotation after voluntarily suspending trading in the Company's securities. The share price subsequently increased by 40.00 per cent on the day of the announcement to close at \$0.035

On 8 September 2014, the Company announced that it had executed a convertible loan agreement with Gold Fresh; a Hong Kong based Investment Company that would provide a \$350,000 loan to KalNorth. The Company's share price closed at \$0.021 the same day, an increase of 5.00 per cent.

To provide further analysis of the market prices for an KalNorth share, we have also considered the weighted average market price for 10, 30, 60 and 90 day periods to 31 August 2015.

Share Price per unit	31-Aug-15	10 Days	30 Days	60 Days	90 Days
Closing price	\$0.009				
Volume weighted average price (VWAP)		-	-	\$0.009	\$0.019

Source: Bloomberg, BDO analysis

The above weighted average prices are prior to the date of the announcement of the Financing Transaction, to avoid the influence of any increase in price of KalNorth shares that has occurred since the Financing Transaction was announced.

We note that KalNorth voluntarily entered a trading halt on 15 July 2015 whilst the Company was in the process of negotiating the restructuring of various loans and suspended official quotation of its securities until 31 August 2015, which was also the last day of trading prior to the Financing Transaction being announced. Therefore, as no KalNorth shares were traded in the month before the announcement of the Financing Transaction, the 30 day and 10 day VWAP are reflected at nil value in the above table. Consequently, these have not been considered when analysing the market price of KalNorth prior to the Financing Transaction.

An analysis of the volume of trading in KalNorth shares for the twelve months to 31 August 2015 is set out below:

Trading days	Share price low	Share price high	Cumulative volume traded	As a % of Issued capital
1 Day	\$0.009	\$0.009	-	0.00%
10 Days	\$0.009	\$0.009	-	0.00%
30 Days	\$0.009	\$0.009	-	0.00%
60 Days	\$0.007	\$0.011	812,581	0.26%
90 Days	\$0.007	\$0.023	4,170,350	1.32%
180 Days	\$0.007	\$0.040	6,681,351	2.11%
1 Year	\$0.007	\$0.040	10,491,493	3.32%

Source: Bloomberg, BDO analysis

This table indicates that KalNorth's shares display a low level of liquidity, with 3.32 per cent of the Company's current issued capital being traded in a twelve month period to 31 August 2015. For the quoted market price methodology to be reliable, there needs to be a 'deep' market in the shares. RG 111.69 indicates that a 'deep' market should reflect a liquid and active market. We consider the following characteristics to be representative of a deep market:

- Regular trading in a company's securities;
- Approximately 1 per cent of a company's securities are traded on a weekly basis;
- The spread of a company's shares must not be so great that a single minority trade can significantly affect the market capitalisation of a company; and
- There are no significant but unexplained movements in share price.

A company's shares should meet all of the above criteria to be considered 'deep', however, failure of a company's securities to exhibit all of the above characteristics does not necessarily mean that the value of its shares cannot be considered relevant.

In the case of KalNorth, we do not consider there to be a deep market for its shares as a result of only 3.32 per cent of the Company's issued capital being traded over the twelve months prior to the announcement of the Financing Transaction. Furthermore, KalNorth shares have traded irregularly with long periods of suspension from trading activity.

Our assessment is that a range of values for KalNorth shares based on market pricing, after disregarding post announcement pricing, is between \$0.008 and \$0.010.

## Control Premium

We have reviewed the control premiums paid by acquirers of gold mining companies listed on the ASX and have summarised our findings below:

Year	Number of Transactions	Average Deal Value (AU\$m)	Average Control Premium (%)
2015	1	31.91	43.47
2014	7	111.95	28.23
2013	6	43.10	63.99
2012	7	258.74	34.89
2011	3	150.28	45.43
2010	10	1364.83	56.11
2009	9	169.34	24.94
2008	3	446.27	28.54
2007	8	230.39	31.00
2006	8	68.03	11.82
<b>Median</b>		<b>159.81</b>	<b>32.94</b>
<b>Mean</b>		<b>287.48</b>	<b>36.84</b>

Source: Bloomberg, BDO Analysis

The mean and median figures above are calculated based on the average deal value and control premium for each respective year. To ensure our data is not skewed we have also calculated the mean and median of the entire data set comprising control transaction for gold mining companies from 2006 onwards, as set out below.

Entire Data Set Metrics	Average Deal Value (AU\$m)	Average Control Premium (%)
<b>Median</b>	36.73	34.68
<b>Mean</b>	358.63	35.79

Source: Bloomberg, BDO Analysis

In arriving at an appropriate control premium to apply, we note that observed control premiums can vary due to the:

- Nature and magnitude of non-operating assets;
- Nature and magnitude of discretionary expenses;
- Perceived quality of existing management;
- Nature and magnitude of business opportunities not currently being exploited;
- Ability to integrate the acquiree into the acquirer's business;
- Level of pre-announcement speculation of the transaction; and
- Level of liquidity in the trade of the acquiree's securities.

The table above indicates the long term average of announced control premiums paid by acquirers of gold mining companies on the ASX is approximately 36 per cent.

In the case of KalNorth, we have taken the following considerations into account;

- The current market capitalisation of KalNorth is considerably smaller than a number of the sample companies determined above. We note that larger transactions tend to have higher control premiums;
- As a mineral exploration company, KalNorth does not currently have any revenue generating operations; and
- If the Financing Transaction is approved, SVG and Renergy will obtain a controlling interest in KalNorth of up to 35.99 per cent and 23.62 per cent on an undiluted basis, respectively.

In determining the premium for control to be paid by SVG and Renergy we have taken into account the above analysis including the nature of the Financing Transaction. We believe an appropriate control premium to apply to our valuation is between 20 per cent and 30 per cent.

### Quoted market price including control premium

Applying a control premium to KalNorth's quoted market share price results in the following quoted market price value including a premium for control:

	Low	Midpoint	High
	\$	\$	\$
Quoted market price value	\$0.008	\$0.009	\$0.010
Control premium	20%	25%	30%
<b>Quoted market price valuation including a premium for control</b>	<b>\$0.0096</b>	<b>\$0.0113</b>	<b>\$0.0130</b>

Source: BDO analysis

Therefore, our valuation of a KalNorth share based on the quoted market price method and including a premium for control is between \$0.0096 and \$0.0130, with a midpoint value of \$0.0113.



### 9.3 Assessment of KalNorth value prior to the Financing Transaction

The results of the valuation performed are summarised in the table below:

	Low \$	Preferred \$	High \$
Net assets value (Section 9.1)	0.0193	0.0284	0.0374
ASX market prices (Section 9.2)	0.0096	0.0113	0.0130

Source: BDO analysis

We note the value obtained under the NAV methodology is higher than the value obtained under the QMP methodology. The difference between the valuation obtained under the NAV and QMP approaches can be explained by the following:

- Our NAV methodology includes an independent market valuation of KalNorth's tenements undertaken by Ravensgate who have relied on the comparable transactions valuation method to reflect the potential value of the Company's Projects;
- Under RG111.69 (d), the QMP methodology is considered appropriate when a liquid and active market exists for the securities. From our analysis of the QMP of a KalNorth share in section 9.2, we note that 3.32 per cent of the Company's weighted average issued capital had been traded in the twelve months up to the date of the announcement of the Financing Transaction, which represents an extremely low level of liquidity over the twelve month period.

Based on the above points and the lack of a 'deep' market for the trading of KalNorth shares, we consider the net asset value to be the most appropriate methodology. We therefore consider the value of a KalNorth share prior to the Financing Transaction to be between \$0.0193 and \$0.0374, with a preferred value of \$0.0284.

## 10. Valuation of KalNorth following the Financing Transaction

### 10.1 Primary approach

The value of KalNorth on a going concern basis following the Financing Transaction is set out below:

	Ref	Low value \$	Preferred value \$	High value \$
<b>Net Assets of KalNorth prior to the Financing Transaction</b>	Section 9.1	6,673,184	9,806,184	12,938,184
Add: Interest bearing liabilities as at 30 November 2015	Note 1	4,475,178	4,475,178	4,475,178
Add: Convertible Note liability as at 30 November 2015	Note 2	368,718	368,718	368,718
Add: Additional cash received on issue of New Convertible Note	Note 3	2,000,000	2,000,000	2,000,000
<b>Net Assets of KalNorth following the Financing Transaction (control basis)</b>		<b>13,517,080</b>	<b>16,650,080</b>	<b>19,782,080</b>
Less: Discount for minority interest	Note 4	23%	20%	17%
<b>Net Assets of KalNorth following the Financing Transaction (minority interest basis)</b>		<b>10,397,754</b>	<b>13,320,064</b>	<b>16,485,067</b>
Number of Shares on issue	Note 5	1,052,723,862	1,052,723,862	1,052,723,862
<b>Value per share following the Financing Transaction</b>		<b>\$0.0099</b>	<b>\$0.0127</b>	<b>\$0.0157</b>

Source: BDO analysis

The table above indicates the net asset value of a KalNorth share following the Financing Transaction, on a minority basis, is between \$0.0099 and \$0.0157 with a preferred value of \$0.0127. In arriving at this value, the following adjustments were made to the net assets of KalNorth following the Financing Transaction.

#### Note 1: Interest bearing liabilities as at 30 November 2015

We have added back \$4.48 million of debt outstanding as at 30 November 2015 (principal and accrued interest), which will be extinguished if the Settlement Agreements are approved.

#### Note 2: Convertible Note liability as at 30 November 2015

We have added back the liability of \$368,718 for the Existing Convertible Note, as this will no longer exist upon conversion to shares in the Company.

#### Note 3: Additional cash received on issue of New Convertible Note

KalNorth would receive up to \$2 million on issue of the New Convertible Note to Cross-Strait, which has been reflected above.

#### Note 4: Minority discount

The net asset value of a KalNorth share following the Financing Transaction is reflective of a controlling interest. This suggests that the acquirer obtains an interest in the company which allows them to have an individual influence in the operations and value of that company. Therefore, if the Financing Transaction is approved, Shareholders may become minority interest shareholders in KalNorth as SVG, Renergy and Cross-Strait would hold a controlling interest, meaning that their individual holding will not be considered significant enough to have an individual influence in the operations and value of the Company.

Therefore, we have adjusted our valuation of a KalNorth share following the Financing Transaction, to reflect a minority interest holding. A minority interest discount is the inverse of a premium for control and is calculated using the formula  $1 - (1/1 + \text{control premium})$ . As discussed in section 9.2, we consider an appropriate control premium for KalNorth to be in the range of 20 per cent to 30 per cent, giving rise to a minority interest discount in the range of 17 per cent to 23 per cent.

#### Note 5: Number of shares on issue

We have adjusted the number of shares on issue to include the shares issued in lieu of loans outstanding to SVG, Renergy and Smarter Group, and the shares that may be issued upon the conversion of the Convertible Notes. This is set out in the table below:

	Ref	Low	Preferred	High
<b>Number of Shares on issue as at the date of our Report</b>		345,498,098	345,498,098	345,498,098
Shares issued towards New Convertible Note	a	222,836,164	222,836,164	222,836,164
<b><u>Interest bearing liabilities</u></b>				
Shares issued in lieu of principal outstanding at 30 November 2015	b	410,000,000	410,000,000	410,000,000
Shares issued in lieu of interest outstanding at 30 November 2015	c	37,517,800	37,517,800	37,517,800
Shares issued in lieu of principal outstanding on Convertible loans at 30 November 2015	d	35,000,000	35,000,000	35,000,000
Shares issued in lieu of interest outstanding on Convertible loans at 30 November 2015	e	1,871,800	1,871,800	1,871,800
<b>Number of Shares on issue following the Financing Transaction</b>		<b>1,052,723,862</b>	<b>1,052,723,862</b>	<b>1,052,723,862</b>

Source: Management information

#### a) Shares issued towards New Convertible Note

We have calculated the number of ordinary shares that the New Convertible Note will convert into as follows:

Shares on issue	Value
Face value of New Convertible Note	2,000,000
Accrued interest up to 30 April 2017*	228,362
Conversion price per share	0.01
<b>Total</b>	<b>222,836,164</b>

\*Accrued interest amounts to \$228,361.64 and has been rounded off in the above table

**b) Shares issued in lieu of principal outstanding at 30 November 2015**

We have calculated the number of shares to be issued in lieu of principal outstanding as follows:

Lender	Number of Shares
South Victory	200,000,000
Renergy	150,000,000
Smarter Group	60,000,000
<b>Total number of Shares issued in lieu of principal outstanding at 30 November 2015</b>	<b>410,000,000</b>

**c) Shares issued in lieu of interest outstanding at 30 November 2015**

We have calculated the number of shares to be issued in lieu of interest outstanding as follows:

Lender	Number of Shares
South Victory	18,301,400
Renergy	13,726,000
Smarter Group	5,490,400
<b>Total number of Shares issued in lieu of interest outstanding at 30 November 2015</b>	<b>37,517,800</b>

**d) Shares issued in lieu of principal outstanding on Existing Convertible Note at 30 November 2015**

We have calculated the number of ordinary shares that the Existing Convertible Note will convert into as follows:

Shares on issue	Number of shares
Face value of Existing Convertible Note	\$350,000
Conversion price per share	\$0.01
<b>Total</b>	<b>35,000,000</b>

**e) Shares issued in lieu of interest outstanding on Existing Convertible Note at 30 November 2015**

We have calculated the number of shares to be issued in lieu of interest outstanding at 30 November 2015 as follows:

Shares on issue	
Accrued interest on Existing Convertible Note	18,718
Conversion price per share	\$0.01
<b>Total</b>	<b>1,871,800</b>

Source: Management information

## 10.2 Secondary approach

Under Australian Accounting Standards, the fair value of a convertible note is apportioned between debt and equity. The debt component of a convertible note that converts into a fixed number of shares is valued at the present value of its cash flows (coupons and principal). The discount rate used in the present value calculation is the interest rate that the issuer could obtain from the market on a similar debt instrument without the conversion feature. The equity component of the convertible note is the residual between the face value of the note and the value of the debt as set out below.

Item	Low value \$	Preferred value \$	High value \$
Value of Debt	1,970,645	1,950,645	1,930,645
Value of Equity	29,355	49,355	69,355
<b>Face value of New Convertible Note</b>	<b>2,000,000</b>	<b>2,000,000</b>	<b>2,000,000</b>

Source: BDO analysis

These debt and equity values are reflected in our secondary valuation approach set out as follows:

	Ref	Low value \$	Preferred value \$	High value \$
<b>Net Assets of KalNorth prior to the Financing Transaction</b>	Section 9.1	6,673,184	9,806,184	12,938,184
Add: Interest bearing liabilities as at 30 November 2015	Note 1	4,475,178	4,475,178	4,475,178
Add: Additional cash received on issue of New Convertible Note	Note 2	2,000,000	2,000,000	2,000,000
Less: Debt arising on issue of New Convertible Note	Note 3	(1,970,645)	(1,950,645)	(1,930,645)
Less: Present value of interest on Existing Convertible Note	Note 4	(7,135)	(7,122)	(7,109)
<b>Net Assets of KalNorth following the Financing Transaction (control basis)</b>		<b>11,170,582</b>	<b>14,323,595</b>	<b>17,475,608</b>
Less: Discount for minority interest	Note 5	23%	20%	17%
<b>Net Assets of KalNorth following the Financing Transaction (minority interest basis)</b>		<b>8,592,755</b>	<b>11,458,876</b>	<b>14,563,006</b>
Adjustment for embedded call option value of the New Convertible Note	Note 6	(29,355)	(49,355)	(69,355)
<b>Ordinary shareholder value</b>		<b>8,563,401</b>	<b>11,409,521</b>	<b>14,493,652</b>
Number of Shares on issue	Note 7	793,015,898	793,015,898	793,015,898
<b>Value per share following the Financing Transaction</b>		<b>\$0.0108</b>	<b>\$0.0144</b>	<b>\$0.0183</b>

Source: BDO analysis

The table above indicates the net asset value of a KalNorth share following the Financing Transaction, on a minority basis, is between \$0.0108 and \$0.0183 with a preferred value of \$0.0144. In arriving at this value, the following adjustments were made to the net assets of KalNorth following the Financing Transaction.

### Note 1: Interest bearing liabilities as at 30 November 2015

Refer Section 10.1

### Note 2: Additional cash received on issue of New Convertible Note

Refer Section 10.1

### Note 3: Debt arising on issue of New Convertible Note

We have adjusted the net assets of KalNorth for the value of the debt component of the New Convertible Note. The debt component is valued at the present value of its cash flows (coupons and principal). The discount rate used is the interest rate KalNorth could obtain from the market on a similar debt instrument without the conversion factor given that the debt component converts into a fixed number of shares, which ranges between 8.5 per cent and 10 per cent.

### Note 4: Present value of accrued interest on the Existing Convertible Note

The Convertible Loans have an interest rate of 8 per cent per annum. We have calculated the total interest incurred on the Convertible Loans over the period 1 December 2015 to 5 March 2016 to be \$7,288. We have discounted this to present value using a discount rate of 8.5 per cent to 10 per cent per annum based on the straight bond component of the Convertible Loan facility. The rate was based on comparable market debt.

### Note 5: Minority discount

Refer Section 10.1

### Note 6: Adjustment for embedded call option value of the New Convertible Note

We have adjusted the net assets of KalNorth for the value of the equity component of the New Convertible Note. The equity component is derived from the residual of the face value less debt component.

### Note 7: Number of shares on issue

We have adjusted the number of shares on issue to include the shares issued in lieu of loans outstanding to SVG, Renergy and Smarter Group as set out in the table below:

	Ref	Low	Preferred	High
<b>Number of Shares on issue as at the date of our Report</b>	a	345,498,098	345,498,098	345,498,098
<b><u>Interest bearing liabilities</u></b>				
Shares issued in lieu of principal outstanding at 30 November 2015		410,000,000	410,000,000	410,000,000
Shares issued in lieu of interest outstanding at 30 November 2015		37,517,800	37,517,800	37,517,800
<b>Number of Shares on issue following the Financing Transaction</b>		<b>793,015,898</b>	<b>793,015,898</b>	<b>793,015,898</b>

Source: Management information

## 10.3 Valuation of KalNorth following the Financing Transaction

We note that the value of a KalNorth share under the secondary approach is marginally higher than the valuation under the primary approach. Given the short life of the Convertible Notes, we consider the value of a KalNorth share derived under the primary approach to be more appropriate as this more accurately reflects the substance of the instrument being closer to a near term placement than to a longer life debt instrument.

Therefore, in our assessment of the fairness of the Financing Transaction, we have considered the post Financing Transaction value of a KalNorth share determined under the primary approach. Therefore, we

consider the value of a KalNorth share on a control basis following the Financing Transaction to be in the range from \$0.0099 and \$0.0157 with a preferred value of \$0.0127.

## **11. Valuation of security provided and liabilities settled**

### **11.1 Value of security provided as security in event of default**

KalNorth will provide Cross-Strait with general security over all the assets of the Company under a security agreement to secure repayment of the New Convertible Note. In the event of default, Cross-Strait would only be entitled to recover the principal and interest of the New Convertible Note and not all the proceeds from the sale of the Company's assets. Therefore, we do not need to consider the value of the Company or its assets for this purpose as Cross-Strait will not receive more than the value of the liability if the security is called.

We consider the value of security provided to be less than or equal to the value of the liabilities settled.

### **11.2 Value of liabilities settled by the provision of the security**

In the event the Company is in breach of the terms of the New Convertible Note, an event of insolvency occurs in respect of the Company or KalNorth fails to perform any covenant, agreement or obligation under the convertible note agreement and which remains unperformed following expiry of any cure period, Cross-Strait is entitled to seek repayment of the amount outstanding in respect of the New Convertible Note by the sale of the assets secured by the deed.

Interest is calculated at a rate of 8 per cent per annum from the date of receipt of the principal up to the earlier of the conversion date or the redemption date.

The nominal value of the total secured amount (including amounts relating to the principal funds drawn down and interest) represents the valuation of liabilities settled by the provision of security.



## 12. Are the Transactions fair?

### 12.1 Financing Transaction

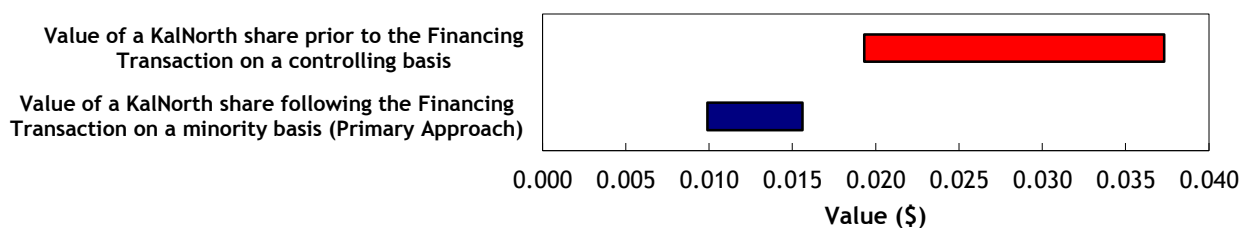
The value of a KalNorth share prior to the Financing Transaction on a control basis and the value of a KalNorth share following the Financing Transaction on a minority basis as detailed below:

	Ref	Low \$	Preferred \$	High \$
Value of a KalNorth share prior to the Financing Transaction on a controlling basis	9.1	\$0.0193	\$0.0284	\$0.0374
Value of a KalNorth share following the Financing Transaction on a minority basis (Primary Approach)	10.1	\$0.0099	\$0.0127	\$0.0157

Source: BDO analysis

The above valuation ranges are graphically presented below:

**Valuation Summary**



Source: BDO analysis

We note from the analysis above that the range of values of a KalNorth share following the Financing Transaction on a minority basis, is less than the range of values of a KalNorth share prior to the Financing Transaction on a controlling interest basis. The above pricing indicates that, in the absence of any other relevant information, the Financing Transaction is not fair for Shareholders.

### 12.2 Security Transaction

As stated in section 11, the Security Transaction is fair if the value of the security provided is equal to or less than the value of the liabilities settled in the event of default under the New Convertible Note.

In the scenario that the value of the Secured Assets is greater than or equal to the amounts owed to Cross-Strait, and there is an event of default, then Cross-Strait would only be entitled to recover the principal and interest outstanding under the New Convertible Note.

In a scenario that the value of the Company's Assets is less than the amounts owed to Cross-Strait, in an event of default, then the Company's Assets would be sold and the proceeds provided to Cross-Strait. This can be summarised as follows:

Scenario			Consequence			Fairness
Company's assets	>	Liabilities to be settled	Security provided	=	Liabilities Settled	Fair
Company's assets	=	Liabilities to be settled	Security provided	=	Liabilities Settled	Fair
Company's assets	<	Liabilities to be settled	Security provided	<	Liabilities Settled	Fair

If there is an event of default, then Cross-Strait is only entitled to be repaid the principal and interest outstanding under the New Convertible Note, we consider that the Security Transaction is fair in all scenarios.

## 13. Are the Transactions reasonable?

### 13.1 Alternative Proposal

We are unaware of any alternative proposal that might offer the Shareholders of KalNorth a premium over the value ascribed to, resulting from the Transactions.

### 13.2 Practical Level of Control

If the Transactions are approved then SVG will hold an interests in KalNorth of up to 32.99 per cent on an undiluted basis, and Cross-Strait will hold an interest of up to 29.44 per cent on a diluted basis.

When shareholders are required to approve an issue that relates to a company there are two types of approval levels. These are ordinary resolutions and special resolutions. An ordinary resolution is a resolution passed by over 50 per cent of the votes cast by members entitled to vote on the resolution and a special resolution is a resolution passed by at least 75 per cent of the votes cast by members entitled to vote on the resolution. If the Transactions are approved then SVG and Cross-Strait will be able to block special resolutions.

SVG's and Cross-Strait's control of KalNorth following the Transactions will be significant when compared to all other shareholders. If the Transactions are approved, SVG will hold a controlling interest of up to 32.99 per cent on an undiluted basis and 24.89 per cent on a diluted basis, and Cross-Strait will hold 29.44 per cent on a diluted basis.

Therefore, in our opinion, while the SVG and Cross-Strait will be able to significantly influence the activities of KalNorth, it will not be able to exercise a similar level of control as if it held 100 per cent of KalNorth. As such, SVG and Cross-Strait should not be expected to pay a similar premium for control as if it were acquiring 100 per cent of KalNorth.

### 13.3 Consequences of not Approving the Transactions

#### Consequences

If the Financing Transaction is not approved, the Settlement Agreements will cease to exist. In that case, the loans with SVG, Renergy and Smarter Group will revert to the terms of the present loan agreements between the respective parties.

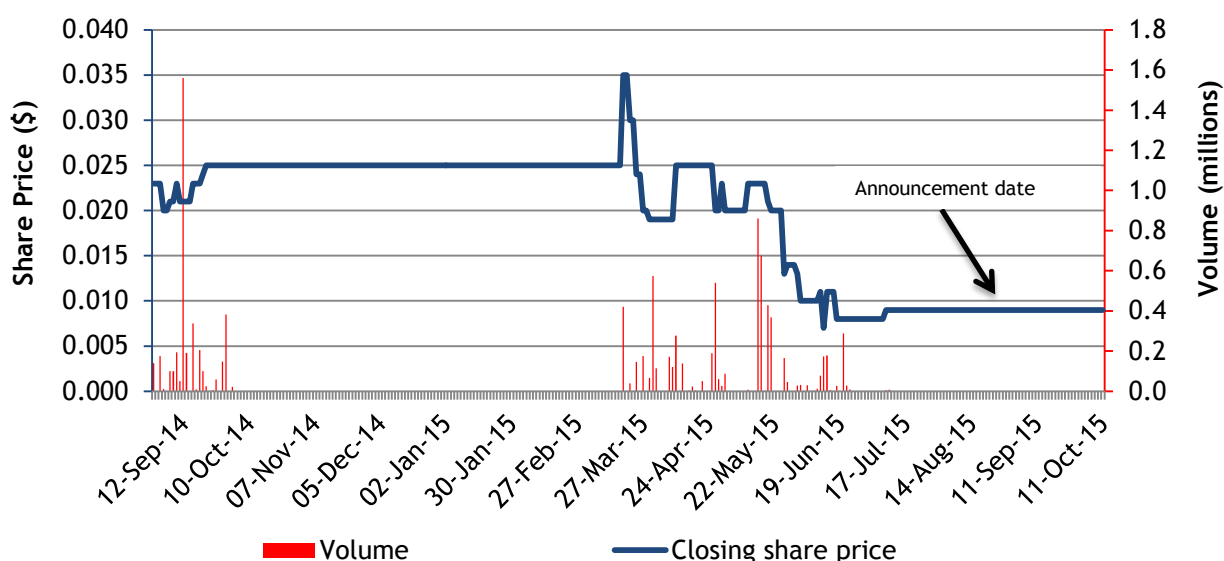
KalNorth is already in breach of its loan agreements with SVG, Renergy and Smarter Group for non-payment of interest outstanding as at 30 June 2015, however, these lenders have agreed not to make a claim against the Company prior to the end date of the Settlement Agreements. Therefore if the Financing Transaction is not approved, it is likely SVG, Renergy and Smarter Group will proceed with their debt recovery and in doing so, increase the risk of KalNorth relinquishing control over its assets.

Furthermore, KalNorth's exploration expenditure has declined significantly as a result of recent budgetary constraints. Consequently, the Company is at risk of forfeiting some tenements due to the failure to meet minimum expenditure criteria set out in the tenement conditions as discussed in the Ravensgate Report included as Appendix 3.

#### Potential decline in share price

We have analysed movements in KalNorth's share price since the Transactions were announced. A graph of KalNorth's share price since the announcement is set out below.

**KalNorth share price and trading volume history**



Source: Bloomberg

As can be seen in the graph above, the announcement of the Transactions has had no effect on KalNorth's share price or the volume of shares traded given the suspension of trading on the ASX.

Given the above analysis it is likely that if the Transactions are not approved, KalNorth's shares will remain very illiquid and the share price will continue the downward trend it has exhibited over the past six months.

### 13.4 Advantages of Approving the Financing Transaction

We have considered the following advantages when assessing whether the Financing Transaction is reasonable.

Advantage	Description
A significant proportion of the Company's borrowings will be settled	As a mineral explorer with no operating revenue, KalNorth is not in a position to raise the equity needed to repay their borrowings; particularly given the difficult capital market environment mineral explorers are currently faced with. If the Settlement Agreements are approved, approximately \$4.5 million of the Company's debt will be extinguished.
Cash received as part of the Financing Transaction will put the Company under less cash flow strain	The cash received on issue of the New Convertible Note will provide a timely injection of cash and strengthen the Company's net assets position.

Advantage	Description
The ability of KalNorth to raise additional funds may increase	The New Convertible Note provides a credit facility of up to \$2 million which will strengthen KalNorth's balance sheet and current cash position. In conjunction with the reduced level of gearing, the improved cash position may increase the Company's ability to attract other debt and equity funding in the future. This also defers the need for future equity raising and hence, further dilution of existing Shareholders' interests.
Liquidity of KalNorth shares may increase	<p>KalNorth's shares are currently very illiquid, with only 3.32 per cent of the Company's total issued capital being traded in the last twelve months. If the Financing Transaction is approved, the shares issued under the Settlement Agreement in addition to the potential shares issued upon exercise of the Convertible Notes may result in the number of KalNorth shares increasing from 345,498,098 up to 1,058,181,362 on a fully diluted basis.</p> <p>We believe the increase in the number of shares on issue, in conjunction with the other advantages of the Transactions outlined in section 13.4 and 13.6, may lead to an increase in the liquidity of KalNorth's shares. Increased liquidity will benefit Shareholders as it will improve their ability to trade their shares in the Company.</p>
Alternate avenue for funds given the low offtake noted during the recent rights issue made to existing Shareholders	On 29 July 2015, KalNorth issued a prospectus detailing the non-renounceable rights issue of approximately 157.98 million new shares at \$0.01 per Share. Upon conclusion of the Offer, only 29.53 million of the possible 157.98 million shares were subscribed (including 25 million shares from Cross-Strait), which constituted 18.7 per cent of the total offer size. This suggests that there is insignificant demand from the public for shares in KalNorth and therefore, further highlights the attractiveness of the Financing Transaction.

### 13.5 Disadvantages of Approving the Financing Transaction

If the Financing Transaction is approved, in our opinion, the potential disadvantages to Shareholders include the following:

Disadvantage	Description
Dilution of existing Shareholders' interest	Under the terms of the Financing Transaction, KalNorth will issue a maximum of 604,863,564 shares, assuming the Convertible Notes are converted to shares in the Company. If the Financing Transaction is approved, Non Associated Shareholders' interest in the Company will be diluted from 54.07 per cent to 32.28 per cent (on an undiluted basis) and 27.84 per cent on a fully diluted basis. This dilution may give SVG and Cross-Strait the power to block special resolutions and will significantly reduce Shareholders collective influence on the operations of the Company.

### 13.6 Advantages of Approving the Security Transaction

Advantage	Description
The Security Transaction is fair	The Security Transaction is fair. RG 111 states that an offer is reasonable if it is fair.
Supports debt funding	The provision of security enables the Company to obtain the debt funding that it requires. If KalNorth seeks alternate funding through bank debt, it is more likely that there will be a requirement to furnish adequate collateral to secure the bank debt. Therefore, the provision of security for debt funding purposes is not unusual.

### 13.7 Disadvantages of Approving the Security Transaction

Disadvantage	Description
Onerous restrictions on dealing with the Company's assets	The security agreement that KalNorth and Cross-Strait will enter into subject to Shareholder approval will place restrictions on the Company's ability to deal with its assets.

## 14. Conclusion

We have considered the terms of the Transactions as outlined in the body of this Report and have concluded that:

- In the absence of any other relevant information, **the Financing Transaction is not fair but reasonable to Shareholders.**
- In the absence of any other relevant information, **the Security Transaction is fair and reasonable to Shareholders.**

In our opinion, the Financing Transaction is not fair because the value of a KalNorth share following the Financing Transaction on a minority basis is less than the value of a KalNorth share prior to the Financing Transaction on a controlling interest basis. However, we consider the Financing Transaction to be reasonable because the advantages of the Financing Transaction to Shareholders are greater than the disadvantages. In particular, the following were key considerations in our determination of reasonableness.

- A significant proportion of the Company's borrowings will be settled, which the Company would not be in a position to repay, given the difficulty in raising capital for mineral resources companies and the absence of operating revenue and recurring cash flows.
- Cash received as part of the Financing Transaction will put the Company under less cash flow strain and strengthen the balance sheet.
- The ability of KalNorth to raise additional funds may increase as a result of the cash injection from the New Convertible Note, which will help improve the Company's cash position and reduce the level of gearing, ultimately improving the likelihood of attracting additional debt and equity funding.
- The Financing Transaction provides an alternate avenue for funds at a time when demand for the Company's equity is low, as evidenced by the offtake of the most recent rights offer made to existing Shareholders.

We have separately considered the terms of the Security Transaction as outlined in the body of this report and have concluded that, in the absence of any other relevant information, **the Security Transaction is fair and reasonable to Shareholders.**

## 15. Sources of information

This report has been based on the following information:

- Draft Notice of General Meeting and Explanatory Statement on or about the date of this report;
- Audited financial statements of KalNorth for the years ended 30 June 2015 and 30 June 2014;
- Reviewed financial statements of KalNorth for the half year ended 31 December 2014;
- Supplementary Prospectus #3 dated 16 September 2015 and Prospectus dated 29 July 2015;
- Independent Valuation Report of KalNorth's mineral assets dated 18 September 2015 performed by Ravensgate;
- Share registry information;
- Information in the public domain; and
- Discussions with Directors and Management of KalNorth.

## 16. Independence

BDO Corporate Finance (WA) Pty Ltd is entitled to receive a fee of \$15,000 (excluding GST and reimbursement of out of pocket expenses). The fee is not contingent on the conclusion, content or future use of this Report. Except for this fee, BDO Corporate Finance (WA) Pty Ltd has not received and will not receive any pecuniary or other benefit whether direct or indirect in connection with the preparation of this report.

BDO Corporate Finance (WA) Pty Ltd has been indemnified by KalNorth in respect of any claim arising from BDO Corporate Finance (WA) Pty Ltd's reliance on information provided by the KalNorth, including the non-provision of material information, in relation to the preparation of this report.

Prior to accepting this engagement BDO Corporate Finance (WA) Pty Ltd has considered its independence with respect to KalNorth, SVG, Renergy, Cross-Strait and any of their respective associates with reference to ASIC Regulatory Guide 112 'Independence of Experts'. In BDO Corporate Finance (WA) Pty Ltd's opinion it is independent of KalNorth, SVG, Renergy, Cross-Strait and their respective associates.

Neither the two signatories to this report nor BDO Corporate Finance (WA) Pty Ltd, have had within the past two years any professional relationship with KalNorth, or their associates, other than in connection with the preparation of this report.

A draft of this report was provided to KalNorth and its advisors for confirmation of the factual accuracy of its contents. No significant changes were made to this report as a result of this review.

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## 17. Qualifications

BDO Corporate Finance (WA) Pty Ltd has extensive experience in the provision of corporate finance advice, particularly in respect of takeovers, mergers and acquisitions.

BDO Corporate Finance (WA) Pty Ltd holds an Australian Financial Services Licence issued by the Australian Securities and Investment Commission for giving expert reports pursuant to the Listing rules of the ASX and the Corporations Act.

The persons specifically involved in preparing and reviewing this report were Sherif Andrawes and Adam Myers of BDO Corporate Finance (WA) Pty Ltd. They have significant experience in the preparation of independent expert reports, valuations and mergers and acquisitions advice across a wide range of industries in Australia and were supported by other BDO staff.

Sherif Andrawes is a Fellow of the Institute of Chartered Accountants in England & Wales and a Member of the Institute of Chartered Accountants in Australia. He has over twenty five years' experience working in the audit and corporate finance fields with BDO and its predecessor firms in London and Perth. He has been responsible for over 250 public company independent expert's reports under the Corporations Act or ASX Listing Rules and is a CA BV Specialist. These experts' reports cover a wide range of industries in Australia with a focus on companies in the natural resources sector. Sherif Andrawes is the Chairman of BDO in Western Australia, Corporate Finance Practice Group Leader of BDO in Western Australia and the Natural Resources Leader for BDO in Australia.

Adam Myers is a Member of the Institute of Chartered Accountants in Australia. Adam's career spans 18 years in the Audit and Assurance and Corporate Finance areas. Adam has considerable experience in the preparation of independent expert reports and valuations in general for companies in a wide number of industry sectors.

## 18. Disclaimers and consents

This report has been prepared at the request of KalNorth for inclusion in the Explanatory Memorandum which will be sent to all KalNorth Shareholders. KalNorth engaged BDO Corporate Finance (WA) Pty Ltd to prepare an independent expert's report to consider the loan settlement agreements KalNorth has entered into with South Victory Global Limited and Renergy Pty Ltd, and the issue of a Convertible Note Facility with Cross-Strait Common Development Co. Limited. BDO Corporate Finance (WA) Pty Ltd hereby consents to this report accompanying the above Explanatory Memorandum. Apart from such use, neither the whole nor any part of this report, nor any reference thereto may be included in or with, or attached to any document, circular resolution, statement or letter without the prior written consent of BDO Corporate Finance (WA) Pty Ltd.

BDO Corporate Finance (WA) Pty Ltd takes no responsibility for the contents of the Explanatory Memorandum other than this report.

We have no reason to believe that any of the information or explanations supplied to us are false or that material information has been withheld. It is not the role of BDO Corporate Finance (WA) Pty Ltd acting as an independent expert to perform any due diligence procedures on behalf of the Company. BDO Corporate Finance (WA) Pty Ltd provides no warranty as to the adequacy, effectiveness or completeness of the due diligence process.

The opinion of BDO Corporate Finance (WA) Pty Ltd is based on the market, economic and other conditions prevailing at the date of this report. Such conditions can change significantly over short periods of time.

With respect to taxation implications it is recommended that individual Shareholders obtain their own taxation advice, in respect of the Transactions, tailored to their own particular circumstances. Furthermore, the advice provided in this report does not constitute legal or taxation advice to the Shareholders of KalNorth, or any other party.

BDO Corporate Finance (WA) Pty Ltd has also considered and relied upon independent valuations for mineral assets held by KalNorth.

The valuer engaged for the mineral asset valuation, Ravensgate, possess the appropriate qualifications and experience in the industry to make such assessments. The approaches adopted and assumptions made in arriving at their valuation is appropriate for this report. We have received consent from the valuer for the use of their valuation report in the preparation of this report and to append a copy of their report to this report.

The statements and opinions included in this report are given in good faith and in the belief that they are not false, misleading or incomplete.

The terms of this engagement are such that BDO Corporate Finance (WA) Pty Ltd has no obligation to update this report for events occurring subsequent to the date of this report.

Yours faithfully

**BDO CORPORATE FINANCE (WA) PTY LTD**



**Sherif Andrawes**  
Director



**Adam Myers**  
Director

# Appendix 1 - Glossary of Terms

Reference	Definition
The Act	The Corporations Act 2001 Cth
APES 225	Accounting Professional & Ethical Standards Board professional standard APES 225 'Valuation Services'
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
BDO	BDO Corporate Finance (WA) Pty Ltd
The Company	KalNorth Gold Mines Limited
The Convertible Notes	Existing Convertible Note and New Convertible Note
Convertible Note Facility	Binding agreement with Cross-Strait for a financing facility of up to \$2 million
Corporations Act	The Corporations Act 2001 Cth
Cross-Strait	Cross-Strait Common Development Fund Co. Ltd
DCF	Discounted Future Cash Flows
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
End Date	The last date in which loan settlement must take place on or before (30 November 2015)
Existing Convertible Note	Convertible Note Agreement with Gold Fresh
Financing Transaction	Binding loan settlement agreements with SVG and Renergy entered into on 31 August 2015, and Convertible Note Facility with Cross-Strait
FME	Future Maintainable Earnings
FOS	Financial Ombudsman Service
FSG	Financial Services Guide
Gold Fresh	Gold Fresh Limited

Reference	Definition
JORC Code	The Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves
JV	Joint venture project with Mithril
KalNorth	KalNorth Gold Mines Limited
Mithril	Mithril Resources Limited
NAV	Net Asset Value
New Convertible Note	Convertible Note Agreement with Cross-Strait
Notice of Meeting	The Company's Notice of Annual General Meeting and Explanatory Statement
QMP	Quoted market price
Ravensgate	Ravensgate International Pty Ltd
R&D	Research and development
RBA	Reserve Bank of Australia
Regulations	Corporations Act Regulations 2001 (Cth)
Renergy	Renergy Pty Ltd
Rights Issue or Rights Offer	Non-renounceable rights issue to existing KalNorth shareholders
Our Report	This Independent Expert's Report prepared by BDO
RG 111	Content of expert reports (March 2011)
RG 112	Independence of experts (March 2011)
Section 611	Section 611 of the Corporations Act
Security Transaction	Security Agreement granting general security over all the assets of KalNorth to Cross-Strait
Settlement Agreements	Binding loan settlement agreements with SVG, Renergy and Smarter Group entered into on 31 August 2015
Shareholders	Shareholders of KalNorth not associated with SVG and/or Renergy and/or Cross-Strait
Smarter Group	Smarter Group (Australia) Pty Ltd

Reference	Definition
SVG	South Victory Global Limited
The Transactions	The Financing Transaction and the Security Transaction, collectively.
US	United States of America
Valmin Code	The Code of Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Expert Reports
Valuation Engagement	An Engagement or Assignment to perform a Valuation and provide a Valuation Report where the Valuer is free to employ the Valuation Approaches, Valuation Methods, and Valuation Procedures that a reasonable and informed third party would perform taking into consideration all the specific facts and circumstances of the Engagement or Assignment available to the Valuer at that time.
VWAP	Volume Weighted Average Price

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The Directors

BDO Corporate Finance (WA) Pty Ltd

38 Station Street

SUBIACO, WA 6008

Australia

## Appendix 2 - Valuation Methodologies

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Methodologies commonly used for valuing assets and businesses are as follows:

### 1 *Net asset value ('NAV')*

Asset based methods estimate the market value of an entity's securities based on the realisable value of its identifiable net assets. Asset based methods include:

- Orderly realisation of assets method
- Liquidation of assets method
- Net assets on a going concern method

The orderly realisation of assets method estimates fair market value by determining the amount that would be distributed to entity holders, after payment of all liabilities including realisation costs and taxation charges that arise, assuming the entity is wound up in an orderly manner.

The liquidation method is similar to the orderly realisation of assets method except the liquidation method assumes the assets are sold in a shorter time frame. Since wind up or liquidation of the entity may not be contemplated, these methods in their strictest form may not be appropriate. The net assets on a going concern method estimates the market values of the net assets of an entity but does not take into account any realisation costs.

Net assets on a going concern basis are usually appropriate where the majority of assets consist of cash, passive investments or projects with a limited life. All assets and liabilities of the entity are valued at market value under this alternative and this combined market value forms the basis for the entity's valuation.

Often the FME and DCF methodologies are used in valuing assets forming part of the overall Net assets on a going concern basis. This is particularly so for exploration and mining companies where investments are in finite life producing assets or prospective exploration areas.

These asset based methods ignore the possibility that the entity's value could exceed the realisable value of its assets as they do not recognise the value of intangible assets such as management, intellectual property and goodwill. Asset based methods are appropriate when an entity is not making an adequate return on its assets, a significant proportion of the entity's assets are liquid or for asset holding companies.

### 2 *Quoted Market Price Basis ('QMP')*

A valuation approach that can be used in conjunction with (or as a replacement for) other valuation methods is the quoted market price of listed securities. Where there is a ready market for securities such as the ASX, through which shares are traded, recent prices at which shares are bought and sold can be taken as the market value per share. Such market value includes all factors and influences that impact upon the ASX. The use of ASX pricing is more relevant where a security displays regular high volume trading, creating a 'deep' market in that security.

### 3 *Capitalisation of future maintainable earnings ('FME')*

This method places a value on the business by estimating the likely FME, capitalised at an appropriate rate which reflects business outlook, business risk, investor expectations, future growth prospects and other entity specific factors. This approach relies on the availability and analysis of comparable market data.

The FME approach is the most commonly applied valuation technique and is particularly applicable to profitable businesses with relatively steady growth histories and forecasts, regular capital expenditure requirements and non-finite lives.

The FME used in the valuation can be based on net profit after tax or alternatives to this such as earnings before interest and tax ('EBIT') or earnings before interest, tax, depreciation and amortisation ('EBITDA'). The capitalisation rate or 'earnings multiple' is adjusted to reflect which base is being used for FME.

#### **4 Discounted future cash flows ('DCF')**

The DCF methodology is based on the generally accepted theory that the value of an asset or business depends on its future net cash flows, discounted to their present value at an appropriate discount rate (often called the weighted average cost of capital). This discount rate represents an opportunity cost of capital reflecting the expected rate of return which investors can obtain from investments having equivalent risks.

Considerable judgement is required to estimate the future cash flows which must be able to be reliably estimated for a sufficiently long period to make this valuation methodology appropriate.

A terminal value for the asset or business is calculated at the end of the future cash flow period and this is also discounted to its present value using the appropriate discount rate.

DCF valuations are particularly applicable to businesses with limited lives, experiencing growth, that are in a start up phase, or experience irregular cash flows.

#### **5 Market Based Assessment**

The market based approach seeks to arrive at a value for a business by reference to comparable transactions involving the sale of similar businesses. This is based on the premise that companies with similar characteristics, such as operating in similar industries, command similar values. In performing this analysis it is important to acknowledge the differences between the comparable companies being analysed and the company that is being valued and then to reflect these differences in the valuation.

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## Appendix 3 - Independent Valuation Report prepared by Ravensgate

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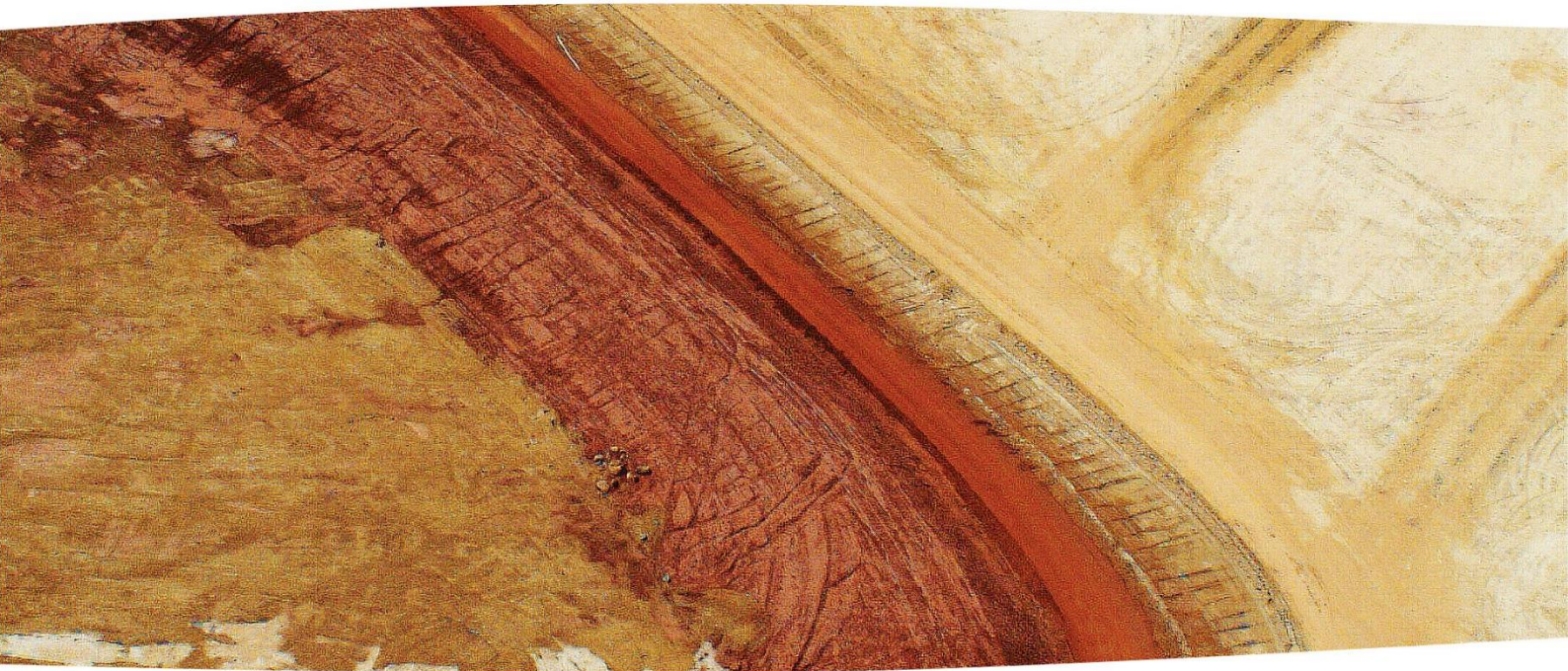
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**TECHNICAL PROJECT REVIEW  
and  
INDEPENDENT VALUATION REPORT  
MINERAL ASSETS OF KALNORTH GOLD MINES LIMITED  
for  
BDO CORPORATE FINANCE (WA) PTY LTD**

**18 September 2015**



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# TECHNICAL PROJECT REVIEW and INDEPENDENT TECHNICAL VALUATION

Prepared by RAVENSGATE on behalf of:

**BDO Corporate Finance (WA) Pty Ltd**

---

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	Ravensgate (1)	

**Project No.** KAL001

**File Name:** Kal001\_Val\_2015\_09\_16\_Draft\_Client\_Review

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Sam Ulrich  
For and on behalf of:  
**RAVENSGATE**



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Neal Leggo  
For and on behalf of:  
**RAVENSGATE**

*This report has been commissioned from and prepared by Ravensgate for the exclusive use of BDO Corporate Finance (WA) Pty Ltd.*

*Each statement or opinion in this report is provided in response to a specific request from BDO Corporate Finance (WA) Pty Ltd to provide that statement or opinion. Each such statement or opinion is made by Ravensgate in good faith and in the belief that it is not false or misleading.*

*Each statement or opinion contained within this report is based on information and data supplied by KalNorth Gold Mines Limited to Ravensgate, or otherwise obtained from public searches conducted by Ravensgate for the purposes of this report.*



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## 1. EXECUTIVE SUMMARY

Ravensgate International Pty Ltd ATF Ravensgate Unit Trust (Ravensgate) has been commissioned by BDO Corporate Finance (WA) Pty Ltd (BDO) and KalNorth Gold Mines Limited (KalNorth) to provide a Technical Project Review on KalNorth's West Australian Mineral Assets and an Independent Technical Valuation over these assets. This Technical Project Review and Independent Valuation Report were prepared by Ravensgate for inclusion in the Independent Expert's Report (IER) prepared by BDO. The effective date of this Technical Project Review and Independent Valuation Report prepared by Ravensgate is the 11 September 2015.

The projects included in this report and KalNorth's ownership interest is listed below.

<u>Mineral Asset</u>	<u>KalNorth's Ownership %</u>
Lindsays Project	100%
Kurnalpi Project	100%
Kalpini Project	100%
Spargoville Project	100%
Roe Project	100%

KalNorth's mineral assets comprise exploration licences, prospecting licences and mining leases prospective primarily for gold, located in the Eastern Goldfields of Western Australia. Significant mineral resources have been defined for 13 gold deposits and one stockpile within the tenements totalling 6.6Mt @ 1.5g/t Au of Inferred Resources, 9.77Mt @ 1.5g/t Au of Indicated Resources and 0.064Mt @ 0.87g/t Au of Measured Resources. Tenement licence details have been compiled for review in the body of this report. Further exploration work remains to be carried out in order to improve geological understanding, to generate exploration targets, to investigate exploration targets, to estimate mineral resources and to undertake economic studies (where defined and as further work progresses) within the licence areas. Ravensgate's considered opinion is that the projects are of merit and worthy of further exploration.

Ravensgate did not carry out a site visit to KalNorth's project areas. Ravensgate is satisfied that there is sufficient current information available to allow an informed appraisal to be made. Ravensgate is of the opinion that no significant additional benefit would have been gained through an additional site visit to the project area at this stage. Ravensgate has concluded that KalNorth's projects are of technical merit and worthy of conducting further review and exploration.

The valuation presented in this report was completed on behalf of KalNorth. The valuation has been completed with information provided by, and with the full support of KalNorth. The applicable valuation date is 11 September 2015 and is derived from using the Comparable Transactions valuation method. As the technical valuations of KalNorth are based on comparable market transactions it can be considered to also be the market value. The definition of market value that Ravensgate adopts is that used in the VALMIN code, which is the market value definition as defined by the International Valuation Standards Committee (IVSC).

To derive appropriate values for the tenure within KalNorth's projects, Ravensgate reviewed the exploration data and prospectivity for the tenements. The preferred value thus determined for each tenement was based upon a review of the prospectivity of each tenement and the number of exploration targets on each tenement as described in Section 3.5.2.

Ravensgate has concluded that KalNorth's Lindsays, Kurnalpi, Kalpini, Spargoville and Roe projects are of merit (although at varying stages of exploration and subsequent Mineral Asset classification), and worthy of further exploration. A summary of KalNorth's project valuation in ownership equity terms is provided in Table 1. The applicable valuation date is 11 September 2015 and is derived from using the Comparable Transactions valuation method. The value of KalNorth's projects are considered to lie in a range from \$11.950M to \$18.215M, within this range Ravensgate has selected a preferred value of \$15.083M.



**Table 1**      **KalNorth's Technical Valuation in Equity Ownership Percentage Terms**

Project	Mineral Asset	Equity %	Area km <sup>2</sup>	Valuation		
				Low \$M	Preferred \$M	High \$M
Lindsays	Pre-development Project	100	56.71	4.644	5.829	7.013
Kurnalpi	Advanced Exploration Area	100	186.17	3.414	4.363	5.311
Kalpini	Advanced Exploration Area	100	74.52	3.245	4.064	4.884
Spargoville	Advanced Exploration Area	100	57.21	0.638	0.809	0.979
Roe	Exploration Area	100	36.40	0.009	0.018	0.027
<b>Total</b>	<b>Various</b>	<b>100</b>	<b>411.01</b>	<b>11.950</b>	<b>15.083</b>	<b>18.215</b>

*The valuation has been compiled to an appropriate level of precision and minor rounding errors may occur.*





## **2. INTRODUCTION**

The objectives of this report are to firstly provide a Technical Project Review of KalNorth's projects in which KalNorth has an equity interest and secondly to provide an independent valuation and technical assessment of the projects prepared in accordance with the guidelines of the VALMIN Code. The work has been commissioned by BDO and KalNorth for inclusion in an IER prepared by BDO.

This report does not provide a valuation of KalNorth as a whole, nor does it make any comment on the fairness and reasonableness of any proposed transaction between any two companies. The conclusions expressed in this Technical Project Review and Independent Technical Valuation are valid as at the Valuation Date (11 September 2015). The review and valuation is therefore only valid for this date and may change with time in response to changes in economic, market, legal or political factors, in addition to ongoing exploration results. All monetary values included in this report are expressed in Australian dollars (A\$) unless otherwise stated.

### **2.1 Terms of Reference**

Ravensgate International Pty Ltd ATF Ravensgate Unit Trust (Ravensgate) has been commissioned by BDO and KalNorth to provide an Independent Technical Project Review on KalNorth's mineral assets and an Independent Technical Valuation over these assets.

This report has been prepared in accordance with the Code for the Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Expert Reports (The VALMIN Code) as adopted by the Australasian Institute of Mining and Metallurgy (AusIMM) in April 2005. The report has also been prepared in accordance with ASIC Regulatory Guides 111 (Contents of Expert Reports) and 112 (Independence of Experts). The Technical Project Review and Independent Technical Valuation report has been compiled based on information available up to and including the date of this report.

### **2.2 Tenement Status Verification**

Ravensgate has not independently verified the status of the tenements that are referred to in this report as set out in the Tenement Schedule in Table 2 to Table 6 of Section 3.2.1 of this report, which is a matter for independent legal experts. KalNorth commissioned an independent review of their exploration licence status. Tenement specialists Global Exploration Tenement Services (GETS) supplied Ravensgate with the required information.

Ravensgate is satisfied, based on GETS' review, that the tenements are in good standing, though some are at risk due to two years of low expenditure and the values assigned to the tenements correctly reflect KalNorth's ownership.

### **2.3 Site Investigation**

Ravensgate did not carry out a site visit to KalNorth's project areas. Ravensgate is satisfied that there is sufficient current information available to allow an informed appraisal to be made. Ravensgate is of the opinion that no significant additional benefit would have been gained through an additional site visit to the project area at this stage. Ravensgate has concluded that KalNorth's projects are of technical merit and worthy of conducting further review and exploration.

### **2.4 Qualifications, Experience and Independence**

Ravensgate has been consulting to the mining industry since 1997 with its services that include valuations, independent technical reporting, exploration management and resource estimation. Our capabilities include reporting for all the major securities exchanges and encompass a diverse variety of commodity types.



**Author:** Sam Ulrich, Principal Consultant, BSc (Hons) Geology, GDipAppFin, MAusIMM, MAIG, FFin.

**Sam Ulrich** is a geologist with over 19 years' experience in near mine and regional mineral exploration, resource development and the management of exploration programs. He has worked in a variety of geological environments in Australia, Indonesia, Laos and China primarily in gold, base metals and uranium. Prior to joining Ravensgate Sam worked for Manhattan Corporation Ltd, a uranium exploration and resource development company in a senior management position. Mr Ulrich holds the relevant qualifications and experience as well as professional associations required by the ASX, JORC and VALMIN Codes in Australia to qualify as a Competent Person as defined in the 2012 Edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. He is a Qualified Person under the rules and requirements of the Canadian Reporting Instrument NI43-101.

**Co-Author:** Neal Leggo, Principal Consultant, BSc (Hons) Geology, MAIG, MSEG

**Neal Leggo** has over 28 years' experience in minerals geology including senior management, consulting, exploration, development, underground mining and open pit mining. He has extensive experience with a wide variety of commodities including gold, copper, iron ore, silver, lead and zinc, uranium and manganese across numerous geological terrains within the Asia-Pacific region.

Prior to joining Ravensgate, Neal worked for FMG leading a large field team undertaking fast-track exploration, delineation and feasibility study of a major new iron ore discovery in the Pilbara of WA. Previous to this Neal was Exploration Manager at Crescent Gold where he led a successful exploration team and also managed feasibility study and development work on seven gold deposits in preparation for mining. At Hatch he undertook numerous geological consulting assignments included scoping, prefeasibility and review studies, geological audit and due diligence. At BHP he modelled mineral resources including the Cannington, Mt Whaleback and Yandi world-class deposits. Previous to this Neal worked 8 years in Mt Isa for MIM where roles included chief geologist for the Hilton underground lead zinc mine and exploration manager for Isa District. During the 1980s he worked as a field geologist across northern Australia on a wide variety of exploration projects and mines.

Neal offers extensive knowledge of available geological, geophysical, geochemical and exploration techniques and methodologies, combined with strong experience in feasibility study, development and mining of mineral deposits. Neal completed an Honours degree in Geology at the University of Queensland in 1980 and holds the relevant qualifications, experience and professional associations required by the ASX, JORC and VALMIN Codes in Australia. He is a Qualified Person under the rules and requirements of the Canadian Reporting Instrument NI43-101.

**Peer Reviewer:** Alan Hawkins, Principal Consultant, BSc (Hons) Geology, MSc (Ore Deposit Geology), MAIG RPGeo, FSEG

**Alan Hawkins** is a geologist with over 19 years' experience in near mine and regional mineral exploration, resource development and the management of exploration programs. He has worked in a variety of geological environments in Australia and Indonesia, primarily in gold and copper. Prior to joining Ravensgate, Alan worked for Newmont Mining Corporation as a Principal Geologist in their exploration, corporate and business development divisions, providing technical support, due diligence and rapid first-filter geological and economic analysis to M&A teams in the Asia Pacific region as well as US and African EBD teams. This role also included project and non-core asset divestments including commercial negotiations with junior exploration companies, stakeholders and land & legal teams.

Previous to this, Alan held various principal and senior regional exploration management roles in WA and NT. In the 1990's Alan worked as a near mine exploration geologist for Eagle Mining Corporation NL, Great Central Mines Ltd and Normandy Mining Ltd at the Jundee-Niminy Gold Mine and was part of the team that discovered the +2Moz gold Westside deposit, where he also worked as a resource modelling geologist before joining Newmont's regional exploration team. Alan holds the relevant qualifications and professional associations required by the ASX, JORC and VALMIN Codes in Australia to qualify as a Competent Person as defined in the JORC Code. He is a Qualified Person under the rules and requirements of the Canadian Reporting Instrument NI43-101



and is a Registered Professional Geoscientist in the field of Mineral Exploration with the Australian Institute of Geoscientists.

## **2.5 Disclaimer**

The authors of this report and Ravensgate have no interest in the outcome of this technical assessment. The authors of this report and Ravensgate have had some prior association with KalNorth in regard to the mineral assets, involving preparation of independent geological reports on the Lindsays project.

Ravensgate is independent of KalNorth, its directors, senior management and advisors and has no economic or beneficial interest (present or contingent) in any of the mineral assets being reported on. Ravensgate is remunerated for this report by way of a professional fee determined in accordance with a standard schedule of commercial rates, which is calculated based on time charges for work carried out, and is not contingent on the outcome of this report. Fees arising from the preparation of this report are in the order of \$16,000 to \$20,000.

The relationship with KalNorth is solely one of professional association between client and independent consultant. None of the individuals employed or contracted by Ravensgate are officers, employees or proposed officers of KalNorth or any group, holding or associated companies of KalNorth.

The report has been prepared in compliance with the Corporations Act and ASIC Regulatory Guides 111 and 112 with respect to Ravensgate's independence as experts. Ravensgate regards RG112.31 to be in compliance whereby there are no business or professional relationships or interests which would affect the expert's ability to present an unbiased opinion within this report.

This report has been compiled based on information available up to and including the date of this report. The statements and opinions are based on the reference date of 11 September 2015 and could alter over time depending on exploration results, mineral prices and other relevant market factors.

## **2.6 Consent**

Ravensgate consents to this report being distributed, in full, in the form and context in which the technical assessment is provided, for the purpose for which this report was commissioned. Ravensgate provides its consent on the understanding that the assessment expressed in the individual sections of this report will be considered with, and not independently of, the information set out in full in this report.

## **2.7 Principal Sources of Information**

The principal sources of information used to compile this report comprise technical reports and data variously compiled by KalNorth and their partners or consultants, publically available information such as ASX releases, government reports and discussions with KalNorth's technical and corporate management personnel. With the consent of KalNorth, other general report contents describing the regional geology, historical exploration and current exploration have been reproduced verbatim from a number of KalNorth's internal and publically available reports. A listing of the principal sources of information is included in the references attached to this report.

Ravensgate has endeavoured, by making all reasonable enquiries, to confirm the authenticity, accuracy and completeness of the technical data upon which this report is based. A final draft of this report was also provided to KalNorth prior to finalisation by Ravensgate, requesting that KalNorth identify any material errors or omissions prior to its final submission. Ravensgate does not accept responsibility for any errors or omissions in the data and information upon which the opinions and conclusions in this report are based, and does not accept any consequential liability arising from commercial decisions or actions resulting from errors or omissions in that data or information.

## **2.8 Competent Persons Statement**

Information in this report that relates to Exploration Results and Mineral Resources is based on information compiled and reviewed by Mr. Wade Johnson who is the Exploration Manager of KalNorth. Mr. Johnson is a member of the Australian Institute of Geoscientists and has sufficient

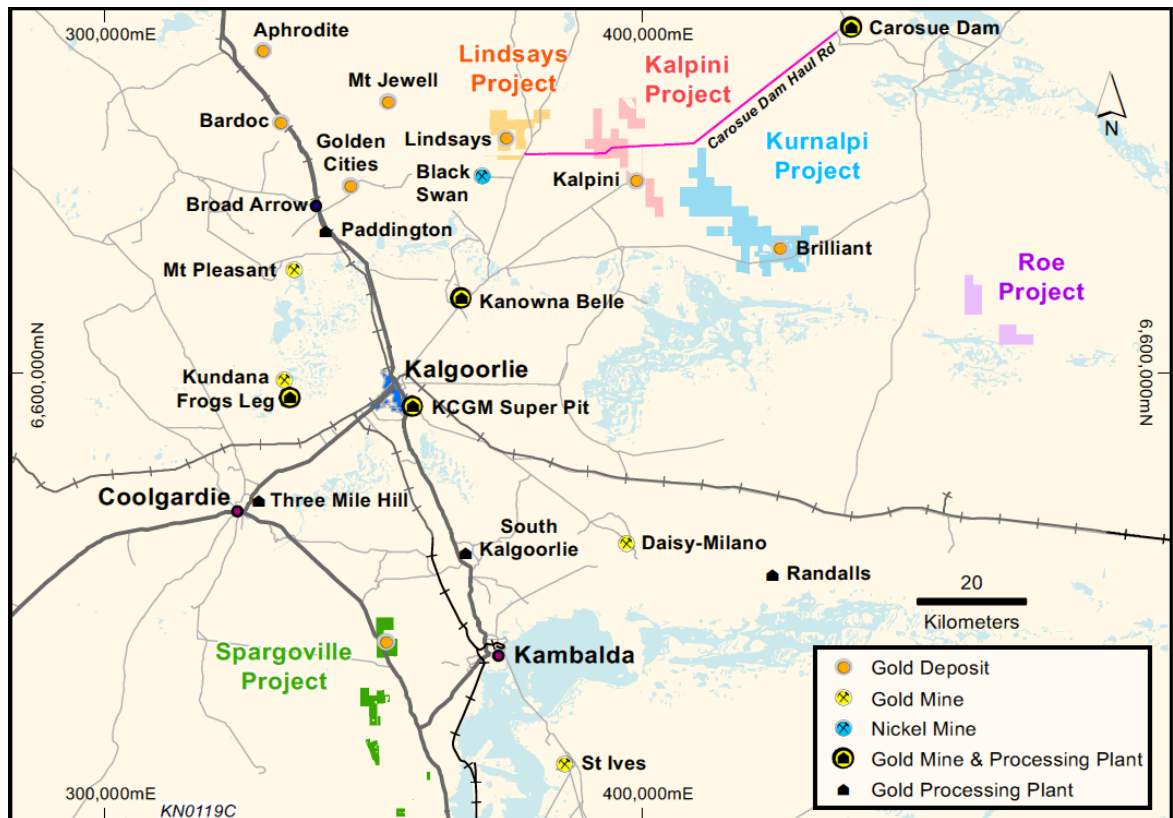


experience which is relevant to the style of mineralisation and type of deposit under consideration and the activity which he is undertaking to qualify as a Competent Person as defined in the 2012 Edition of the “Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves”. Mr. Johnson consents to the inclusion in the document of the information in the form and context in which it appears.

## 2.9 Background Information

The projects discussed in this report are located in the Eastern Goldfields of Western Australia. A locality map of the projects is presented in Figure 1 below. A summary of the tenement details are listed in Section 3.2. Report file references and a glossary of terms are also included at the end of this report. Ravensgate understands that the project tenements are held in good standing. A brief overview of the projects is outlined in Section 3. The Independent Valuation of the tenements is outlined in Section 4.

**Figure 1** Location of KalNorth’s Projects



### **3. KALNORTH'S GOLD PROJECTS, WESTERN AUSTRALIA**

#### **3.1 Introduction**

##### **3.1.1 Project Location and Access**

KalNorth's projects are all located in the Kalgoorlie district of Western Australia (Figure 1). The Lindsays and Kalpini project areas are located approximately 50km and 60km (respectively) northeast of Kalgoorlie within the Hampton Hill pastoral lease, and situated on the Gindalbie 1:100,000 map sheet, in the Eastern Goldfields Province. Vehicle access from Kalgoorlie is provided by the well-maintained Yarri, Kurnalpi - Pinjin and Mayday access roads, then by Camelia Road which transects the project area. The Kurnalpi project is located 90km east-northeast of Kalgoorlie. All the Kurnalpi prospects can be accessed via the Kurnalpi - Pinjin road from the Kanowna Bell mine turn off north of Kalgoorlie. The Spargoville project is located 45km southeast of Coolgardie. It can be accessed via an unsealed track approximately 5.5km north of the Kambalda turn off on the Coolgardie - Esperance Highway. The Roe project is located approximately 50km to the east of Kurnalpi and 140km east-northeast of Kalgoorlie.

##### **3.1.2 Supporting Infrastructure**

All of KalNorth's projects have ready access to supporting infrastructure being proximal to the City of Kalgoorlie which provides services to the numerous mining and industrial operations located in the Eastern Goldfields of Western Australia. Regional infrastructure includes: domestic airport, railway line, state highways, gas pipelines, power generation, electrical transmission lines, haulage roads, local government roads and telecommunication systems. All services required to support a mining operation are available through Kalgoorlie including government offices, assay laboratories, drilling contractors, mining contractors, exploration and mining service providers, engineering workshops, transportation services and medical services. A well-qualified workforce for all mining activities is available in Kalgoorlie and Perth.

A number of operating gold processing facilities are located within trucking distance from KalNorth's projects providing the opportunity for toll treatment of ore produced from mining KalNorth's mineral deposits. These include Carosue Dam, Kanowna Belle, South Kalgoorlie and the KCGM plant in Kalgoorlie.

##### **3.1.3 Geopolitical Environment**

Australia is a politically stable, liberal democracy. According to Control Risks Group Limited on the SNL Metals and Mining website, Political risk, Security risk and Terrorism risk ratings are all categorised as low risk, with Operational risk rating categorised as insignificant risk.

#### **3.2 Ownership and Tenure**

##### **3.2.1 Project Ownership and Relevant Interests**

KalNorth has interests in 92 granted exploration tenements within Western Australia which cover an area of approximately 400km<sup>2</sup>, through a variety of tenement types including mining leases, prospecting licences and exploration licences. The complex tenure is typical of the Eastern Goldfields and reflects the extended exploration and mining history of the area. Tenement details are given in Table 2 to Table 6, with tenements grouped into the Lindsays, Kurnalpi, Kalpini, Spargoville and Roe projects. The areas of KalNorth tenure are illustrated in Figure 1, Figure 3, Figure 6 and Figure 10.

All the tenements are owned 100% by KalNorth except E27/524. In some cases the registered tenement holder is one of KalNorth's subsidiary companies, but in these cases the beneficial ownership by KalNorth is still 100%. KalNorth was known previously as Carrick Gold Limited until a name change in June 2012. The Spargoville project was in a joint venture with Mithril Resources Limited (Mithril) with Mithril having a 20% equity interest and KalNorth 80% in the project. Mithril have recently withdrawn (19 March 2015) from the joint venture returning its 20% interest in the project to KalNorth, however at the valuation date this change has not been made to the holders on the tenement documents. KalNorth have also indicated that they are in the process of





surrendering a number of tenements, Ravensgate have not valued these tenements and assigned them a value of \$0.00.

**Table 2 Tenement Details - Lindsays Project**

Tenement	Area (km <sup>2</sup> )	Grant Date	Expiry Date	Tenement Holder/s
E27/0517	42.00	14/11/2013	13/11/2018	KalNorth Gold Mines Limited
M27/0034	1.30	17/04/1986	16/04/2028	KalNorth Gold Mines Limited
M27/0169	1.16	2/06/1994	1/06/2036	KalNorth Gold Mines Limited
M27/0486	9.52	15/11/2012	14/11/2033	KalNorth Gold Mines Limited
P27/2058	0.35	11/07/2011	10/07/2015 *	KalNorth Gold Mines Limited
P27/2094	0.63	14/03/2012	13/03/2016	KalNorth Gold Mines Limited
P27/2111	1.75	27/06/2012	26/06/2016	KalNorth Gold Mines Limited

\* An application for extension of this tenement has been lodged with the DMP by KalNorth

**Table 3 Tenement Details - Kurnalpi Project**

Tenement	Area (km <sup>2</sup> )	Grant Date	Expiry Date	Tenement Holder/s
E28/1477	16.80	13/07/2006	12/07/2015 *	Shannon Resources Pty Ltd
E28/2015	2.80	22/05/2012	21/05/2017	KalNorth Gold Mines Limited
E28/2153	2.80	7/03/2012	6/03/2017	KalNorth Gold Mines Limited
E28/2226	2.80	7/11/2012	6/11/2017	Shannon Resources Pty Ltd
E28/2256	14.00	13/03/2013	12/03/2018	Shannon Resources Pty Ltd
M28/0072	0.35	13/06/1990	12/06/2032	Shannon Resources Pty Ltd
M28/0090	1.40	17/11/1993	16/11/2035	Shannon Resources Pty Ltd
M28/0113	0.21	15/03/1995	14/03/2016	Shannon Resources Pty Ltd
P28/1097	0.81	15/04/2008	14/04/2016	Shannon Resources Pty Ltd
P28/1100	1.64	15/04/2008	14/04/2016	Shannon Resources Pty Ltd
P28/1101	1.72	15/04/2008	14/04/2016	Shannon Resources Pty Ltd
P28/1102	0.93	15/04/2008	14/04/2016	Shannon Resources Pty Ltd
P28/1103	0.80	15/04/2008	14/04/2016	Shannon Resources Pty Ltd
P28/1104	1.70	15/04/2008	14/04/2016	Shannon Resources Pty Ltd
P28/1105	1.69	15/04/2008	14/04/2016	Shannon Resources Pty Ltd
P28/1106	0.69	15/04/2008	14/04/2016	Shannon Resources Pty Ltd
P28/1107	1.10	15/04/2008	14/04/2016	Shannon Resources Pty Ltd
P28/1108	0.58	15/04/2008	14/04/2016	Shannon Resources Pty Ltd
P28/1111	1.10	15/04/2008	14/04/2016	Shannon Resources Pty Ltd
P28/1112	0.10	15/04/2008	14/04/2016	Shannon Resources Pty Ltd



Tenement	Area (km <sup>2</sup> )	Grant Date	Expiry Date	Tenement Holder/s
P28/1113	0.10	15/04/2008	14/04/2016	Shannon Resources Pty Ltd
P28/1114	0.09	15/04/2008	14/04/2016	Shannon Resources Pty Ltd
P28/1115	0.26	15/04/2008	14/04/2016	Shannon Resources Pty Ltd
P28/1116	0.54	15/04/2008	14/04/2016	Shannon Resources Pty Ltd
P28/1117	1.22	15/04/2008	14/04/2016	Shannon Resources Pty Ltd
P28/1118	0.28	15/04/2008	14/04/2016	Shannon Resources Pty Ltd
P28/1119	0.46	15/04/2008	14/04/2016	Shannon Resources Pty Ltd
P28/1125	0.43	15/04/2008	14/04/2016	Shannon Resources Pty Ltd
P28/1126	0.50	15/04/2008	14/04/2016	Shannon Resources Pty Ltd
P28/1154	0.17	3/12/2008	2/12/2016	KalNorth Gold Mines Limited
P28/1155	1.85	3/12/2008	2/12/2016	KalNorth Gold Mines Limited
P28/1156	0.87	18/12/2008	17/12/2016	KalNorth Gold Mines Limited
P28/1157	1.52	18/12/2008	17/12/2016	KalNorth Gold Mines Limited
P28/1180	0.10	24/11/2009	23/11/2017	KalNorth Gold Mines Limited
P28/1184	0.10	12/02/2010	11/02/2018	KalNorth Gold Mines Limited
P28/1186	0.16	17/03/2010	16/03/2018	KalNorth Gold Mines Limited
P28/1187	1.94	17/03/2010	16/03/2018	KalNorth Gold Mines Limited
P28/1190	1.98	21/06/2010	20/06/2018	KalNorth Gold Mines Limited
P28/1191	0.15	21/06/2010	20/06/2018	KalNorth Gold Mines Limited
P28/1224	1.98	9/08/2011	8/08/2015 *	Lusitan Prospecting Pty Ltd
P28/1225	2.00	9/08/2011	8/08/2015 *	Lusitan Prospecting Pty Ltd
P28/1226	1.13	9/08/2011	8/08/2015 *	Lusitan Prospecting Pty Ltd
P28/1227	1.92	9/08/2011	8/08/2015 *	Lusitan Prospecting Pty Ltd
P28/1228	1.05	9/08/2011	8/08/2015 *	Lusitan Prospecting Pty Ltd
P28/1229	1.75	9/08/2011	8/08/2015 *	Lusitan Prospecting Pty Ltd
P28/1230	1.95	9/08/2011	8/08/2015 *	Lusitan Prospecting Pty Ltd
P28/1231	1.99	9/08/2011	8/08/2015 *	Lusitan Prospecting Pty Ltd
P28/1254	0.00	30/05/2013	29/05/2017	Shannon Resources Pty Ltd
P28/1255	0.04	30/05/2013	29/05/2017	Shannon Resources Pty Ltd

*Notes: Shannon Resources Pty Ltd and Lusitan Prospecting Pty Ltd is a 100% owned subsidiary of KalNorth.*

*\* Applications for extension of these tenements has been lodged with the DMP by KalNorth*



**Table 4 Tenement Details - Kalpini Project**

Tenement	Area (km <sup>2</sup> )	Grant Date	Expiry Date	Tenement Holder/s
E27/0411	39.20	16/03/2010	15/03/2020	KalNorth Gold Mines Limited
E27/0412	14.00	29/01/2010	28/01/2020	KalNorth Gold Mines Limited
E27/524	15.47	31/07/2014	30/07/2019	Heron Resources Limited <sup>a</sup>
M27/0485	5.85	15/11/2012	14/11/2033	KalNorth Gold Mines Limited

Notes: <sup>a</sup> KalNorth has the rights to gold only on E27/524

**Table 5 Tenement Details - Spargoville Project**

Tenement	Area (km <sup>2</sup> )	Grant Date	Expiry Date	Tenement Holder/s
E15/1174	42.00	1/12/2010	30/11/2015	KalNorth Gold Mines Limited Minex (Aust) Pty Ltd
M15/1806	3.42	24/12/2012	23/12/2033	KalNorth Gold Mines Limited Minex (Aust) Pty Ltd
P15/4801	1.02	4/10/2007	3/10/2015	KalNorth Gold Mines Limited Minex (Aust) Pty Ltd
P15/4802	1.39	4/10/2007	3/10/2015	KalNorth Gold Mines Limited Minex (Aust) Pty Ltd
P15/5216	1.95	14/12/2009	13/12/2017	KalNorth Gold Mines Limited Minex (Aust) Pty Ltd
P15/5236	1.93	31/12/2009	30/12/2017	KalNorth Gold Mines Limited Minex (Aust) Pty Ltd
P15/5264	0.60	17/06/2010	16/06/2018	KalNorth Gold Mines Limited Minex (Aust) Pty Ltd
P15/5392	1.04	8/04/2010	7/04/2018	KalNorth Gold Mines Limited Minex (Aust) Pty Ltd
P15/5409	0.17	14/04/2010	13/04/2018	KalNorth Gold Mines Limited Minex (Aust) Pty Ltd
P15/5537	2.00	10/01/2011	9/01/2019	KalNorth Gold Mines Limited Minex (Aust) Pty Ltd
P15/5545	0.01	16/03/2011	15/03/2019	KalNorth Gold Mines Limited Minex (Aust) Pty Ltd
P15/5546	0.07	16/03/2011	15/03/2019	KalNorth Gold Mines Limited Minex (Aust) Pty Ltd
P15/5547	0.03	16/03/2011	15/03/2019	KalNorth Gold Mines Limited Minex (Aust) Pty Ltd
P15/5548	0.04	16/03/2011	15/03/2019	KalNorth Gold Mines Limited Minex (Aust) Pty Ltd
P15/5766	0.89	17/07/2013	16/07/2017	KalNorth Gold Mines Limited Minex (Aust) Pty Ltd
P15/5772	0.65	3/09/2013	2/09/2017	KalNorth Gold Mines Limited Minex (Aust) Pty Ltd

Notes: Minex (Aust) Pty Ltd is a 100% owned subsidiary of Mithril. As at the valuation date Mithril have no beneficial interest in the Spargoville.





**Table 6      Tenement Details - Roe Project**

Tenement	Area (km <sup>2</sup> )	Grant Date	Expiry Date	Tenement Holder/s
E28/2303	19.60	4/12/2013	3/12/2018	KalNorth Gold Mines Limited
E28/2304	16.80	4/12/2013	3/12/2018	KalNorth Gold Mines Limited

### **3.2.2      Agreements**

On 7 November 2012 three agreements were signed between the Central East Goldfields native title claimant group and KalNorth covering the mineral tenements of the Lindsays, Kurnalpi and Kalpini projects. Under these agreements the native title claimant group has given authority for KalNorth to undertake gold mining and associated activities on their tenements, while KalNorth agreed to provide a range of socio-economic benefits to the native title claimant group including fees for the granting of mining leases in miscellaneous licences, fees for the commencement of mining operations, annual fees during mining operations and the payment of royalties for gold produced. These royalties range from 0.75% up to 1.5% depending on the gold price, but with a lower royalty rate for gold mined by KalNorth but refined by a third party ranging from 0.375% to 0.75% depending on the gold price. These agreements give certainty to KalNorth to undertake future mining activities on all the tenements covered by the agreement.

Standard Heritage Agreements are in place for all other KalNorth tenements not covered these three agreements.

A significant number of KalNorth's mining leases and prospecting licences are subject to historic agreements between prior holders of the tenements and subsequent parties purchasing those tenements. KalNorth have become subject to these agreements through a series of deeds of assignment and assumption. The details of these agreements involve substantial legal complexity stemming from the original agreements, subsequent corporate changes to the original entities and changes to the tenement titles with time. The main area of implication for this valuation exercise is a number of royalties attached to these agreements pertaining to any mineral production from the tenements. Ravensgate have considered the effects of these royalties in arriving at this valuation.

### **3.2.3      Royalties and Taxes**

As all KalNorth's mineral properties are situated in Western Australia, the royalties and taxes for the State of Western Australia and the Commonwealth of Australia will apply to all future mineral production.

## **3.3      History**

### **3.3.1      Exploration History**

All of the KalNorth tenements are located close to the major gold mining centre of Kalgoorlie and cover highly prospective rock types with numerous gold occurrences with a number of individual gold discoveries having been mined. As a consequence, the project areas have received significant levels of prospecting and exploration from the historic gold rushes of the 1890's through to the modern era, primarily for gold but also for nickel and base metals. The Lindsays, Kurnalpi, Kalpini and Spargoville project areas all have a complex history of tenement ownership involving numerous partnerships, sale agreements, joint ventures, royalty arrangements and other deals. Similarly each project area has been subject to a wide variety of mineral exploration campaigns by a variety of different explorers including prospecting, geological mapping, rock chip sampling, soil sampling, auger sampling, RAB drilling, ground geophysical surveys (magnetics, induced polarisation, electromagnetics), aeromagnetic surveys, airborne radiometric surveys, aircore drilling, RC drilling, diamond drilling, shaft sinking, costeaning, a variety of sophisticated exploration methodologies employed including satellite imagery interpretation, geophysical interpretation, trace element geochemical interpretation, petrology, PIMA and three-dimensional



modelling. Significant metallurgical test work, development work, mining studies and feasibility studies have also been undertaken. Both underground and open pit mining has taken place, as well as extensive prospecting activities.

Ravensgate have taken the view that detailing the full history of exploration for all four project areas would be of little benefit to this valuation exercise. Previous disparate tenement ownership has been consolidated into relatively contiguous tenement packages and KalNorth have similarly consolidated the extensive historic exploration data into a coherent exploration database. Ravensgate have utilised this consolidated exploration data to form an opinion as to the remaining prospectivity of the project areas.

### **3.3.2 Previous Production**

#### **Lindsays Project**

KalNorth operated an open pit mine at Lindsays for seven months in 2013. The mining approval was granted on 9 January 2013 with mining and construction commencing on 14 January 2013. Ore was processed under an agreement at the Carosue Dam Operation located 70km to the east owned by Saracen Mineral Holdings. By the end of February, some six weeks after commencement of mining, the operation was seriously behind in ore and waste movement and gold production (production of 236oz Au against planned output of 2,981oz Au) and by the end of April, ore production was at 10,154t versus a planned 52,345t. Production problems continued and the mining operation at Lindsays was finally suspended on 5 August 2013. The Lindsays pit produced 140,454t at a recoverable grade of 1.36g/t Au for 6,153 ounces (Fieldgate, 2014).

#### **Kurnalpi Project**

Kurnalpi was the site of a major alluvial gold rush in the late 1890s and was exploited in the mid-1980s by modern alluvial mining, continuing to yield gold nuggets to this day over wide areas, by prospectors who work KalNorth'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. A compilation of previous mineral production was not available for the Kurnalpi project tenements. Prospecting activities in the period 1980 to the present have continued to win surface gold.

#### **Kalpini Project**

According to historical records and government reports a little over 9,600oz (300kg) of gold has been produced from the Kalpini mining area, primarily from the underground Atlas Gold mine where the main three compartment shaft and workings are still exposed. Atlas produced 12,154t of ore for 5,887oz Au at 15.1g/t Au between 1898 and 1910. The Gambia workings produced 976t of ore for 188oz Au at 5.98g/t Au between 1902 and 1934. Numerous leases were pegged and shafts were sunk at Kalpini along various strike lines. These were worked at the start of the 20th century by early prospectors. The Carmelia open pit mine at the southern end of the Gambia workings (measuring 45m by 25m by 10m deep), is the result of recent mining activity, and produced 2,000t of ore for 322oz Au (5g/t Au) during the late 1970s (Ashcroft, 2011c). Prospecting activities in the period 1980 to the present have continued to win surface gold.

#### **Spargoville and Roe Projects**

No record of previous mineral production is known for KalNorth's Spargoville and Roe project tenements.

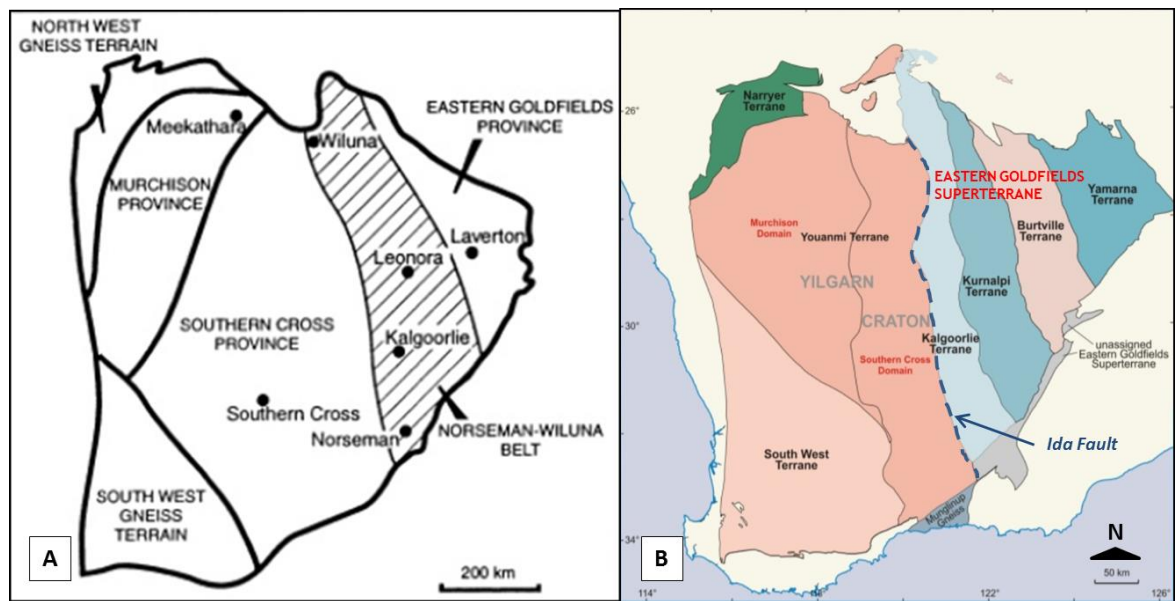
### **3.4 Geological Setting**

The project is located in the Paleo- to Neoproterozoic Yilgarn Craton (Block) of Western Australia Figure 2 - a highly mineralised granite-greenstone terrane with world-class deposits of gold and nickel, and significant iron and volcanic hosted massive sulphide (VHMS) base-metal deposits (Wyche *et al.*, 2012). The earliest widely used subdivision of the Yilgarn Craton (Gee *et al.*, 1981) contained four components - the Eastern Goldfields (containing the Norseman - Wiluna Belt), Southern Cross and Murchison Provinces; and the Western Gneiss Terrane (sub-divided into Northwest and Southwest). According to Wyche (2007), the relationships between these regions were enigmatic, with the boundaries not strictly based on observed geological features (Figure 2 A).



Cassidy *et al.*, (2006) divided the Yilgarn Craton into terranes defined on the basis of distinct sedimentary and magmatic associations, geochemistry and ages of volcanism. The Narryer (formerly the Northwest Gneiss) and South West terranes in the west are dominated by granite and granitic gneiss with minor supracrustal greenstone inliers, whereas the Youanmi Terrane and the Eastern Goldfields Superterrane contain substantial greenstone belts separated by granite and granitic gneiss (Wyche *et al.*, 2012). Subsequent revision has further subdivided the Eastern Goldfields Superterrane into the Kalgoorlie, Kurnalpi, Burtville and Yamarna terranes (Figure 2 B; Pawley *et al.*, 2012).

**Figure 2** *Evolving Understanding of the Yilgarn Craton*



(Modified from (A) Gee *et al.*, 1981 and (B) Pawley *et al.*, 2012)

The Ida Fault (Figure 2 B), which marks the boundary between the western Yilgarn Craton and the Eastern Goldfields Superterrane, is a major structure that extends to the base of the crust (Drummond *et al.*, 2000). Greenstone stratigraphies in the western Yilgarn differ from those in the Eastern Goldfields Superterrane in such things as the relative abundance of lithologies (especially komatiite and banded iron-formation) suggesting a substantially different depositional regime. According to Wyche (2007), the greenstones in much of the western Yilgarn are typically older than those in the Eastern Goldfields Superterrane. The major mafic dominated successions in the western Yilgarn, date back to 3.0 Ga (e.g. Pidgeon and Wilde, 1990; Geological Survey of Western Australia (GSWA), 2007), whereas the mafic and felsic successions of the Eastern Goldfields Superterrane were largely deposited after 2.8 Ga (e.g. Barley *et al.*, 2003; GSWA, 2007).

Subsequent regional mapping, geochronology, geochemistry and isotope data suggest that in the western Yilgarn Craton, the Southern Cross and Murchison Provinces of Gee *et al.*, (1981) do not represent allochthonous terranes that have come together during an accretionary event. Wyche (2007) describes a likely formation as part of the 3.0 - 2.7 Ga proto-Yilgarn Craton, to which the elements of the Eastern Goldfields Superterrane accreted after 2.7 Ga. As they are no longer considered to be provinces in the strict sense (Cassidy *et al.*, 2006), they are now called the Murchison and Southern Cross domains within the Youanmi Terrane (Figure 2 B).

Over the past ~20 years, the acquisition of large datasets and major advances in the understanding of the geological evolution of the Yilgarn Craton at all scales have encouraged the application of



the holistic mineral systems approach to mineral exploration as a tool for developing targeting criteria, particularly for nickel and gold (McCuaig *et al.*, 2010).

### 3.4.1 Regional Geology and Mineralisation

The Lindsays deposit lies within the southern area of the Gindalbie Domain in the western area of the Kurnalpi Terrane of the greater Norseman - Wiluna greenstone belt. The region is characterised by a series of north-northwest trending interconnected greenstones belts which have been intruded by granitoid batholiths. To the east of the Lindsays deposit, situated on a major magnetic trend lies the main Gindalbie workings. The magnetic feature is a major north westerly trending fault or shear zone extending over a strike length of greater than 50km. Several significant mining centres are located adjacent to it. This shear is also structurally related to the events in the Lindsays deposit area. The upper succession of the Gindalbie Domain, which includes rocks found at the Lindsays deposit, is dominated by tholeiitic basalts, which are strongly interleaved with felsic volcanoclastic and fine grained sedimentary rocks.

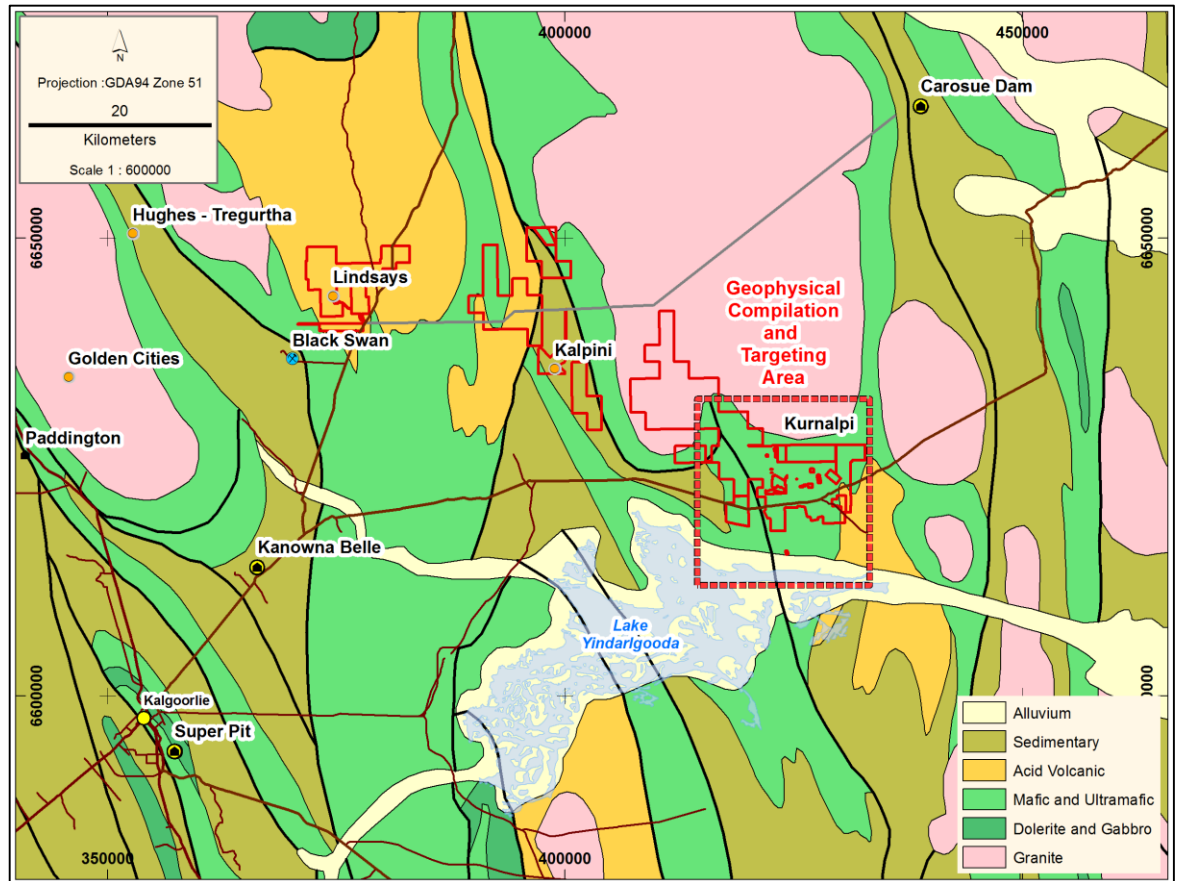
The Kurnalpi project is located at the boundary of the Bulong Domain to the southeast and the Menangina Domain to the northeast, within the Kurnalpi Terrane. The area is comprised of a poorly outcropping and lateritised sequence of the Mulgabbie Formation mafic volcanics, dolerite and gabbro intrusives. The greenstone is intruded by a large granitoid body in the north which forms the core of a south plunging anticline.

The Kalpini project is located in an area of regional compression at the junction of the Gindalbie Domain to the north, Bulong Domain to the south and Menangina Domain to the east, within the Kurnalpi Terrane. The Emu Fault, a first order fault zone within an area that is characterised by northwest trending rock units and magnetic lineaments, separates the Gindalbie and Bulong Domains from the Menangina Domain. The structures that host and control the old workings at Kalpini are interpreted as second and third order structures with regards to the Emu fault zone. Metamorphic grade is lower to mid greenschist facies.

The Spargoville Project is located in the Coolgardie Domain of the Kalgoorlie Terrane in the Norseman-Wiluna greenstone belt of the Yilgarn Craton. The Coolgardie Domain is bounded by the Ida Fault to the west and the Ockerburry Fault to the west. The Coolgardie Domain consists of tholeiitic, high-magnesian basalts and komatiites, along with a felsic to intermediate volcano-sedimentary sequence termed the Blag Flag Beds. Dolerites and gabbros intrude these lithologies, along with syntectonic stocks of monzogranitic, tonalitic and granodioritic composition.



**Figure 3 Geological Map of the Lindsays, Kalpini and Kurnalpi Projects**



### 3.4.2 Project Geology

#### 3.4.2.1 Lindsays Project Geology

The Lindsays project, also known as Lindsay's Find, consists of three main gold bearing structures: The Eastern Structure, The Central Structure and The Western Structure. The bedrock comprises a sequence of metamorphosed Archaean basic and felsic volcanic rocks. The basic rocks range from basalt to gabbro while the felsic rocks include volcanoclastics and porphyritic felsic rocks. This sequence has been intruded by a porphyritic granitoid stock in the west of the project area and by north-northeast trending porphyritic felsic dykes in other parts. Much of the Archaean bedrock sequence is overlain by Cainozoic sedimentary units that include detrital deposits and laterite.

The Eastern Structure is the most prominent mineralised structure which trends over ~1.1km and dips shallowly to the southwest at ~45°. This structure cross cuts each lithology and at depth is interpreted to penetrate the granodiorite. The strongest and most robust gold mineralisation is hosted within dolerite at a prospect known as Parrot Feathers in the Lindsays Pit area. To the south of Parrot Feathers (and hosted by the same Eastern Structure) is the Trial Pit, which was mined to a depth of 3m in the late 1980s. The Central Structure is located ~400m to the west of the Eastern Structure, also dips shallowly to the southwest and hosts erratic mineralisation over a 1.3km strike length. The Neves Lode is hosted by the Central Structure at its northern end.

The mine sequence comprises magnesium enriched porphyritic basalt in contact with epiclastic sedimentary rocks (shales to fine sandstones) and an andesite porphyry stock intruding this sequence along a north-northeast trending corridor, hosting the bulk of the gold mineralisation. Locally in the area surrounding the mine the gold mineralisation occurs in meta-volcanics and meta-sedimentary units on the limbs of a complex fold structure. The gold is generally contained





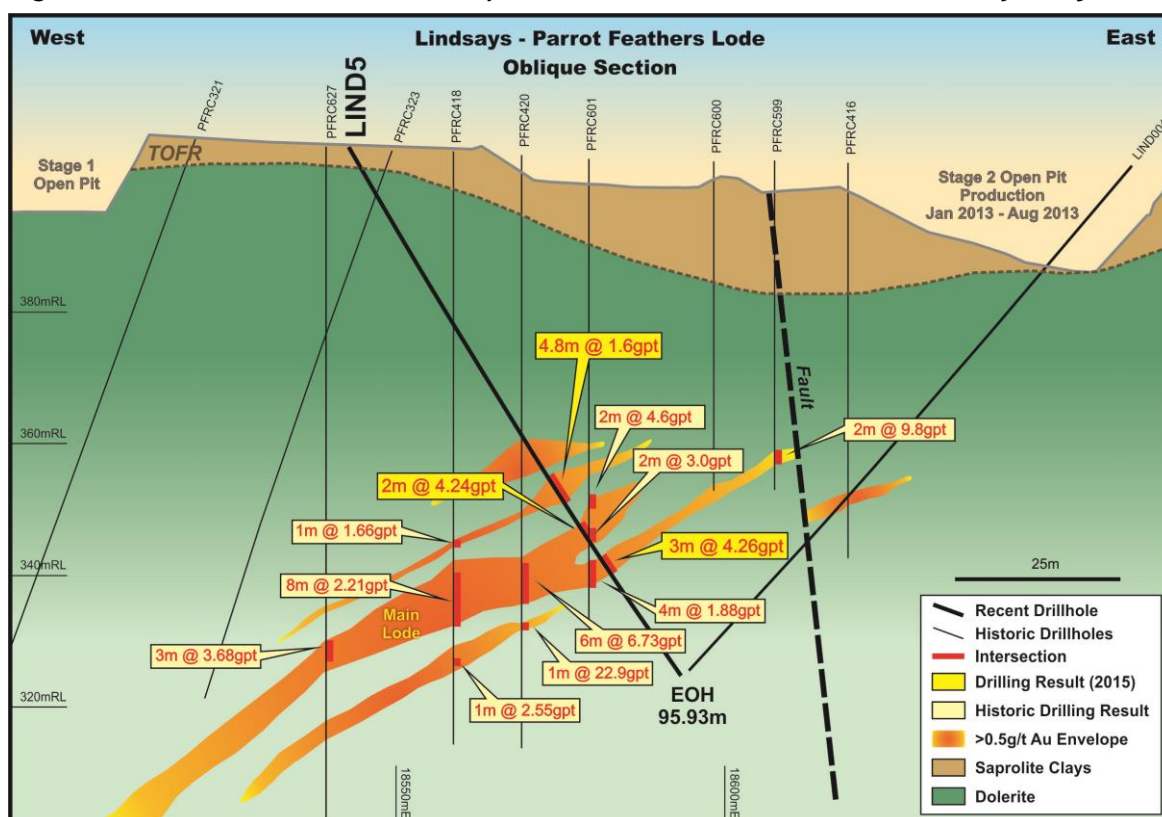
within small flat-lying shear zones that dip to the west although it is reported that mineralised shears occurring within the Lindsays Find Trial Pit dip more steeply to 65°, to the west and east.

Mineralisation is found in all lithological types; however the carbonaceous shale and felsic sedimentary marker beds tend to delineate the termination contact boundaries between lodes and search domain orientations. Gold mineralisation is predominantly found within quartz veins hosted in the granodiorite and mafic country rocks. Veins are quartz-calcite with pyrrhotite-pyrite-chalcopryrite sulphides within, and variable biotite, sericite and chlorite alteration products. Rheology and host rock composition tend to determine vein swarm density and orientation along the interpreted eastern and central host structures. Gold mineralisation probably developed initially in north-northwest trending shear zones during strike-slip deformation parallel to fold planar foliations. The probable presence of ultramafic rocks low in the stratigraphic sequence, below the Lindsays project, suggests the most likely reservoirs for ore fluids. A post folded porphyritic biotite-granite intrusion is located in the central portion of the Lindsays area, which may have been the mechanism for the development of structural sites for the deposition of significant gold mineralisation.

### Parrot Feathers Lode

The Parrot Feathers lode is a typical Eastern Goldfield shear/faulted hosted narrow vein gold deposit. The mineralised zone consists of one semi continuous quartz sulphide (mainly pyrite and lesser chalcopryrite) vein that has a strike length of approximately 250m hosted within dolerite. The vein varies in thickness from 0.5m to up to 5m, but generally is 1-2m wide and dips at a shallow angle (45°) to the southwest (Figure 4 and Figure 5). The mineralised zone is characterised by a limited or narrow alteration selvage within the host dolerite adjacent to the quartz vein. The vein and mineralisation has down dip continuity with deeper wide spaced diamond drilling demonstrating continuity of the vein some 440m down dip which remains open. The gold grade is variable within the vein, due to a high nugget effect.

**Figure 4 Schematic Cross-Section of the Parrot Feathers Lode at the Lindsays Project**



**Figure 5** *Photograph of Parrot Feathers Vein Exposed in Lindsays Pit, Showing Shallow Dip, 1m Width and Sample Point*



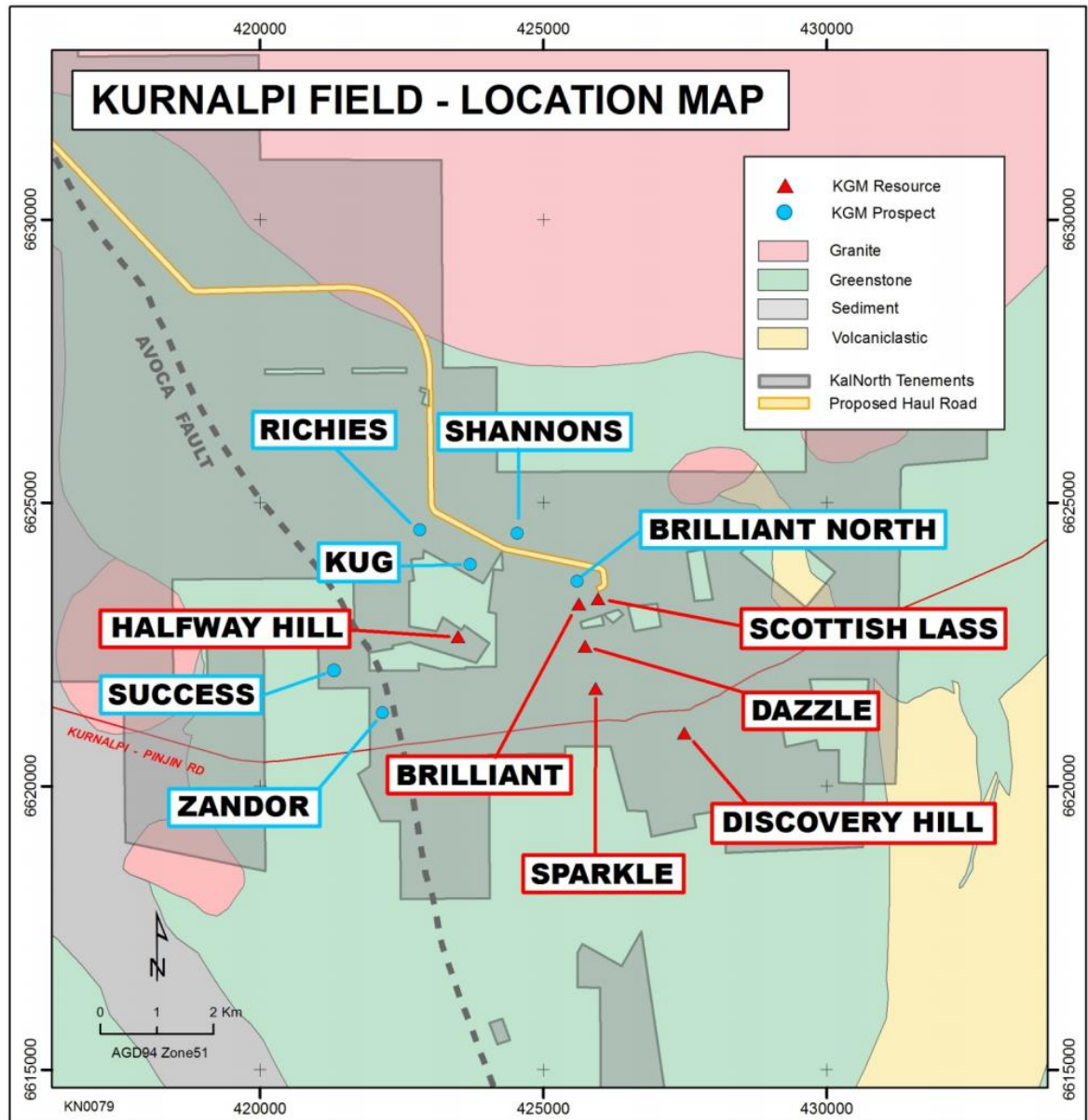
#### **3.4.2.2 Kurnalpi Project Geology**

The local geology mainly consists of basaltic flows with several komatiitic, peridotite flows interbedded with Archaean sedimentary rocks such as sandstone, siltstone and chert which is intruded by granitoid rock and gabbroic sills (Figure 6). The project area has been subjected to strong structural deformation with geophysical, orthomagery and mapping interpretation demonstrating the north to north-northwest strike of the Archaean rocks and cross-cutting northeast structures and lineaments. The primary structural feature in the project area is the interpreted northwest striking Avoca Fault. The Avoca Fault is interpreted to consist of a ~200m wide corridor characterised by moderate-strong foliation and localised shearing and small-scale parallel to subparallel quartz vein splays. The Brilliant deposit is localised on the north-northwest Brilliant shear zone which is a control for the gold mineralisation throughout the local area. The central eastern portion of the Kurnalpi project is characterised by moderate outcrop to sub-crop which form low lying ultramafic and basaltic hills. Several low lying lateritic hills are present throughout the Kurnalpi project. The weathering profile can be up to 80m deep and is overlaid by a lateritic ferriferrous capping ranging from 1m to 5m thick. The regolith is quite variable from deposit to deposit, whereby large areas are characterised by recent sheet wash sediments associated by the drainage system trending to the southwest. The current drainage system emanates from the northern part of the project and drains southwest into Lake Yindarlgoooda (Fieldgate, 2012 and Siggs, 2015).

In the Kurnalpi project there are two types of mineralisation - supergene enriched and primary. Extensive exploration drilling has defined six gold deposits for which Mineral Resource estimates have been made: Brilliant, Sparkle, Dazzle, Scottish Lass, Halfway Hill and Discovery Hill. The location of these deposits and other gold prospects are illustrated in Figure 6.



**Figure 6 Kurnalpi Local Geology Map and Deposit Locations**



The supergene mineralisation is a direct enrichment derived from the primary mineralisation. It usually occurs as flat bodies from the surface to the oxide / transitional boundary and is associated with quartz or with a lithological boundary such as a laterite, or an ancient water table level. The primary mineralisation is associated with individual quartz veins that range from 0.1m up to 5m thick with minor sulphides within a sub-vertical shear zone. The gold mineralised and altered units in the dolerite hosted structures at Brilliant are relatively narrow (20 - 30m in width), vertical to sub-vertical in orientation, and strike in a north to north-northwest direction. Mineralisation occurs in two major quartz vein sets; one vein set is flat dipping to the north and another set is sub-vertical. Other quartz vein set orientations are also likely to be present (Ashcroft, 2011a).

#### 3.4.2.3 Kalpini Project Geology

The Kalpini project is located in the Kurnalpi Terrane (Section 3.4.1). Locally, the geology comprises a complex folded and faulted sequence of meta-gabbro, intermediate volcanic rocks, basalt with lesser chert and shale which trend northwest. Outcrop exposure is relatively good which has allowed detailed geological mapping over a period of 25 years by various exploration companies. Most of the gold mined to date in the Kalpini area has been extracted from mafic host





rocks - mainly meta-dolerite and gabbro. The Atlas shaft workings are located in a differentiated dolerite in contact with intermediate, mafic and felsic volcanic rocks. These volcanic rocks contain distinct outcrops of sedimentary chert acting as marker horizons or contacts between the different volcanic units including undifferentiated dolerites and/or basalts. Two lines of mineralisation have been identified at Kalpini by drilling. Surface workings and drill assay results indicate that both lines of mineralisation are open ended. In the Atlas area several mullock dumps display variable hydrothermal wall rock alteration, consisting of chlorite, sericite and pyrite. Pyrite cubes of centimetre size overprint hydrothermal minerals indicating a late stage hydrothermal event. Quartz reef material is also brecciated in places (Johnson, 2014a).

The Kalpini workings (including the Atlas shaft) strike 133° magnetic and dip at 70° to the northeast, being expressed at the surface by a series of shafts and collapsed stopes over a strike length of 400m. The workings are bisected by a major acute north-northeast trending fault in the vicinity of the main inclined shaft. This structure appears to have dextrally offset the stratigraphy by some 250m however it predates the Kalpini mineralisation (Ashcroft, 2011c).

Mineral Resources have been defined at the Gambia and Atlas deposits. The Gambia deposit mineralised interpretation comprises flat lying supergene enrichment within the oxide and a primary structure dipping between 20° to 35° to the west.

#### **3.4.2.4 Spargoville Project Geology**

The Spargoville project is located in the Coolgardie Domain of the Kalgoorlie Terrane in the Norseman-Wiluna greenstone belt of the Yilgarn Craton. The Coolgardie Domain is bounded by the Ida Fault to the east and granite batholiths in the west. The Coolgardie Domain consists of tholeiitic, high-magnesian basalts and komatiites, along with a felsic to intermediate volcano-sedimentary sequence termed the Blag Flag Beds. Dolerites and gabbros intrude these lithologies, along with syntectonic stocks of monzogranitic, tonalitic and granodioritic composition.

The Lady Allison prospect comprises lenses of sedimentary rocks bounded by east-trending, south-dipping granodiorite units. The sedimentary rock has undergone intense deformation and metamorphism to high amphibolite facies due to close proximity of the granite batholiths. To the east, are a series of basaltic flows with several volcanoclastic flows and minor komatiitic, peridotite flows. The mineralisation is hosted within biotite-quartz-garnet schist after sedimentary rocks and is associated with east-west trending, sub-vertical south dipping granodiorite contacts. Previous RC drilling has revealed the prospect has a significant depth extension with locally high gold grades. The strike length of the mineralised system has only been partially tested by drilling and is subject to complex internal structural controls.

The Logan's Find and Harold's Find prospects lie in the eastern part of a north-trending Archaean greenstone belt. The geology consists of felsic volcanoclastic rocks with minor sedimentary units, komatiites, gabbros and high magnesium basalts. There is a mafic-ultramafic belt of rocks with felsic volcanics and sedimentary units flanking either side. The gabbro differentiation and basalt pillow structures indicate that the sequence is dipping to the east at 60-80°. The area is interpreted as comprising the western limb of a syncline with its axis to the east of the tenements in a volcanoclastic rock sequence. The contacts between the mafic and ultramafic rocks are sheared and form a favourable environment for gold and nickel mineralisation. Two gold mineralised north-trending shears occur at Harold's Find and 900m to the east at the Logan's Find shear, which localises another significant gold mineralised northerly trend.

The structural setting of the Larkinvale mining area contains features that make the area highly prospective for gold mineralisation. The geology of the prospect consists of north-south trending mafics, ultramafics and sedimentary units including black shales with a granite intrusion developed in the southwest. The greenstones are intruded by the biotite granite and by smaller granitic dykes including pegmatites and aplites.

The North Spargoville tenements are located in prospective geological locations, but have had little or no work conducted to date. The tenement spans extensions of southern mineralised structures from the Lady Allison tenements to the northwest.



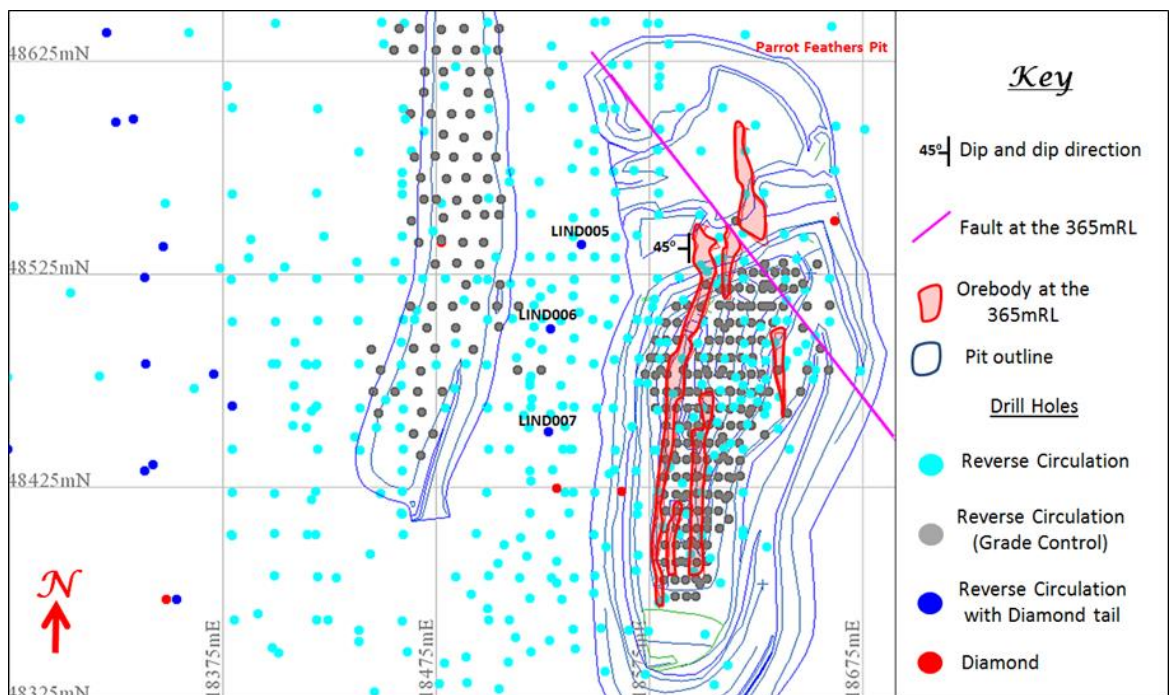
### 3.5 Exploration Results and Potential

#### 3.5.1 Recent Exploration Activities

##### 3.5.1.1 Lindsays Project

Exploration was first carried out at Lindsays by Aur NL in 1980's drilling 41 percussion holes for 1,645m. Various companies explored the tenements intermittently, until KalNorth obtained the Lindsays tenements around 2002 and undertook continuous exploration with multiple drill programs over the following 10 years. KalNorth drilled sporadically at Lindsays between October 2012 and May 2013. In 2015, three diamond holes were drilled to test and validate the geometry, location, strike and dip under the current Parrot Feathers pit (Johnson, 2014c). Figure 7 illustrates the extent of exploration drilling at Lindsays with the three recent diamond holes labelled.

**Figure 7** Plan View of the Lindsays Pit Showing Drill Hole Collars, Orebody Outline and Faulting



A geophysical gravity survey was conducted in 2012 using a Scintrex CG-5 gravity meter, adding 381 new gravity stations to the existing Lindsays gravity database.

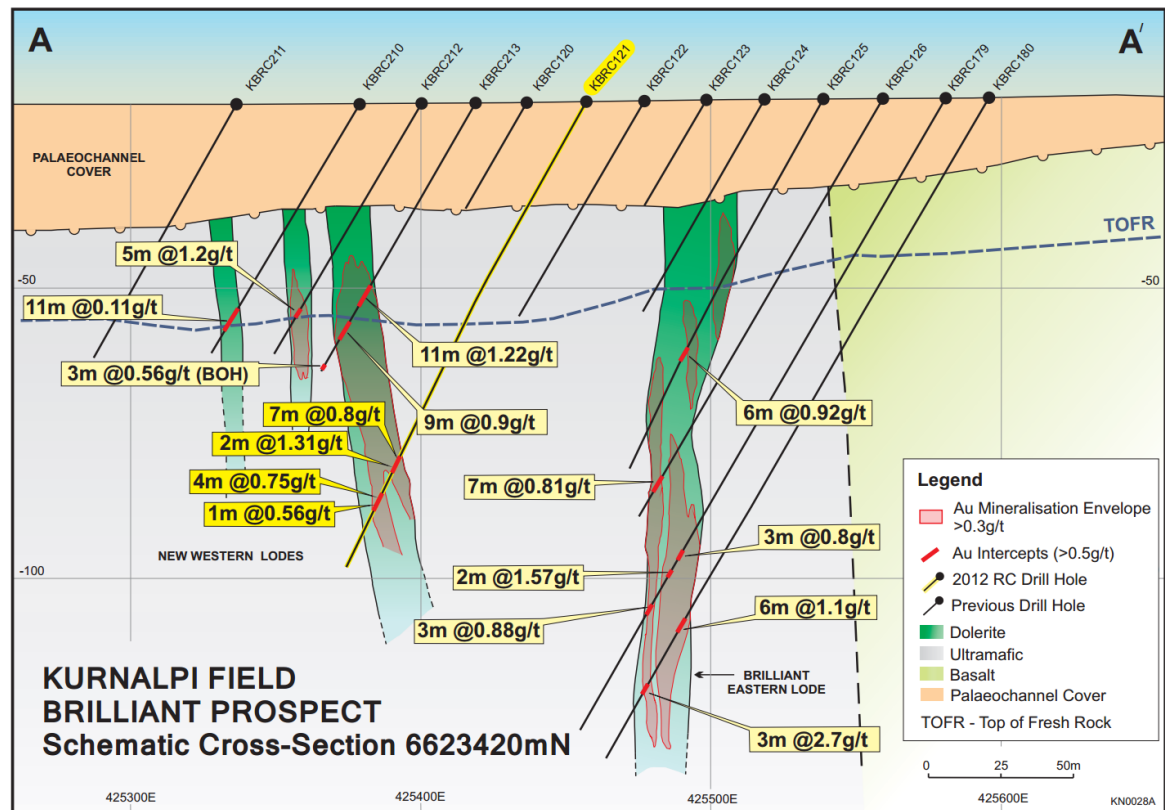
##### 3.5.1.2 Kurnalpi Project

KalNorth commenced exploration at the Brilliant deposit in 2007 by compiling the data from extensive previous exploration over the project areas (Anon. 2007). Initial work by KalNorth identified significant gold intercepts from RC drilling which were released in the 2007 Annual report. KalNorth then drilled four diamond holes for 1,466m for resource definition and an initial JORC compliant resource was released to the ASX on 11th March 2008. Drilling in 2008 and 2009 saw a further 43 RC holes completed for 5,467m. In 2009/10 KalNorth drilled a further 75 RC holes for 6,121m and seven diamond holes for 1,864m to delineate the Brilliant resource. This reduced the drill pattern down to 25m x 25m in the main lode and 25m x 40m in the West lode; and along strike extents of the main lode. In 2011, KalNorth completed drilling of 121 holes for 10,233m on P28/1099, and 26 holes for 1,982m on the strike of the mineralised zone on the adjacent M28/92. This program infilled and validated previous drill programs whilst also collecting samples for metallurgical test work. Results from each successive program supported further resource estimation and scoping studies (Ashcroft 2011a).



Figure 8 provides a schematic geological cross section illustrating the geology of the Brilliant deposit as defined by recent and historic drilling.

**Figure 8 Brilliant Deposit Schematic Geological Cross-Section 6623420mN**



KalNorth commissioned a consultant to undertake a base metal targeting exercise over the KNC area of the Kurnalpi project which concluded that the tenements capture a structurally complex area including sheared/schistose mafic-ultramafic-volcanoclastic rocks and the Avoca Fault Corridor (with associated splays), identifying that significant (+1%) nickel-copper sulphide mineralisation has been recorded on the KNC area and defining three (with high priority) drill targets (Siggs, 2015).

### 3.5.1.3 Kalpini Project

KalNorth's exploration at Kalpini over the past five years has focussed on improving the Atlas and Gambia mineral resources and searching for new gold mineralised systems. A detailed ground based gravity survey was completed on the two EL's in early 2015. Fact mapping of outcrop at a 1:5,000 scale at M27/485 was undertaken in 2012 with the aim of improving upon previous geological mapping, producing a digitised geology map, enabling creation of a 3D geological model and identifying future targets for exploration. Extensive RC drilling was undertaken by KalNorth in the Atlas and Gambia areas. Initially, this drilling tested and confirmed soil anomalies in these areas, however, it eventually helped to establish lithological relationships, determine orientations of mineralisation and confirm resource quantities. Eight diamond core holes were drilled in 2011; two at Atlas; and six at Gambia. The purpose of these holes was to confirm geology and gold grades, as well provide structural information on the orientation of mineralisation. A soil sampling auger program was undertaken in 2007 in the southwestern corner of M27/485. The background gold values were estimated to be between 10 and 16ppb Au, with anomalies ranging up to 237ppb Au. The company supported a geology student from Monash University, Melbourne to undertake an Honours level research project over the Kalpini resource area within M27/485, entitled "Geology, geochemistry, petrology and controls on Au mineralisation within the Kalpini Au deposit,



Yilgarn Craton, Western Australia". Current activities at Kalpini include interpretation of all available past exploration data, geological mapping and re-logging of drill core.

#### **3.5.1.4 Spargoville Project**

Exploration by KalNorth during 2012 consisted of diamond drilling, sampling, mapping and open file research and petrography. Two 300m diamond drill holes targeted depth extensions of the Lady Allison deposit but yielded disappointing results (Carter, 2013a).

Mithril had been exploring the project tenements in joint venture with KalNorth during the period 2013 to 2015, but recently withdrew from the joint venture. Mithril had undertaken systematic grassroots exploration across the project tenements including surface rock chip sampling, auger geochemical surveys and geological interpretation of historic and recent exploration data (Lockhead, 2013).

#### **3.5.1.5 Roe Project**

The Roe Project consists of two exploration licenses located approximately 50km to the east of Kurnalpi. The tenements were acquired in 2013 to cover prospective ground adjacent to the Claypan Fault over and around the Stag gold prospect. Initial exploration activity by KalNorth includes compilation of previous exploration data and a geological appraisal and some ranking of the prospectivity of gold and base metal targets.

### **3.5.2 Exploration Potential**

#### **3.5.2.1 Lindsays Project**

Over the past five years all exploration work has focused on the known resource areas with no effort going into exploration for new gold bearing systems within the property, therefore significant near mine exploration potential remains untested.

KalNorth engaged Ravensgate (Fieldgate, 2014) to conduct an independent reconciliation study of the Lindsay's Find mining operation. The conclusions of this study give confidence that despite the premature cessation of the mining operation, there remains potential to successfully exploit the Lindsays resource by remedying the mistakes made during the 2013 mining campaign. These lessons can be applied to future mining projects on KalNorth's Mineral Resources to improve the mineral economics.

The Parrot Feathers vein is faulted by a 330° striking fault in the north part of the Lindsays stage 2 pit. The vein continues on the other side of the fault but the extent of the displacement of the fault is unclear. Further investigation is warranted to determine the displacement on the fault to assist with refining the current block model and the potential for an exploration target - seeking the vein on the eastern side of the fault (Fieldgate, 2015). Mineralisation remains open below the resource and KalNorth consider there is potential for another 50,000oz Au of underground ore at a similar or slightly improved grade (Johnson, 2015).

Prospecting activities include detecting and ground disturbance activities immediately to the north of M27/169 and to the west, adjacent to Lindsays Dam. These activities were completed by a prospector operating under agreement with the KalNorth. Approximately 100g of gold nuggets was recovered from an area between Lindsays Dam and the mine site (M27/169) and further work is planned. Prospecting has been beneficial for targeting in outlining alluvial mineralised trends near surface and in the upper, highly weathered profile. Research is continuing to vector in on significant potential primary gold sources.

The Lindsays project has some base metal potential with high-grade nickel sulphide ore mined at Silver Swan located in an adjoining tenement southwest of the project.

#### **3.5.2.2 Kurnalpi Project**

The Kurnalpi area is considered to have the key regional geological characteristics similar to other districts that host major gold mines.

The area is well endowed with alluvial and shallow supergene gold mineralisation, has existing resources and favourable lithology and structural setting. Understanding the regolith environment and placing the nuggets into context, may help to reveal the potential primary source area of





these plentiful gold nuggets (Figure 9) and is a current focus for KalNorth geologists. Future work to be completed at Kurnalpi is regolith mapping and generating a palaeosurface model in 3D (Johnson, 2014b).

**Figure 9**     *Gold Nuggets from Recent Prospecting Activities on M28/375*

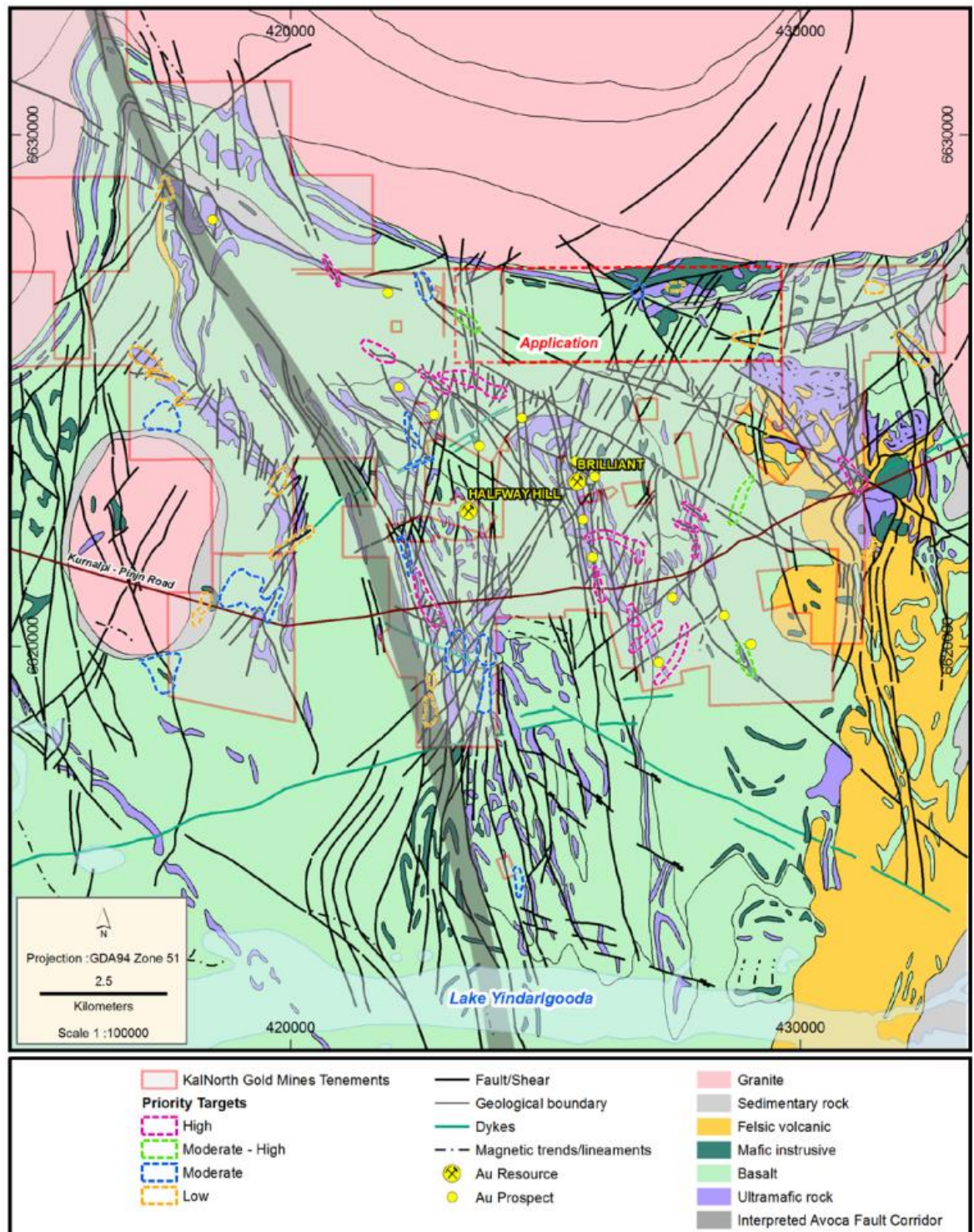


Mineralisation in the Brilliant deposit area has been confirmed over 800m of strike, and high grade intercepts 1.2km to both the north and south suggest the shear zone could be materially longer in strike. In addition to the current resource, there has been a low grade supergene horizon drilled over an area 100m x100m, with an average thickness of 10m, and open to the south (Ashcroft, 2011a). The next phase of exploration proposed at Brilliant is planned to test the system at depth along strike to the north, potentially improving as it is feasible the dolerites will merge at depth and increase in gold content.

KalNorth's recent geophysical interpretation of the Kurnalpi project has generated some 40 target areas that are considered to have geological and structural attributes to host gold mineralisation (Figure 10). Field inspection of the higher priority targets has allowed a re-ranking of priority and recommendation for evaluation. Five higher priority targets are highlighted for first pass drill testing, two of which are considered to be of the highest ranking in KalNorth's portfolio (Johnson, 2015).



**Figure 10 Geophysical Interpretation of the Kurnalpi Project Showing Identified Targets**



### 3.5.2.3 Kalpini Project

Kalpini is considered to have the key regional geological characteristics similar to other districts that host major gold mines. Known mineralisation at Kalpini is of orogenic lode gold dolerite-hosted type. Multiple orientations (flat and steep dipping) and mineralisation styles (arsenopyrite and non-arsenopyrite rich) occur. There is exploration potential for recurrences of the above style, but the mineralised porphyry style gold mineralisation is also an opportunity.



Ravensgate notes that the 2015 diamond drilling confirmed the geometry of the lodes and hence confidence in the resource model. At Gambia dolerite contacts are yet to be evaluated with potential for steep dipping shear hosted mineralisation. Only limited exploration has taken place on ML27/485 outside of the resource area. Gravity surveys have generated regional linear trends in two EL's. Pioneer Resources are actively exploring the neighbouring tenements and have completed regional targeting exercises which recognise the prospectivity of the Gambia mineralised trend.

#### **3.5.2.4 Spargoville Project**

The project area covers approximately 55km<sup>2</sup> with a strike length of approximately 37km across four different prospect areas; Lady Allison, Logan's Find/Harold's Find, Larkinville, and North Spargoville. The projects cover areas favourable for further exploration within well-endowed gold districts which includes Ramelius Resources' Wattle Dam Gold Mine, 25km southeast of Kambalda. The Spargoville project hosts the Lady Allison Inferred Resource, interpreted to be hosted within a series of easterly trending and south dipping lodes within quartz-biotite-feldspar schist. Exploration has not been successful in extending this mineralised zone. There is significant potential to increase the length of the main Logan's Find/Harold's Find mineralised trend and possibly increase grade at depth. Nickel (>1,000ppm Ni) and coincident copper (>100ppm Cu) anomalies have been identified in Mithril's auger geochemical surveys over five locations across a number of tenements in the Logan's Find/Harold's Find area. On-ground work is required to follow up all targets delineated from the previous and recent auger and rock chip sampling (Lockhead, 2013).

#### **3.5.3 Constraints to Further Exploration Success**

Ravensgate views the current depressed gold and nickel prices and general negative market sentiment towards exploration projects, as the most problematic constraint to further exploration success for KalNorth.

Due to KalNorth's recent budgetary constraints and consequent lack of exploration expenditure, there is risk of forfeiture for some tenements due to the failure to meet minimum expenditure criteria set out in the tenement conditions.





### 3.6 Mineral Resources

KalNorth's project areas contain 14 current Mineral Resources estimated in accordance with the JORC Code and which have been publicly reported. The most recent estimate, which was undertaken on the Parrot Feathers lode, was estimated according to the 2012 Edition of the JORC Code, however the other estimates were all undertaken before that Code came into effect and were thus reported according to the 2004 edition of the JORC Code.

These deposits were discovered some time ago and have a long history of exploration drilling. Each of the mineral resources has been estimated a number of times by different geologists and utilising different methodologies. Some of these previous estimates have been publicly reported to the JORC Code, while others have not. Only the most recent publicly reported resource estimate is described in this report. Ravensgate have briefly reviewed some of the previous mineral resource estimates and found the reliability of some historic estimates to be very low, significantly over estimating the tonnes and grade. Ravensgate is of the opinion that KalNorth have been diligent in improving the quality of the resource estimates since acquiring the projects.

For all but one of the publicly reported mineral resource estimates, a technical report prepared by the Competent Person was available for review. Most of this resource estimation work was undertaken by independent consulting geologists. Some estimations were undertaken by KalNorth company geologists and these were peer reviewed by independent consulting geologists. Ravensgate has reviewed these reports and the resultant estimates; and have briefly described the salient points of each estimate in the sections below. The Eastern Structure deposit at the Lindsays project was completed by a KalNorth company geologist but no report was written. Ravensgate have reviewed the data files pertaining to this estimate and determined that it was estimated using a robust methodology very similar to that used for the Central Structure mineral resource estimate.

Ravensgate is satisfied that all the mineral resource estimates have been developed from reliable exploration data using appropriate resource modelling methodologies, that they have been classified and reported in accordance with the JORC Code and can be confidently used as a basis for evaluation of KalNorth's mineral assets.

A summary of the Mineral Resource estimates is provided in Table 7 below, grouped by project, deposit and JORC classification.





**Table 7 Summary of Mineral Resource Estimates by Project, Deposit and JORC Classification**

Project	Deposit	Measured		Indicated		Inferred		Total Resource	
		Tonnes	Au (g/t)	Tonnes	Au (g/t)	Tonnes	Au (g/t)	Tonnes	Au (g/t)
Lindsays	Parrot Feathers	-	-	140,000	4.0	261,000	4.3	401,000	4.2
	Eastern Structure	-	-	1,479,000	1.6	203,000	1.1	1,682,000	1.6
	Central Structure	-	-	1,315,000	1.1	48,000	1.1	1,363,000	1.1
	Neves Prospect	-	-	491,000	1.6	38,000	1.3	529,000	1.5
	Stockpile	64,100	0.87	-	-	-	-	64,100	0.87
	<b>TOTAL</b>	<b>64,100</b>	<b>0.87</b>	<b>3,425,000</b>	<b>1.5</b>	<b>550,000</b>	<b>2.6</b>	<b>3,975,000</b>	<b>1.7</b>
Kurnalpi	Discovery Hill	-	-	-	-	130,000	0.9	130,000	0.9
	Halfway Hill	-	-	-	-	510,000	1.1	510,000	1.1
	Scottish Lass	-	-	-	-	85,000	1.0	85,000	1.0
	Brilliant	-	-	2,821,000	1.3	1,118,000	1.1	3,939,000	1.2
	Sparkle	-	-	289,000	0.9	190,000	1.0	479,000	0.9
	Dazzle	-	-	-	-	511,000	0.8	511,000	0.8
	<b>TOTAL</b>	<b>-</b>	<b>-</b>	<b>3,110,000</b>	<b>1.2</b>	<b>2,543,000</b>	<b>1.1</b>	<b>5,654,000</b>	<b>1.2</b>
Kalpini	Gambia	-	-	3,072,000	1.9	1,074,000	1.6	4,146,000	1.8
	Atlas	-	-	169,000	1.3	299,000	1.2	468,000	1.2
	<b>TOTAL</b>	<b>-</b>	<b>-</b>	<b>3,241,000</b>	<b>1.8</b>	<b>1,373,000</b>	<b>1.5</b>	<b>4,614,000</b>	<b>1.7</b>
Spargoville	Lady Allison	-	-	-	-	2,128,000	1.3	2,128,000	1.3
<b>TOTAL RESOURCE</b>		<b>64,100</b>	<b>0.87</b>	<b>9,776,000</b>	<b>1.5</b>	<b>6,595,000</b>	<b>1.3</b>	<b>16,435,000</b>	<b>1.5</b>

### 3.6.1 Lindsays Project Mineral Resources

Resource estimates for Lindsays Central Structure and Neves Lode were completed in-house by KalNorth with a comprehensive resource report compiled by the Competent Person undertaking the estimates (Carder, 2011). Resource estimates for Lindsays Eastern Structure was completed in-house in early 2012 by M Carder (former KalNorth resource geologist). No resource report was compiled due to staff turnover, however the same methodology was used as for the Central Structure resource model. An independent Resource Estimate of the Parrot Feathers lode was completed by Ravensgate with a comprehensive resource report compiled by the Competent Person undertaking the estimates (Fieldgate, 2015). A summary of the Lindsays Mineral Resource estimates is provided in Table 7 above grouped by project, deposit and JORC classification.

Ravensgate have reviewed these reports and formed the opinion that the technical work is reliable and that the Mineral Resources for Lindsays have been reported by KalNorth in conformance with the JORC Code (2004 edition). The following summarises the key points of the resource estimation work for Central Structure, Eastern Structure and Neves. As Ravensgate prepared the Parrot Feathers resource estimate, a review and summary of this document was not required for the purpose of this valuation.

The mineral resource was based on RC and diamond core drill data only, with RAB and aircore holes excluded from the estimation but used to assist the wireframe interpretation. Details of the drill holes used in the resource estimate were provided in the resource report broken down by drill type, year, company, hole names number of holes and metres. The database consisted of 18 diamond drill holes for 6,275m and 419 RC holes for 128,539m drilled between 1989 and 2011. QAQC data is only available for the recent drilling data completed by KalNorth from 2009 making validation of the majority of assay data difficult. A QAQC review of the KalNorth data determined that field sampling and laboratory analysis were reliable. Downhole survey data was available for KalNorth drilled holes and diamond holes, but historic RC holes had no downhole survey information. A lower level of confidence was attached to the drill data from pre-2009.

Bulk densities used for the resource estimate were based on 32 core density measurements completed by Amdel in January 2008. The Competent Person considered this data inadequate and recommended a comprehensive program of core density test work to improve confidence in the bulk density assignments for the resource model. The topographic wireframes were created from Landgate geospatial data (2m) and collar positions of surveyed drill holes.

Resource work was undertaken using Surpac mining software. Geological interpretation of drill hole data in 3D formed the basis for construction of a DTM representing the base of complete oxidation and the top of fresh rock. Mineralised envelope strings were generated on 10-20m spaced sections. The mineralised envelopes were built around assay intervals of greater than 0.5g/t Au. The higher grade cut was chosen due to the observed nature of mineralisation that displayed a sharp contact over small distances. A total of 33 separate mineralised envelopes were developed from the mineralised envelope polygons. Strings were linked to form 3D solid wireframes, striving to maintain strike and dip continuity. The 33 mineralised lodes were subdivided into four domains based on geometrical difference and composite assay statistics.

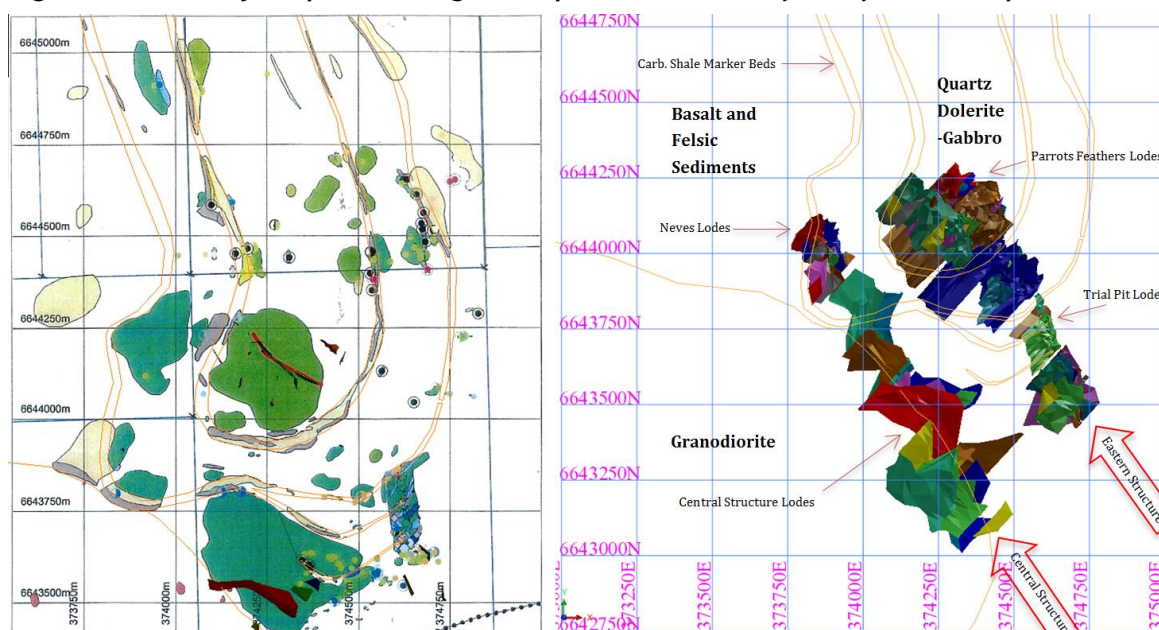
Statistical analysis of gold was undertaken on composited samples within the four mineralised zones. Gold distributions were positively skewed and contained outliers, therefore top cuts were determined by looking at the coefficient of variation and the point of disintegration of the grade population on the histograms and probability plots. The top cuts were applied at the 17.0g/t Au level for Domain 1 (Neves main), 2.0g/t Au level for Domain 2 (Neves flat) and 12.5g/t Au level for Domain 3 (southern central structure) and Domain 4 (northern central structure).

Variography was applied to determine the grade continuity of gold. Experimental variograms were calculated and modelled for the mineralised domains. Downhole variograms were calculated to determine the nugget, followed by directional variograms to determine the ranges of continuity. Block models were constructed in Surpac however the block size used was not recorded. Estimation of gold was undertaken using ordinary kriging in Surpac. Resource block models were validated by: visual comparison of block estimate grades against drill holes composite grades; comparison of global statistics of blocks against corresponding composite grades for each mineralised lode; sectional validation graphs to assess the reproduction of local means and to validate the grade trends in the model.



Rationale for classification was based on geological understanding of deposit, QAQC of assay drill hole database, bulk density database and drill hole spacing and drill hole type. The geology and the mineralisation of the deposit have been well documented. The association of gold mineralisation within quartz-calcite-sulphides veining hosted within a multiple host lithologies has been sufficiently drill tested to confirm this interpretation. The lack of QAQC and downhole survey data in most of the historic drilling database resulted in a reduced confidence in the three dimensional position of drill holes and uncertainty in the accuracy/precision of the assay values. The small number of bulk density measurements was of concern. The classification criteria used by the Competent Person was conservative to reflect this lack in confidence. Indicated Resources were assigned where the drill pattern was less than 20m x 20m and the minimum number of samples were met in the 2<sup>nd</sup> interpolation run. Inferred Resources were assigned where the drill pattern was greater than 20m x 20m or the minimum number of samples were not met by the 2<sup>nd</sup> interpolation run. No Measured category was assigned due to the limited amount of QAQC, downhole survey and density data in the database.

**Figure 11** *Lindsays Deposit Geological Map and Plan View of Wireframe Interpretations*



### 3.6.2 Kurnalpi Project Mineral Resources

Independent Mineral Resource estimates for six gold deposits at Kurnalpi were completed by Snowden Mining Industry Consultants (Snowden) with a comprehensive resource report compiled by the Competent Person undertaking the estimates (Fieldgate, 2012). A summary of the Kurnalpi Mineral Resource estimates is provided in Table 7 above. The Dazzle, Scottish Lass, Halfway Hill and Discovery Hill gold deposits have a material classified only at the Inferred Resource category, while the Brilliant and Sparkle gold deposits have material classified at the higher Indicated Resource category in addition to the Inferred category. Ravensgate has reviewed the Snowden resource report and formed the opinion that the technical work is reliable and that the mineral resources for Kurnalpi have been reported in conformance with the JORC Code (2004 edition). The following summarises the key points of the resource estimation work.

The mineral resource was based on RC and diamond core drill data only, with RAB and aircore holes excluded from the estimation but used to assist the wireframe interpretation. Details of the drill holes used in the resource estimate were provided in the resource report broken down by drill type, year, company, hole names, number of holes and metres (Fieldgate, 2012). The Brilliant deposit was defined by 181 RAB holes for 9,530m, 21 diamond holes for 5,720m and 472 RC holes for 51,762m. Independent certified reference material (CRM) samples were inserted by KalNorth. A QAQC review of the analytical results gave confidence in the accuracy of the laboratory analysis.



A total of 215 field duplicates have been taken since 2009 with a total of 64.6% of the duplicates returning results within  $\pm 10\%$  of the original assay. A total of 1,421 CRMs were analysed, ranging from a blank (0.01 g/t Au) to 47.25g/t Au with approximately 8.83% of the results falling within  $\pm 2$  standard deviations of the expected mean. The topographic wireframes were created from geospatial data (2m) and collar positions of surveyed drill holes. Unserved drill holes collar positions were draped on to the newly created wireframe to improve vertical accuracy.

Resource work was undertaken using Surpac mining software. Geological interpretation of drill hole data in 3D formed the basis for construction of mineralisation envelopes and wireframes. The mineralised envelopes are based on a 0.3g/t Au cut-off grade, with a minimum downhole width of 2m and a maximum internal dilution of 2m. The end of the envelopes was extended half way between sections or half the section width if the envelope is not terminated by a drill hole section. The envelopes were tapered using the dip/plunge of the envelope and extended no more than 20m past the last drill hole intersection unless indicated by other sections. Figure 12 provides a 3D oblique view of wireframed mineralised envelopes and drill holes for the Sparkle, Dazzle Discovery Hill, Halfway Hill, Scottish Lass and Brilliant deposits of the Kurnalpi project.

At the Sparkle deposit the mineralised interpretation utilised mapping from the mine working sections which suggest that the mineralised quartz veins dip  $20^\circ$  to  $30^\circ$  towards the east. Mineralisation at the Brilliant deposit is based on a north-northwest vertical shear zone with flat lying supergene enrichment in the oxide zone and laterite at the surface. The mineralised envelopes at the Dazzle deposit were based on the trends seen at the Brilliant prospect which lies approximately 70m towards the north and appears to have a similar orientation. The flat lying supergene mineralisation at Dazzle was extended down to the base of oxidation. Mineralisation below the oxide zone was interpreted to be sub-vertical. At the Halfway Hill, Discovery Hill and Scottish Lass deposits the mineralised interpretation occurs as flat lying supergene enrichment within the oxide (Figure 12).

Weathering wireframes for the base of transported, base of complete oxidation and top of fresh rock were based on the geological logging codes. The density values were derived from 183 core samples from 14 diamond drill holes at Brilliant. The data were separated into four weathering domains; laterite, oxide, transitional and fresh. Due to the lack of density measurements in Sparkle, Dazzle, Discovery Hill, Halfway Hill and Scottish Lass, the density measurements from Brilliant were applied to these deposits.

Historic underground mining has been carried out at the Sparkle, Discovery Hill and Scottish Lass prospects. The mine workings were digitised from old plans, with shaft depths and orientation derived from cross sections or assumed vertical. Wireframes of the mine workings were used for depletion of the Mineral Resource.

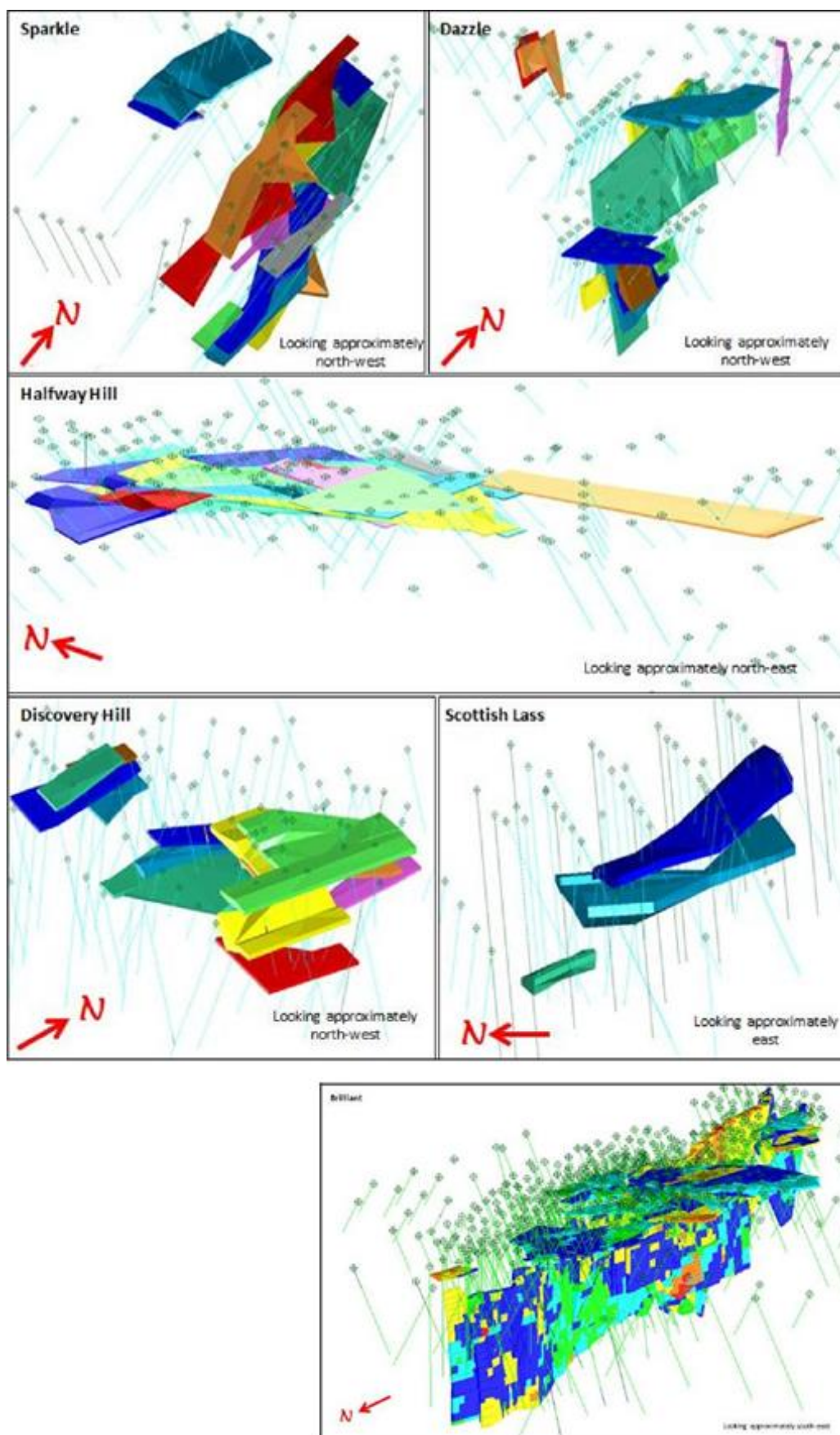
Snowden reviewed the basic statistics for the composited samples within the mineralised zones and the weathering domains for each deposit, with histograms, probability plots and summary statistics tables developed. Gold distributions were positively skewed and contained outliers. As a result top cuts were applied to limit the influence of the outliers on the estimate. Different top cuts were applied to each deposit varying from 8g/t Au at Dazzle to 25g/t Au at Brilliant.

Variography was applied to determine the grade continuity of gold. Experimental variograms were calculated and modelled for the mineralised domains within each deposit. Variograms were also calculated and modelled for the non-mineralised 'waste' for all deposits. Downhole variograms were calculated to model the nugget, followed by directional variograms. The nugget ranges from 22% to 42% of the total variance for gold. The experimental variograms within the mineralised zones were poorly structured in all directions due to the lack of samples, except in Brilliant and Sparkle where the experimental variograms were moderate to good in all directions.





**Figure 12 Kurnalpi Mineral Resources - Oblique View of Wireframes of Mineralised Envelopes with Drill Holes**



Kriging neighbourhood analysis was applied to determine an appropriate block size and number for informing samples for estimation. The optimal result obtained a block size of 10mN by 10mE by 10mRL for Brilliant, Dazzle, Sparkle and Scottish lass, while a block size of 20mN by 10mE by 10mRL was selected for Discovery Hill and Halfway Hill. Block models were constructed in Surpac with sub-blocking down to 1.25m, used to ensure the block models honoured the mineralisation geometry. All variables were estimated using ordinary kriging into parent cells with a cell discretisation of 3 north by 3 east by 5 vertical. The mineralised envelopes were treated as hard boundaries for estimation. Silver, arsenic and copper were also estimated for the Halfway Hill and Discovery Hill deposits. The search passes used ranges based on the continuity seen in the variograms, increasing in volume until sufficient samples were found, with up to four expanded passes used.

Model validation was carried out graphically and statistically via three methods: global mean comparison, visual comparison and trend plot comparison. The Kurnalpi resource estimates were at a cut-off of 0.5g/t Au, classified as a combination of Indicated and Inferred resources, tabulated by deposit and tenement and reported in accordance with the JORC Code (JORC 2004). Snowden has based their resource classification upon a number of criteria, including the geological confidence, the integrity of the data, the spatial continuity of the mineralisation as demonstrated by variography and the quality of the estimation.

- Indicated - 20mE by 20mN drilling and reasonable down-dip and along strike continuity and estimated within the first two search passes for gold.
- Inferred - greater than 20mE by 20mN drilling and limited down-dip or along strike continuity.

Mineralised envelopes which were based entirely on RAB drill holes were considered to be conceptual targets and not reported.

A table listing the criteria pertinent to the JORC Code that was used to derive the resource classifications was provided. Global grade-tonnage curves were generated for a range of cut-off grades. Snowden indicated that bulk density and QAQC were areas for improvement and made several recommendations in the report (Fieldgate, 2012).

### 3.6.3 Kalpini Project Mineral Resources

A summary of the Kalpini Mineral Resource estimates is provided in Table 7 above grouped by project, deposit and JORC classification.

Resource estimates for the Gambia and Atlas gold deposits were completed in-house by KalNorth with comprehensive resource reports compiled by the Competent Person undertaking the estimates (Boamah, 2012a and Boamah, 2012b). Ravensgate have reviewed these reports and formed the opinion that the technical work is reliable and that the mineral resources for Kalpini have been reported by KalNorth in conformance with the JORC Code (2004 edition). The following summarises the key points of the resource estimation work.

The mineral resource was based on RC and diamond core drill data only, with RAB and aircore holes excluded from the estimation. The Gambia deposit was modelled using 329 drill holes (six diamond) for 34,200m. Independent certified reference material (CRM) samples were inserted by KalNorth during the August 2012 drilling program at Gambia. A QAQC review of the analytical results gave confidence in the accuracy of the laboratory analysis. The topographic wireframes were created from Landgate geospatial data 2m contours and collar positions of surveyed drill holes. Unsurveyed drill hole collar positions were draped on to the newly created wireframe to improve vertical accuracy.

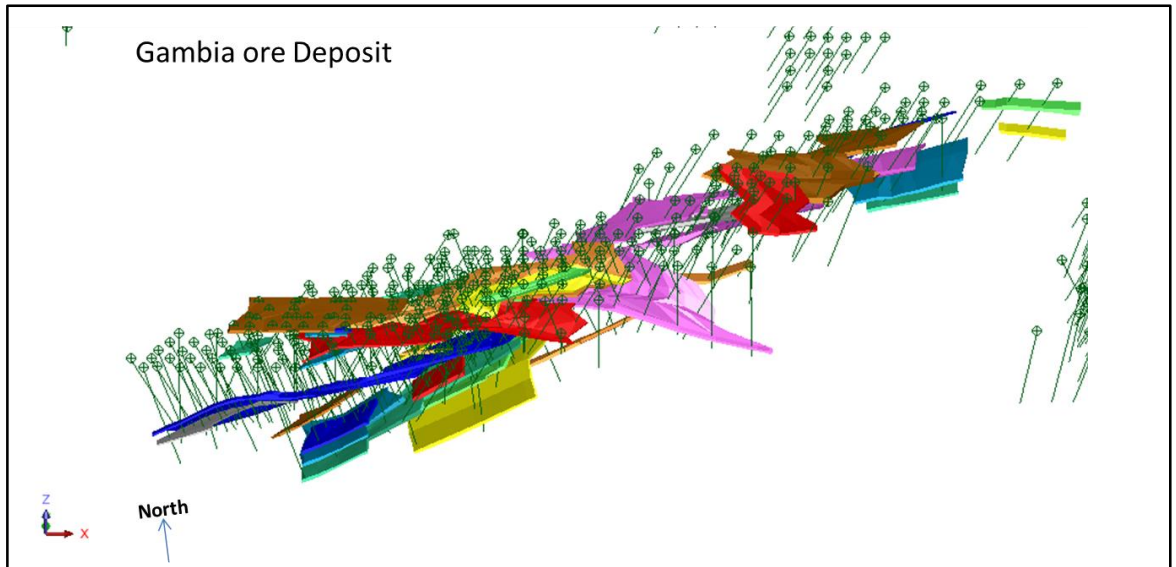
There are mine workings such as trenches, shafts and pits within the Kalpini tenements. Most of the mine workings occur outside of the resource area including the Gambia open pit. Those workings within the resource area are of limited scale. Old workings which daylight were surveyed while all voids intersected by drill holes were flagged as *void* in the Surpac model. The impact of historic workings was taken into account in the mineral resource estimate.

Resource work was undertaken using Surpac mining software. Geological interpretation of drill hole data in 3D formed the basis for construction of mineralisation envelopes and weathering domain wireframes. The mineralised envelopes are based on a 0.3g/t Au cut-off grade, with a minimum downhole width of 2m and a maximum internal dilution of 2m. The end of the envelopes was extended half way between sections or half the section width if the envelope is not



terminated by a drill hole section. The envelopes were tapered using the dip/plunge of the envelope and extended no more than 20m past the last drill hole intersection unless indicated by other sections. Figure 13 provides a schematic illustration of the wireframe solids resulting from the three-dimensional interpretation (after Boamah, 2012).

**Figure 13** *Gambia Deposit at Kalpini - Oblique View of Wireframes of Mineralised Envelopes with Drill Holes*



The Gambia mineralised interpretation comprises flat lying supergene enrichment within the oxide and a primary ore, dipping between 20° to 35° to the west.

Statistical analysis of gold was undertaken on the declustered 1m composited samples within the mineralised zones and the weathering domains. Gold distributions were positively skewed and contained outliers, therefore top cuts were determined by looking at the coefficient of variation and the point of disintegration of the grade population on the histograms and probability plots. The top cuts were applied at the 15g/t Au level.

Variography was applied to determine the grade continuity of gold. Experimental variograms were calculated and modelled for the mineralised domains for Gambia prospects. Downhole variograms were calculated to determine the nugget, followed by directional variograms to determine the ranges of continuity. Two structures were modelled for Gambia. The experimental variograms were good to moderate in all directions for Gambia flat lodes and vertical lodes, with ranges up to 80m and 115m, respectively.

Kriging neighbourhood analysis was used to determine an appropriate block size and number for informing samples for estimation. Block models were constructed in Surpac using the parent block size of 10mN x 10mE x 5mRL with sub-blocking down to 1.25m, used to ensure the block models honoured the mineralisation geometry. Estimation of gold was undertaken using ordinary kriging in Surpac.

In-situ density was set to 1.75t/m<sup>3</sup> for oxide, 2.56t/m<sup>3</sup> for transitional and 2.75t/m<sup>3</sup> for fresh materials in ore and 1.75 t/m<sup>3</sup> for oxide, 2.62t/m<sup>3</sup> for transitional and 2.86t/m<sup>3</sup> for fresh, in waste material. Values were obtained from 276 density measurements on fresh, transitional and oxide core samples, however it was recommended by the Competent Person that further density measurements should be undertaken on oxide ore material.

The resource models have been reported at a cut-off of 0.5g/t Au and tabulated by prospect. The grade tonnage tabulation by variable cut-off were calculated and grade tonnage curves plotted, with a cut-off of 0.5g/t Au chosen for resource reporting. The following classification scheme was used: Indicated Resource - 25mE by 25mN drill spacing and reasonable down dip and along strike continuity and estimated within the first two search passes; Inferred - greater than 25mE by 25mN drill spacing and limited down dip or along strike continuity.





Resource block models were validated by: visual comparison of block estimate grades against drill holes composite grades; comparison of global statistics of blocks against corresponding composite grades for each mineralised lode and sectional validation graphs to assess the reproduction of local means, also used to validate the grade trends in the model. A reasonably thorough technical report was produced and an independent peer review of the estimate was undertaken by Snowden consultants. Limited JORC Table 1 commentary was provided in the resource report.

### 3.6.4 Spargoville Project Mineral Resources

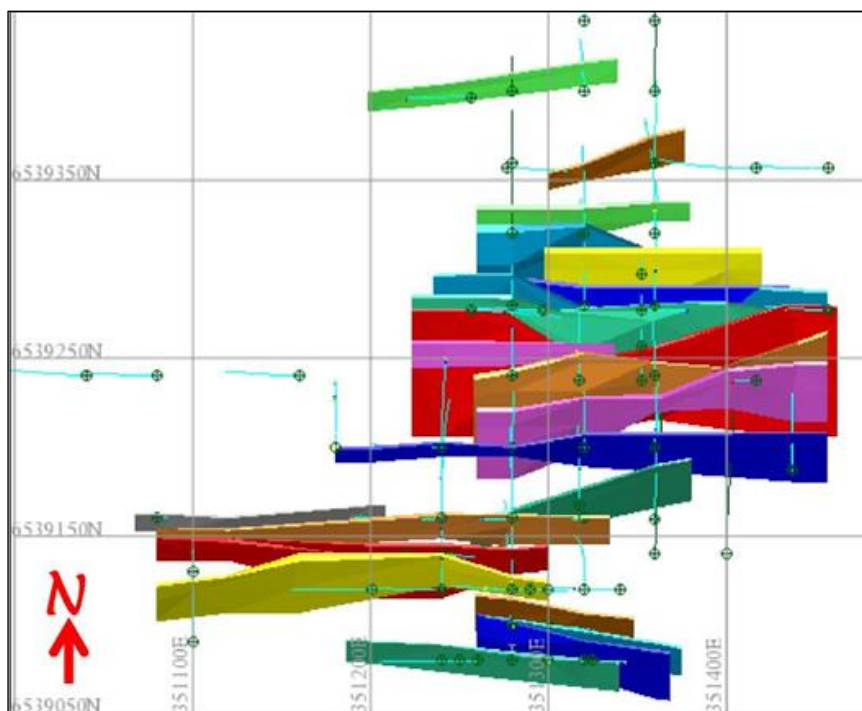
A summary of the Spargoville Mineral Resource estimates is provided in Table 7 above.

An independent mineral resource estimate for the Lady Allison gold deposit at the Spargoville project was completed by Snowden with a comprehensive resource report compiled (Fieldgate, 2011). Ravensgate has reviewed this report and formed the opinion that the technical work is reliable and that the mineral resources for Spargoville have been reported by KalNorth in conformance with the JORC Code (2004 edition). The following summarises the key points of the resource estimation work.

The drill hole data was provided in MS Access format comprising collar, survey, assay, lithology and weathering data. Drilling data included reverse circulation (72 holes for 6,988m), diamond tails (2 holes for 190m) and RAB drilling (12 holes for 421m). The RAB data was used to guide the interpretation but was excluded for resource estimation. As no collar survey data was available, all drill holes had an assume elevation of 322m and planned northing and easting coordinates. No QA/QC procedures were implemented for any of the drilling programs. No density measurements have been taken therefore bulk density values had to be assumed based on typical Eastern Goldfields narrow vein gold mines. Historical mining has been carried out within the Lady Allison tenements, including shafts and trenches. However these occur mostly towards the south of the resource and are very minor within the resource area.

Weathering wireframes for the base of transported, base of complete oxidation and top of fresh rock were interpreted, based on the geological logging codes. The mineralised envelopes were interpreted based on a 0.3g/t Au cut-off grade. A minimum downhole width of 2m and a maximum internal dilution of 2m were used when defining the individual lodes. The mineralised envelopes comprise of a series of sub-vertical lodes striking approximately east-west and dipping towards the south (Figure 14).

**Figure 14 Lady Allison - Plan View of Wireframes for the Mineralisation Envelopes**





The data within each prospect was coded by mineralised envelope, lode number and weathering domain. The coded dataset was composited to 1m intervals (the dominant sample length) downhole, using the mineralised envelope wireframes as hard boundaries to control the compositing. Snowden reviewed the statistics of the composites and due to the lack of samples in each individual mineralised lode coupled with the fact that 92% of the data occurs within fresh material, Snowden decided to combine all the mineralised envelopes for the statistical analysis. Gold distribution was positively skewed and contained outliers. As a result a top cut of 10g/t Au was applied to the single domain. Experimental variograms were calculated and modelled for the combined mineralised zones. Variograms were also calculated and modelled for the non-mineralised waste. A block model was constructed for Lady Allison in Surpac using the parent block size based on the kriging neighbourhood analysis analysis of 20m by 20m by 10m, with sub-blocks down to 1.25m. Gold grade was estimated using ordinary kriging into parent cells with a cell discretisation of 3 north by 3 east by 5 vertical. The mineralised envelopes were treated as hard boundaries for estimation. The search passes used sample search ranges based on the continuity seen in the variograms. In-situ density of 2.2t/m<sup>3</sup> for oxide, 2.4t/m<sup>3</sup> for transitional and 2.7t/m<sup>3</sup> for fresh zones was applied.

Model validation was carried out graphically and statistically via three methods: global mean comparison, visual comparison and trend plot comparison. The Lady Allison resource estimates were at a cut-off of 0.5g/t Au, classified as Inferred resources and reported in accordance with JORC Code (JORC 2004). Snowden has based their resource classification upon a number of criteria, including the geological confidence, the integrity of the data, the spatial continuity of the mineralisation as demonstrated by variography, and the quality of the estimation. A reasonably thorough technical report was produced and an independent peer review of the estimate was undertaken by Snowden consultants. Limited JORC Table 1 commentary was provided in the resource report.

Ravensgate agrees with Snowden's assessment of the Lady Allison resource being of low confidence due to it lacking QAQC, down hole surveys and density measurements and that the geological model is presently poorly understood.

### 3.7 Mining Studies

#### 3.7.1 Lindsays Project Mining Studies

Simulus Laboratories were commissioned by KalNorth to undertake a gold recovery amenability metallurgical test work program on ore from the Lindsays project. The intent was to generate metallurgical data on four different lithology composite samples to allow negotiations with potential toll treatment providers to progress (Simulus, 2012).

The general findings of the test work on the samples examined are as follows:

- Head Assays - no deleterious elements at critical levels. Primary sample levels of sulphides indicate higher cyanide and oxygen consumption.
- Bond Ball Mill Work Index on Primary Core sample - Hard.
- Oxygen Uptake Test - All samples require addition of oxygen for adequate leaching
- Viscosity - Yield stress low. No significant viscosity related issues expected
- Gravity recovery - low to moderate for oxide and transitional samples, moderate to high for primary samples
- Leach recovery - ranged between 88.5 - 93.9% across the samples.

#### Mining Operations

KalNorth commenced open pit mining operations at Lindsays on 14 January 2013. Ore was trucked to the Carosue Dam Operation located 70km to the east owned by Saracen Mineral Holdings. By the end of February some six weeks after commencement of mining, the operation was seriously behind in ore tonnage, waste movement and gold production (actual 236oz Au recovered versus planned output of 2,981oz Au). By the end of April only 10,154t of ore had been mined versus a planned production of 52,345t. Despite numerous changes to the mine plan and operational methods the Lindsays pit never reached anticipated production levels. The suspension of the mining operation at Lindsays occurred on 5 August 2013.



An internal report by KalNorth (Johnson, 2013) provided a view on the chronology of events, inputs and processes involved in the transition by the company from explorer to miner and culminating in the early suspension of the maiden mining operation at Lindsays in August 2013. This review determined that the suspension of mining at Lindsays was due to a combination of factors. The report concluded that the lower grade achieved from processing and lower ore-waste production in the first three months severely impacted cash flow to a position that even with updated mine plans was not going to realise the value it was supposed to. The major drop in the gold price in April 2013 did have an effect on revenue but this was not the catalyst for the suspension of the mining operation. A key contributor to the operations failure was the lower than expected recovered ounces. The final grade recorded from processing at Carosue Dam was consistently less than the grade control and mined grade, which had a negative effect on the ounces produced and revenue.

### **Reconciliation Study**

In 2014, Ravensgate completed an Independent Reconciliation Study to better understand the variances in ore control methodologies employed at the Lindsays mine during its short production lifetime (Fieldgate, 2014). For each batch of ore processed, a comparison was completed between the resource model, the grade control model and conditional simulation model (MP3), the predicted mined grade, the predicted belt sampling grade and the actual recovered grade. The predicted contained gold was also plotted for each of these models, as were the ounces produced. Graphs were produced on a batch by batch and also on a flitch by flitch basis. In all cases, the block models (resource, grade control and MP3) were higher than the predicted mine grade. Also, in all cases, the predicted mined grades were higher than actual recovered grades. Consequently significantly less gold was produced by mining and milling that was predicted.

During the mining of the Lindsays deposit, KalNorth trailed a series of methods such as:

- reducing the spacing of grade control drilling to increase the sampling density;
- making the geologists, mining engineers and blast personnel responsible for blasting; and
- trialling a new estimation technique (MP3) to reduce the dilution and increase the grade and ounces through the mill.

The report concluded that MP3 conditional simulation modelling was an experiment that failed at the Lindsays deposit, resulting in tonnes being over estimated, high grade being smeared over areas that weren't mineralised and therefore diluting the grade of the mined material. It is interpreted that the main problems were unconstrained grade interpolation and not applying a top cut to the gold grades. The tightening of the grade control drill spacing to 5m by 8m was effective, providing a more realistic estimated grade in the block models, however a greater amount of geological control was needed at Lindsays because of the narrow complex vein system. Such controls as mapping (surface and underground) to understand the ore body and the mineralisation system combined with constant across strike channel sampling and constant updating of the block models were recommended (Fieldgate, 2014).

### **3.7.2 Kurnalpi Project Mining Studies**

KalNorth conducted a mining study of the Kurnalpi deposits in the context of mining oxide based material from the pit and hauling to a third party processing facility (Drown, 2012b). The study concentrated on the Brilliant deposit and assumed toll treatment at Saracen's Carosue Dam operations, contractor mining the pits at Kurnalpi, with a bulk ore haulage contractor moving the ore to the mill. The resulting pit design resulted in 440kt @ 1.82g/t Au of ore, at a strip ratio of 4.2:1. At a plant recovery of 92.5%, this equates to 23,800 recovered ounces gold, generating a positive cash flow.

At the Brilliant pit, one non-KalNorth mining lease encroaches on the optimum pit, which an internal study indicated would sterilise 302kt of ore and cause a 16% reduction in projected profit (Drown, 2012b).

Metallurgical testing in 2009 by Amdel Laboratory in Kalgoorlie was carried out on two oxide and two fresh samples from the Kurnalpi project involving gold and silver recovery, gravity separation of gold particles (free gold content) and solution leaching of gold. The results of gravity separation of the gold and silver, gold and silver separation from the tailings and total gold recovery from gold and silver, ranged from 87 to 98%. The amount of gravity recoverable/ free gold collected at



the gravity stage was 35-56%. Overall the test work proved to be successful, achieving gold recoveries from 87-98% (Amdel, 2009).

### **3.7.3 Kalpini Project Mining Studies**

Petrology and metallurgical work demonstrated the Gambia ore was free milling and that, although there was a gold-arsenic association, the gold was located as free grains in silicates and along fractures in the arsenopyrite grains. Metallurgical testing in 2006 and 2009 by Amdel Laboratory in Kalgoorlie was carried out on different sample types to determine: gold and silver recovery, gravity separation of gold particles (free gold content) and solution leaching of gold at the Kalpini project. Samples of oxide rock samples and fresh rock samples were taken from Atlas and Gambia prospects. The testing of medium grade samples (1-2g/t Au) and high grade samples (>2g/t Au) was determined. The results of gravity separation of gold and silver, the gold and silver separation from the tailings and total gold recovery from gold and silver ranged from 53 to 78% recovery. High total gold recovery was recorded from each of the RC drill samples ranging from 87% - 98% (Ashcroft, 2012c).

KalNorth conducted a mining study of the Kalpini deposits in the context of mining oxide based material from the pit and hauling to a third party processing facility (Drown, 2012c). The study concentrated on the Gambia deposit and assumed toll treatment at Saracen's Carosue Dam operations, contractor mining the pits at Kurnalpi, with a bulk ore haulage contractor moving the ore to the mill. The resulting pit design resulted in 567kt @ 2.75g/t Au of ore at a strip ratio of 15:1 from two pits. At a plant recovery of 92.5%, this equates to 49,900 recovered ounces gold, generating a positive cash flow.

Snowden undertook an external peer review of the operation mine plan developed by KalNorth's mining study (McArthur, 2012). The review determined that there were no fatal flaws in the proposed mine plan but identified some technical risks that require further study and careful management. Snowden considered that the Kalpini operation has a potential life beyond a two year phase of mining, providing the gold price remained at current levels.

### **3.7.4 Spargoville Project Mining Studies**

No mining studies have been undertaken on the Lady Allison deposit at Spargoville as this mineral resource is only at the Inferred Resource classification.



## 4. VALUATION

### 4.1 Introduction

There are a number of recognised methods used in valuing mineral assets. The most appropriate application of these various methods depends on several factors, including the level of maturity of the mineral asset, and the quantity and type of information available in relation to the asset. All monetary values included in this report are expressed in Australian dollars (A\$) unless otherwise stated.

The VALMIN Code, which is binding upon Experts and Specialists involved in the valuation of mineral assets and mineral securities, classifies mineral assets in the following categories:

- Exploration Areas refer to properties where mineralisation may or may not have been identified, but where specifically a mineral resource has not been identified.
- Advanced Exploration Areas refer to properties where considerable exploration has been undertaken and specific targets have been identified that warrant further detailed evaluation, usually by some form of detailed geological sampling. A mineral resource may or may not have been estimated but sufficient work will have been undertaken that provides a good understanding of mineralisation and that further work will elevate a prospect to the resource category. Ravensgate considers any identified mineral resources in this category would tend to be of relatively lower geological confidence.
- Pre-Development Projects are those where mineral resources have been identified and their extent estimated, but where a positive development decision has not been made. This includes projects at an early assessment stage, on care and maintenance or where a decision has been made not to proceed with immediate development.
- Development Projects refers to properties which have been committed to production, but which have not been commissioned or are not operating at design levels.
- Operating Mines are those mineral properties, which have been fully commissioned and are in production.

Various recognised valuation methods are designed to provide the most accurate estimate of the asset value in each of these categories of project maturity. In some instances, a particular mineral property or project may include assets that comprise one or more of these categories. When valuing Exploration Areas and therefore by default where the potential is inherently more speculative than more advanced projects, the valuation is largely dependent on the informed, professional opinion of the valuer. There are a number of methods available to the valuer when appraising Exploration Areas.

The Multiple of Exploration Expenditure (MEE) method can be used to derive project value, when recent exploration expenditure is known or can be reasonably estimated. This method involves applying a premium or discount to the exploration expenditure or Expenditure Base (EB) through application of a Prospectivity Enhancement Multiplier (PEM). This factor directly relates to the success or failure of exploration completed to date, and to an assessment of the future potential of the asset. The method is based on the premise that a *grass roots* project commences with a nominal value that increases with positive exploration results from increasing exploration expenditure. Conversely, where exploration results are consistently negative, exploration expenditure will decrease along with the value. The following guidelines are presented on selection of the PEM:

- PEM = 1. Exploration activities and evaluation of mineralisation potential justifies continuing exploration.
- PEM = 2. Exploration activities and evaluation of mineralisation potential has identified encouraging drill intersections or anomalies, with targets of noteworthy interest generated.
- PEM = 3. Exploration activities and evaluation of mineralisation potential has identified significant grade intersections and mineralisation continuity.

Where transactions including sales and joint ventures relating to mineral assets that are comparable in terms of location, timing, mineralisation style and commodity, and where the terms of the sale are suitably arm's length in accordance with the VALMIN Code, such transactions may be used as a guide to, or a means of valuation. This method (termed Comparable Transactions) is



considered highly appropriate in a volatile financial environment where other cost based methods may tend to overstate value.

The Joint Venture Terms valuation method may be used to determine value where a Joint Venture Agreement has been negotiated at *arm's length* between two parties. When calculating the value of an agreement that includes future expenditure, cash and/or shares payments, it is considered appropriate to discount expenditure or future payments by applying a discount rate to the mid-point of the term of the earn-in phase. Discount factors are also applied to each earn-in stage to reflect the degree of confidence that the full expenditure specified to completion of any stage will occur. The value assigned to the second and any subsequent earn-in stages always involves increased risk that each subsequent stage of the agreement will not be completed, from technical, economic and market factors. Therefore, when deriving a technical value using the Joint Venture Terms method, Ravensgate considers it appropriate to only value the first stage of an earn-in Joint Venture Agreement. Ravensgate have applied a discount rate of 10.0% per annum to reflect an average company's cost of capital and the effect of inflation on required exploration spends over the timeframe required.

The total project value of the initial earn-in period can be estimated by assigning a 100% value, based on the deemed equity of the farminor, as follows:

$$V_{100} = \frac{100}{D} \left[ CP + \left( CE * \frac{1}{(1+I)^{\frac{t}{2}}} \right) + \left( EE * \frac{1}{(1+I)^{\frac{t}{2}}} * P \right) \right]$$

where:

- $V_{100}$  = Value of 100% equity in the project (\$)
- $D$  = Deemed equity of the farminor (%)
- $CP$  = Cash equivalent of initial payments of cash and/or stock (\$)
- $CE$  = Cash equivalent of committed, but future, exploration expenditure and payments of cash and/or stock (\$)
- $EE$  = Uncommitted, notional exploration expenditure proposed in the agreement and/or uncommitted future cash payments (\$)
- $I$  = Discount rate (% per annum)
- $t$  = Term of the Stage (years)
- $P$  = Probability factor between 0 and 1, assigned by the valuer, and reflecting the likelihood that the Stage will proceed to completion.

Where mineral resources remain in the Inferred category, reflecting a lower level of technical confidence, the application of mining parameters using the more conventional DCF/NPV approach may be problematic or inappropriate and technical development studies may be at scoping study level. In these instances it is considered appropriate to use the *in-situ* Resource method of valuation for these assets. This technique involves application of a heavily discounted valuation of the total in-situ metal or commodity contained within the resource. The level of discount applied will vary based on a range of factors including physiography and proximity to infrastructure or processing facilities. Typically and as a guideline, the discounted value is between 1% and 5% of the in-ground value of the metal in the mineral resource.

In the case of Pre-development, Development and Mining Projects, where Measured and Indicated Mineral Resources have been estimated and mining and processing considerations are known or can be reasonably determined, valuations can be derived with a reasonable degree of confidence by compiling a discounted cash flow (DCF) and determining the net present value (NPV).

The Australasian Code of Reporting of Exploration Results, Mineral Resources and Ore Reserves (the JORC code, 2012), sets out minimum standards, recommendations and guidelines. A mineral resource defines a mineral deposit with reasonable prospects of economic extraction. Mineral resources are sub-divided into Inferred, Indicated and Measured to represent increasing geological confidence from known, estimated or interpreted specific geological evidence and knowledge. An Ore Reserve is the economically minable part of a Measured or Indicated Resource after appropriate studies. An Inferred Resource reflecting insufficient geological knowledge, cannot





translate into an Ore Reserve. Measured Resources may become Proved (highest confidence) or Probable Reserves. Indicated Resources may only become Probable Reserves.

#### 4.2 Previous Mineral Asset Valuations

Ravensgate is not aware, nor have we been made aware, of any VALMIN valuations over KalNorth's projects. Exploration tenements have not been included in the valuation where tenure or permits have not been granted to the relevant company and the company does not therefore have any ownership over tenement mineral assets or any exploration value within the tenements. Whilst ground is under application, there are uncertainties as to whether the tenement will be granted in its entirety or only part due to specific exclusions or if at all, due to environmental, Native Title or other considerations. There could be competing applications for the same ground with no guarantee that KalNorth would be successful in its application. KalNorth have also indicated that they are in the process of surrendering a number of tenements, Ravensgate have not valued these tenements and assigned them a value of \$0.00.

#### 4.3 Material Agreements

Ravensgate has been commissioned by BDO and KalNorth to provide an Independent Technical Project Review and Valuation Report. The Technical Project Review and Valuation report encompasses KalNorth's projects. The Technical Valuation report provides an assessment of KalNorth's Pre-development Project and Advanced Exploration Area mineral assets listed below. Brief details of KalNorth's ownership are listed as follows.

<u>Mineral Asset</u>	<u>KalNorth's Ownership %</u>
Lindsays Project	100%
Kurnalpi Project	100%
Kalpini Project	100%
Spargoville Project	100%
Roe Project	100%

KalNorth has an agreement with Heron Resources Limited (Heron) over tenement E27/524 part of the Kalpini project, where KalNorth has the right to explore for and mine gold only and Heron the right to explore for and mine all other minerals except gold.

Ravensgate understands all exploration, prospecting and mining licences are granted at this point in time, most are in good standing, though some tenements are at risk due to two years of low exploration expenditure.

Ravensgate is not aware, nor have been made aware, of any other agreements than those outlined in Section 3.2.2 that have a material effect on the provisional valuations of the mineral assets, and on this basis have made no adjustments on this account.

#### 4.4 Comparable Transactions

Ravensgate has completed the following searches for publicly available market transactions:

- Gold Mineral Resources in Western Australia in the last two years, dataset excludes transactions of operating gold mines, transactions of gold projects from companies in administration and transactions Ravensgate considers to not be at arm's length between a willing seller and willing buyer.
- Gold exploration projects in Western Australia.

Transactions reflect comparable tenement holdings in geological provinces that are considered prospective for similar commodities, and that are of similar prospectivity to the mineral assets being valued. In Ravensgate's opinion and experience, it is understood that individual market transactions are rarely completely identical to the relevant project area or may not necessarily contain all the required information for compilation. In practice, a range of implied values on a dollar per metal unit or dollar per square kilometre of tenement holding will be defined as suitable



for use. The transactions identified along with the implied cash-equivalent values are summarised in Section 4.4.1 by commodity and region.

Publicly available market transactions have been separated to reflect transactions on a dollar per square kilometre of tenement holding or on a dollar per metal unit for a more advanced Mineral Resource. This was undertaken to reflect the varying levels of geological exploration carried out within the various project licences. In general terms, exploration projects may start with a relatively large licence holding where a lack of detailed geological sampling and knowledge renders the use of the in-situ yardstick valuation method inappropriate (i.e. an Exploration Area Mineral Asset). For these particularly early-stage exploration areas, comparable transactions on a dollar per square kilometre basis are more relevant. As the project advances and as geological sampling and knowledge increase, licence areas tend to decrease to match a narrowing focus on more prospective areas. For these areas with Mineral Resources, comparable transactions on a dollar per metal unit basis is more appropriate (i.e. an *Advanced Exploration Area Mineral Asset* or *Pre-Development Project*).

To compare the Mineral Resource transactions of gold projects, they are normalised to take into account the change in the gold price and variations in exchange rates. This is done by taking the implied value per ounce of gold and dividing it by the gold price in Australian dollars respectively at the time of the transaction and expressing the resultant value as a percentage.

#### **4.4.1 Reported Market Transactions**

##### **4.4.1.1 *Reported Market Transactions Involving Gold Mineral Resources in Western Australia***

Ravensgate's analysis of Western Australian market transactions for gold projects with Mineral Resources (Table 8) indicates an implied value between \$2.53 and \$40.05 per resource ounce of gold. The implied value per ounce is dependent on the resource category (Measured, Indicated or Inferred) and the average grades of the gold mineral resource. The implied value was also affected by the strategic importance of the resources to the purchaser.

To take into account the change in the gold prices over time, for each transaction in Table 8 the implied value per ounce of gold has been divided by the gold price in Australian dollars at the time of the transaction then expressed as a percentage (Table 9) and ranked from highest to lowest in terms of percentage. The normalised range of the transactions was 0.17% to 2.88%.

##### **4.4.1.2 *Reported Market Transactions Involving Exploration Gold Projects in Western Australia***

Ravensgate's analysis of Western Australian market transactions for Exploration Area Mineral Assets prospective for gold and other metals (Table 10) indicates an implied value between \$104 and \$1,586,207 per km<sup>2</sup> for Exploration Area Mineral Assets. The implied value per km<sup>2</sup> is dependent on the existence of gold, how much exploration has been conducted and whether that exploration was successful. The implied value per km<sup>2</sup> is dependent on the type of licence, whether it is an Exploration Licence, Prospecting Licence or Mining Licence. With lower implied values per km<sup>2</sup> for Exploration Licences compared to Prospecting Licences and lower implied values per km<sup>2</sup> for Prospecting Licences compared to Mining Licences. The implied value was also affected by the strategic importance of the licences and the presence of known mineralisation or historical mining activities upon them and the grade of the respective mineralisation present.





**Table 8      Market Transactions of Gold Mineral Resources in Western Australia**

Date	Project	Vendor	Purchaser	Contained Gold (Moz)	Purchase Price 100% Basis (\$M)	Implied Value / Ounce (\$)
20-Aug-15	All Projects	Phoenix Gold Limited	Evolution Mining Limited	4.022	56.4	14.02
18-Aug-15	Redcliffe Gold Project	Redcliffe Resources Limited	Northern Manganese Limited	0.278	0.98	3.53
5-Aug-15	Spargoville Gold Project	Tychean Resources Ltd	Maximus Resources Limited	0.131	0.75	5.73
31-Jul-15	Mt Henry Gold Project	Panoramic Resources Limited & Matsa Resources Limited	Metals X Limited	0.923	24.75	26.82
31-Jul-15	Grosvenor Gold and Peak Hill Gold Projects	Resource & Investment NL	Metals X Limited	1.969	20.25	10.28
3-Jun-15	Penny's Find	Liongold Corp Ltd	Barola Resources Limited	0.062	0.45	7.26
26-Mar-15	Beatons Creek Gold Project	Millennium Minerals Limited	Novo Resources Corporation	0.421	3.8	9.03
13-Mar-15	Athenia, Great Bingin, Gwendolyn East, Mt Dimer, Mt Palmer	Vector Resources Limited	Southern Corss Mining Limited & Riverglen Corporation Pty Ltd	0.168	0.43	2.53
12-Mar-15	Wilthorpe Gold Project	Red Dog Prospecting Pty Ltd	Meteoric Resources NL	0.062	0.9	14.52
24-Feb-15	Hermes Gold Project	Alchemy Resources Limited	Northern Star Resources Limited	0.212	1.45	6.84
24-Feb-15	Bryah Basin Gold Project	Alchemy Resources Limited	Northern Star Resources Limited	0.087	1.3	14.94
13-Nov-14	White Well Gold Project	Mutiny Gold Ltd & Private Individual	Private purchaser	0.113	1.3	11.5
7-Nov-14	Mt Jewell Gold Project	KalNorth Gold Mines Limited	Norton Gold Fields Limited	0.276	1.8	6.53
15-Sep-14	Wilthorpe Gold Project	Meteoric Resources NL	Resourceful Mining Group Pty Ltd	0.062	0.45	7.31
5-Sep-14	Dalgaranga, Egerton, Glenburgh Gold Projects	Gascoyne Resources Limited	Monument Mining Limited	1.765	49.22	27.89
28-Aug-14	Tuckanarra Gold Project	Phosphate Australia Limited	Monument Mining Limited	0.1	3.9	39.08

Date	Project	Vendor	Purchaser	Contained Gold (Moz)	Purchase Price 100% Basis (\$M)	Implied Value / Ounce (\$)
28-Jul-14	Majestic Gold Project	Newcrest Mining Limited	Silver Lake Resources Limited	0.25	10.02	40.05
26-Jun-14	Weerianna Gold Project	Private Vendor	Artemis Resources Limited	0.07	0.6	8.58
10-Jun-14	Kathleen Valley Gold Project	Glencore PLC	Ramelius Resources Limited	0.13	4.05	31.15
10-Feb-14	Halls Creek Project (Biscay)	Bulliton Resource Limited	Pacific Nuigini Limited	0.294	5.71	19.44
6-Feb-14	Sand Queen Mine (Comet Vale)	Reed Resources Limited	Not Specified	0.211	2	9.5
21-Jan-14	Thunderbox Mine	Norilsk Nickel Australia Pty Ltd	Saracen Mineral Holdings Limited	2.09	23	11
19-Nov-13	Plutonic Dome project	Dampier Gold Limited	Ord River Resources Limited	0.683	6.43	9.42
25-Oct-13	Sabbath Gold Project	Dourado Resources Limited	Private purchaser	0.015	0.1	6.47
10-Oct-13	Boundary, Bungarra & Stirling Resources	Korab Resources Limited	Private purchaser	0.339	1.5	4.42

*Note: Differences may occur due to rounding errors.*

**Table 9**      **Summary of Market Transactions Involving Gold Mineral Resources**

Transaction Date	Property Value A\$M	Contained Moz	A\$/oz	Gold Price on Transaction Date		A\$/oz as % of Gold Price
				US\$/oz	A\$/oz	
28-Jul-14	10.02	0.250	40.05	1,305.00	1,389.78	2.88%
28-Aug-14	3.90	0.100	39.08	1,288.00	1,377.10	2.84%
10-Jun-14	4.05	0.130	31.15	1,253.50	1,338.07	2.33%
5-Sep-14	49.22	1.765	27.89	1,268.80	1,358.31	2.05%
31-Jul-15	24.75	0.923	26.82	1,088.40	1,489.12	1.80%
10-Feb-14	5.71	0.294	19.44	1,277.00	1,429.53	1.36%
24-Feb-15	1.30	0.087	14.94	1,192.50	1,534.16	0.97%
12-Mar-15	0.90	0.062	14.52	1,152.25	1,515.32	0.96%
20-Aug-15	56.40	4.022	14.02	1,128.10	1,535.67	0.91%
13-Nov-14	1.30	0.113	11.50	1,161.00	1,334.33	0.86%
21-Jan-14	23.00	2.090	11.00	1,238.00	1,403.79	0.78%
19-Nov-13	6.43	0.683	9.42	1,275.75	1,359.21	0.69%
31-Jul-15	20.25	1.969	10.28	1,088.40	1,489.12	0.69%
6-Feb-14	2.00	0.211	9.50	1,256.00	1,401.16	0.68%
26-Jun-14	0.60	0.070	8.58	1,311.50	1,394.32	0.62%
26-Mar-15	3.80	0.421	9.03	1,203.15	1,539.15	0.59%
15-Sep-14	0.45	0.062	7.31	1,233.13	1,370.75	0.53%
7-Nov-14	1.80	0.276	6.53	1,145.00	1,340.12	0.49%
3-Jun-15	0.45	0.062	7.26	1,190.00	1,525.84	0.48%
25-Oct-13	0.10	0.015	6.47	1,347.75	1,401.72	0.46%

Transaction Date	Property Value A\$M	Contained Moz	A\$/oz	Gold Price on Transaction Date		A\$/oz as % of Gold Price
				US\$/oz	A\$/oz	
24-Feb-15	1.45	0.212	6.84	1,192.50	1,534.16	0.45%
5-Aug-15	0.75	0.131	5.73	1,090.70	1,482.13	0.39%
10-Oct-13	1.50	0.339	4.42	1,298.50	1,381.82	0.32%
18-Aug-15	0.98	0.278	3.53	1,118.60	1,518.81	0.23%
13-Mar-15	0.43	0.168	2.53	1,152.00	1,501.76	0.17%

**Table 10**      **Market Transactions Involving Gold Projects at the Exploration Stage in Western Australia**

Date	Vendor	Purchaser/Farminnee	Transaction Type	Prospective Commodities <sup>1</sup>	Value <sup>2</sup> \$M	Area km <sup>2</sup>	Cost per km <sup>2</sup> A\$
8-Sep-15	Zebina Minerals Pty Ltd	Timpetra Resources Limited	Joint Venture	Au	0.731	223.3	3,275
27-Jul-15	Lawson Gold Limited	Moho Resources NL	Joint Venture	Au-Ni-Cu	0.766	31.9	24,008
14-Jul-15	Duketon Mining Limited	Regis Resources Limited	Joint Venture	Au	1.345	373.0	3,607
11-May-15	Mithril Resources Limited	Corona Minerals Limited	Joint Venture	Au	0.374	30.2	12,376
16-Apr-15	Intermin Resources Limited	La Mancha Resources Australia Pty Ltd	Joint Venture	Au	3.569	98.8	36,125
20-Mar-15	Western Resources Pty Ltd	Siburan Resources Limited	Joint Venture	Au	0.267	9.2	29,080
15-Oct-14	Coxrocks Pty Ltd	Nexus Minerals Limited	Joint Venture	Au	0.602	24.0	25,072
15-Sep-14	Meteoric Resources NL	Resourceful Mining Group Pty Ltd	Acquisition	Au	0.450	9.3	48,387
16-Jul-14	Archean Star Resources Australia Pty Ltd	Doray Minerals Limited	Acquisition	Au	0.568	178.1	3,190

Date	Vendor	Purchaser/Farminnee	Transaction Type	Prospective Commodities <sup>1</sup>	Value <sup>2</sup> \$M	Area km <sup>2</sup>	Cost per km <sup>2</sup> A\$
23-Jun-14	Tasex Geological Services Pty Ltd	MRG Metals Limited	Option to Acquisition	Au-Ni	0.153	148.7	1,027
18-Jun-14	Atlas Iron Limited	Aruma Resources Limited	Joint Venture	Au-Cu	0.296	896.0	331
23-May-14	Alloy Resources Limited	Doray Minerals Limited	Joint Venture	Au	3.045	850.0	3,583
30-Apr-14	Australian Mines Limited	Riedel Resources Limited	Joint Venture	Au-Cu	2.628	425.0	6,182
9-Apr-14	International Goldfields Limited	Segue Resources Limited	Acquisition	Au-Ni-Cu	0.571	832.0	687
26-Mar-14	Fraser Range Metals Group Limited	Segue Resources Limited	Joint Venture	Au-Ni-Cu	2.176	641.0	3,395
25-Mar-14	De Grey Mining Ltd	Rugby Mining Limited	Joint Venture	Au	2.292	798.1	2,872
10-Mar-14	Ram Resources Ltd	Newcrest Operations Limited	Acquisition	Au-Cu	0.646	76.7	8,418
7-Mar-14	Black Fire Minerals Limited & Entree Gold Inc.	Parmelia Resources Limited	Acquisition	Au	0.306	204.8	1,494
7-Mar-14	Mount Magnet South NL	Australian Mines Limited	Joint Venture	Au-Cu	1.515	129.0	11,745
13-Feb-14	Blackham Resources Limited	Rumble Resources Limited	Joint Venture	Au-Ni-Cu	0.300	370.0	811
16-Jan-14	Riedel Resources Limited	Fortescue Metals Group	Joint Venture	Au-BM-Fe	0.340	131.0	2,595
24-Dec-13	Caeneus Minerals Pty Ltd	Matrix Metals Limited	Acquisition	Au-Ni-Cu	0.065	5.8	11,168
20-Dec-13	Doray Minerals Limited	Mithril Resources Limited	Joint Venture	Au-BM	1.033	160.0	6,457
20-Dec-13	Talisman Mining Limited	Sandfire Resources NL	Joint Venture	Au-Cu	16.205	323.0	50,170
4-Dec-13	Northern Star Resources Limited	Resource and Investment NL	Joint Venture	Au-Cu	0.850	123.0	6,909
28-Nov-13	Private Vendor	Parker Resources NL	Joint Venture	Au	0.091	42.0	2,165

Date	Vendor	Purchaser/Farminnee	Transaction Type	Prospective Commodities <sup>1</sup>	Value <sup>2</sup> \$M	Area km <sup>2</sup>	Cost per km <sup>2</sup> A\$
25-Nov-13	Enterprise Metals Limited	Independence Group NL	Joint Venture	Au-BM	2.885	760.0	3,796
17-Oct-13	Cazaly Resources Limited	Excelsior Gold Limited	Acquisition	Au	0.230	18.0	12,778
9-Oct-13	Various	Segue Resources Limited	Acquisition	Au-Ni-Cu	1.100	2,706.0	407
3-Sep-13	Yandal Investments Pty Ltd	Antipa Minerals Limited	Acquisition	Au-Cu	0.550	3,367.0	163
12-Aug-13	Plasia Pty Ltd	Gleneagle Gold Limited	Acquisition	Au	0.020	114.9	174
12-Aug-13	Panoramic Resources Limited	Gateway Mining Limited	Joint Venture	Au	1.522	6.5	233,755
9-Aug-13	Private Vendors	Stratum Metals Limited	Acquisition	Au	0.110	3.8	29,201
4-Jul-13	Valley Floor Resources Pty Ltd	Eros Mining Limited	Acquisition	Au	0.150	5.5	27,273
1-Jul-13	Ramelius Resources Limited	Eros Mining Limited	Acquisition	Au-Ni	0.400	114.4	3,497
25-Jun-13	Ninghan Exploration Pty Ltd	Erongo Energy Limited	Acquisition	Au-BM	0.130	1,248.0	104
21-Jun-13	Fraser Range Resources Pty Ltd	International Goldfields Limited	Joint Venture	Au-Ni	1.552	832.1	1,865
19-Jun-13	Private Vendor	Phoenix Gold Limited	Acquisition	Au	0.030	1.7	17,647
13-Jun-13	Dourado Resources Limited	Proto Resources Limited	Joint Venture	Au-Cu	1.294	1,461.0	886
27-May-13	Private Vendors	Bligh Resources Ltd	Acquisition	Au	0.080	0.4	216,216
20-May-13	Glencore Xstrata	Great Western Exploration Limited	Joint Venture	Au-Cu	2.814	780.0	3,608
7-May-13	Trafford Resources Limited	Alloy Resources Limited	Joint Venture	Au	1.131	27.6	40,913
1-May-13	Barrambie Minerals Limited	Carnavale Resources Limited	Joint Venture	Au-Ni	0.535	255.2	2,096
3-Apr-13	Resources and Investment NL	Naracoota Resources Ltd	Acquisition	Au	0.300	45.5	6,593



Date	Vendor	Purchaser/Farminnee	Transaction Type	Prospective Commodities <sup>1</sup>	Value <sup>2</sup> \$M	Area km <sup>2</sup>	Cost per km <sup>2</sup> A\$
22-Mar-13	Kamax	Orion Gold NL	Acquisition	Au-Ni	2.215	1,582.0	1,400
5-Mar-13	XTL Energy Limited	AXG Mining Limited	Acquisition	Au-Ni-Cu	0.878	878.0	1,000
15-Jan-13	Pilbara Minerals Limited	Fox Resources Limited	Joint Venture	Au-BM-Pt	2.321	998.0	2,326
10-Dec-12	Interglobal Investments Ltd	Leopard Resources NL	Acquisition	Au	0.390	102.4	3,809
6-Dec-12	Laconia Resources Limited	Rubianna Resources Limited	Acquisition	Au-Cu	0.098	162.3	601
8-Nov-12	Urban Minerals Pty Ltd	Ferrowest Limited	Acquisition	Au-Ni	0.102	156.4	652
10-Oct-12	Mindax Limited	Mr Chenfei Zhuang	Joint Venture	Au	4.249	55.4	76,723
9-Oct-12	National Minerals Pty Ltd	Pioneer Resources Limited	Acquisition	Au-Ni	0.667	338.0	1,972
19-Sep-12	Phosphate Australia Limited	Alloy Resources Limited	Joint Venture	Au	0.088	55.7	1,582
7-Sep-12	Breakaway Resources Limited	Mithril Resources Limited	Acquisition	Au	0.200	10.5	19,139
20-Aug-12	Private Vendors	Resource & Investment NL	Joint Venture	Au-Cu	1.518	5.9	255,984
6-Aug-12	Triton Gold Limited	Matsa Resources Limited	Joint Venture	Au	0.136	1,300.0	105
10-Jul-12	Australian Mines Limited	Pioneer Resources Limited	Acquisition	Au-Ni	2.061	120.0	17,178
2-Jul-12	Interglobal Investments Ltd	Stratos Resources Limited	Acquisition	Au	0.800	104.0	7,692
25-Jun-12	Independence Group NL	Evolution Mining Limited	Acquisition	Au	0.743	650.0	1,142
13-Jun-12	Clive Humberston	General Mining Corporation Ltd	Acquisition	Au	0.920	0.6	1,586,207
29-May-12	Wakeford Holdings Pty Ltd	Millennium Minerals Limited	Acquisition	Au	0.350	1.2	291,181
15-May-12	Chrysalis Resources Limited	Talisman mining Limited	Joint Venture	Au-Cu	0.722	18.5	10,811

Date	Vendor	Purchaser/Farminnee	Transaction Type	Prospective Commodities <sup>1</sup>	Value <sup>2</sup> \$M	Area km <sup>2</sup>	Cost per km <sup>2</sup> A\$
14-May-12	Birimian Gold Limited	Peel Mining Limited	Acquisition	Au	0.060	0.2	247,219
12-Apr-12	Cazador Resources Limited	Midas Resources Limited	Joint Venture	Au	0.578	156.0	3,704
28-Mar-12	Carrick Gold Limited	Phoenix Gold Limited	Acquisition	Au	0.706	85.0	8,311
28-Mar-12	Private Investor	Mutiny Gold Limited	Acquisition	Au	0.200	1.2	168,634
08-Feb-12	Breakaway Resources Limited	Ramelius Resources Limited	Acquisition	Au	0.300	20.8	14,419
27-Jan-12	Galaxy Resources Limited	Phillips River Mining Ltd	Acquisition	Au	0.250	3.1	80,645
25-Jan-12	Private Vendor	GGG Resources Plc	Acquisition	Au	3.129	10.0	312,936

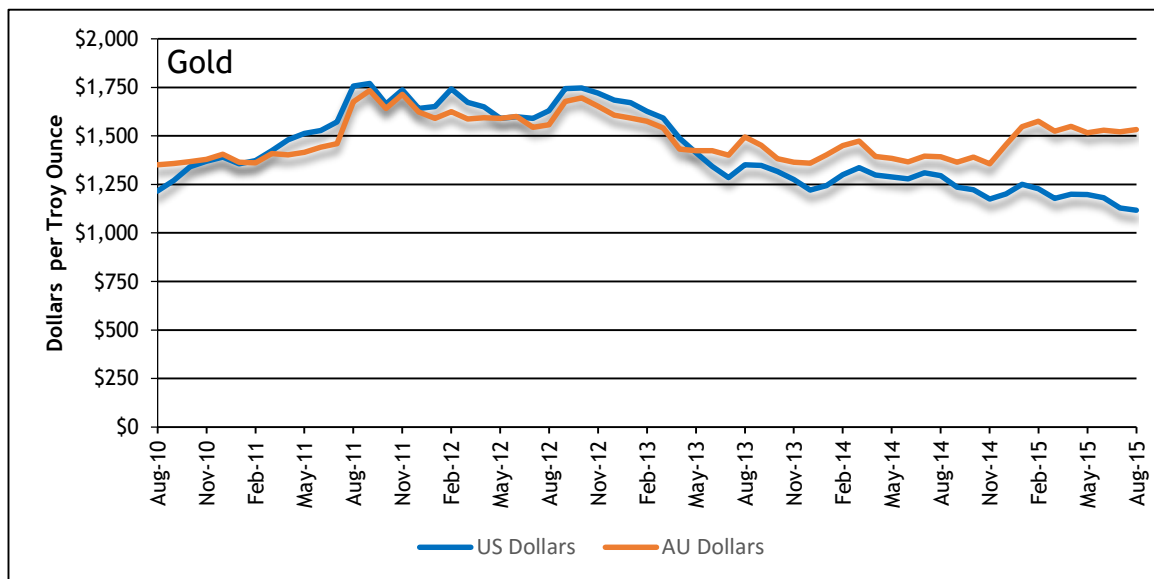
1. Commodities: Au = Gold, BM = Base Metals, Cu = Copper, Fe = Iron, Ni = Nickel, Pt = Platinum

2. Value is on a 100% equity basis.

#### 4.4.2 Commodity Prices

Ravensgate has examined the historical commodity charts for gold in Figure 15 for general trends over time. Ravensgate has taken into consideration the general commodity trend as an influence on deriving a final project valuation.

**Figure 15 Gold Five Year Monthly Average Price Chart to August 2015**



Source: *Indexmundi.com (Gold, 99.5% fine, London afternoon fixing)*

#### 4.5 Mineral Asset Valuation

##### 4.5.1 Selection of Valuation Method

The Lindsays project can be classified as a Pre-development Project mineral asset and the Kurnalpi, Kalpini and Spargoville projects as Advanced Exploration Area mineral assets as defined in Section 4.1.

Mineral Resources as defined by the JORC Code (2004 and 2012 Editions) have been reported for the Lindsays, Kurnalpi, Kalpini and Spargoville projects. In valuing KalNorth's projects under the VALMIN Code, Ravensgate considers the DCF/NPV method inappropriate, due to the stage of the mineral asset, none classified as an operating mine or development mineral asset.

KalNorth have previously reported Ore Reserves, but these were estimated a few years ago under different economic conditions using parameters Ravensgate no longer considers applicable, therefore Ravensgate has elected to value the projects based on their Mineral Resources and not Ore Reserves.

Multiples of Exploration (MEE) and other cost based methods were not thought to be appropriate to apply to KalNorth's projects. MEE and other cost based methods with prospectivity multipliers are very subjective and in Ravensgate's experience can easily over value projects where considerable expenditure has been undertaken and do not provide a good indication of market value.

Ravensgate has elected to apply the Comparable Transaction method to value KalNorth's projects after consideration of the various valuation methods outlined in Section 4.1.



#### 4.5.2 Market Analysis - Comparable Transactions Gold Mineral Resources

Ravensgate's analysis of the previous two years of market transactions of gold Mineral Resources in Western Australia (Table 8) indicates that the implied value of projects with undeveloped gold mineral resources, generally range from \$2.53 to \$40.05 per contained resource ounce of gold. The average and median cost per ounce of gold for all the transactions were \$13.91 and \$9.50, respectively. Analysing all the transactions on a normalised basis, which takes into account the change in the commodity prices over time (Table 9), the above range can be expressed as a percentage of the gold price being 0.17% to 2.88%. The average and median of these transactions were 0.98% and 0.69%, respectively. Ravensgate have also looked at the transactions by year to determine if there are any identifiable trends. Summary statistics of the gold resource transactions are shown in Table 11 below. The transactions in 2015 have been at a lower value on both a raw and normalised basis compared to the 2014 transactions, which is a reflection of the current state of the market sentiment toward resources.

**Table 11 Summary Statistics of Gold Mineral Resource Transactions**

Statistics	All Data		2014		2015	
	Raw \$/oz	Normalised	Raw \$/oz	Normalised	Raw \$/oz	Normalised
Minimum	2.53	0.17%	6.53	0.49%	2.53	0.17%
Maximum	40.05	2.88%	40.05	2.88%	26.82	1.80%
Average	13.91	0.98%	19.28	1.40%	10.50	0.69%
Weighted Average	15.04	1.04%	19.04	1.38%	13.37	0.88%
Median	9.50	0.69%	11.50	0.86%	9.03	0.59%

*Notes: The three 2013 transactions in Tables 9 and 10 are included in the All Data statistics. Weighting was done by the contained ounces of the mineral resources being transacted.*

Ravensgate has valued KalNorth's individual Mineral Resources based on the quality/confidence in the resource and the number of contained ounces based on the following resource criteria:

1. Indicated and Inferred Mineral Resources with greater than 25,000oz Au - Parrot Feathers, Gambia, Brilliant, Eastern Structure, Central Structure and Neves.
2. Inferred Mineral Resources with greater than 25,000oz Au, but of low confidence due to lack of QAQC, down hole survey and density measurements with the geological model presently poorly understood - Lady Allison.
3. Indicated and Inferred Mineral Resources with less than 25,000oz - Atlas and Sparkle.
4. Inferred Mineral Resources with less than 25,000oz Au - Scottish Lass, Halfway Hill, Discovery Hill and Dazzle.
5. Measured stockpiles.

These criteria and assigned normalised value ranges and equivalent value per ounce are summarised in Table 12 below:



**Table 12** *KalNorth's Mineral Resource Criteria for Valuation*

Resource Criteria	Resource Category	Normalised Range %			Equivalent Value per oz A\$		
		Low	Preferred	High	Low	Preferred	High
1	Indicated	0.88	1.10	1.32	13.82	17.27	20.73
	Inferred	0.64	0.80	0.96	10.05	12.56	15.07
2	Inferred	0.40	0.50	0.60	6.28	7.85	9.42
3	Indicated	0.56	0.70	0.84	8.79	10.99	13.19
	Inferred	0.40	0.50	0.60	6.28	7.85	9.42
4	Inferred	0.32	0.40	0.48	5.02	6.28	7.54
5	Measured	0.88	1.10	1.32	10.05	12.56	15.07

*Notes: Equivalent value per ounce calculated using an Australian gold price of \$1,570.12 as at 11 September 2015.*

#### 4.5.3 Market Analysis - Comparable Transactions Gold Exploration Tenure

Ravensgate's analysis of the Western Australian gold market transactions in Table 10 indicates that the implied value of exploration projects prospective for gold and other metals generally range from \$104 to \$1,586,207 per km<sup>2</sup> for exploration mineral assets. Analysing the transactions in Table 10 in more detail the value ranges differ on their stage of exploration, prospectivity, how strategic the tenement is to the purchaser and the type of tenement. A breakdown of ranges for tenure based on their prospectivity and strategic value are shown in Table 13 below.



**Table 13 Gold Exploration Project Tenement Value Ranges Breakdown**

Cost per km <sup>2</sup> Range	Comments
\$100 - \$1,000	Grass roots early stage exploration, with limited work or limited exploration potential.
\$1,000 - \$4,000	Average exploration stage, some defined gold targets for follow up. Mature exploration ground that has been well explored.
\$4,000 - \$10,000	Advanced stage exploration with good potential, defined gold targets ready for resource drilling.
\$10,000 - \$20,000	Advanced stage exploration with excellent potential, defined gold targets ready for resource drilling
\$20,000+	Strategic to the purchaser and additionally advanced stage exploration with excellent potential, defined gold targets ready for resource drilling.
<b>Prospecting Licences</b>	
\$6,000 - \$15,000	Grass roots early stage exploration, with limited work or limited exploration potential.
\$15,000 - \$30,000	Average exploration stage, some defined gold targets for follow up. Mature exploration ground that has been well explored
\$30,000 - \$150,000	Advanced stage exploration with good potential, defined gold targets ready for resource drilling
\$150,000+	Advanced stage exploration with good potential and/or strategic to the purchaser.
<b>Mining Licences</b>	
\$150,000 - \$500,000	Value varies due to quality of gold mineralisation and how strategic it is to the purchaser.
\$500,000+	Good quality gold targets with good potential to be converted to a mineral resource and/or highly strategic to the purchaser.

To derive appropriate values for the various project tenements Ravensgate reviewed the exploration data and prospectivity for the various tenements and selected an appropriate range based on Table 13. The values attributed to each tenement were based upon a review of the prospectivity and quality of exploration targets on each tenement as described in Section 3.5.2.

#### 4.5.4 Lindsays Project

In valuing the Lindsays project, Ravensgate has divided the project between tenure containing Mineral Resources and the prospectivity of the surrounding exploration tenure.

##### Valuation of Mineral Resources

Ravensgate has derived implied ranges with a preferred value per ounce of contained gold to apply to the individual Lindsays mineral resources listed in Section 3.6, using the gold spot price at 11 September 2015 of \$1,570.12 (US\$1,110.70) see Table 14 below. These derived values are based on the dollar value per ounce of gold expressed as a percentage of the gold price. These ranges reflect the confidence and gold grade of the mineral resources. These values relate to approximately \$2.810M to \$4.214M for the total contained metal within the current mineral resource estimates (216,900oz Au metal). From this range a preferred value of \$3.512M has been selected which reflects the outcome of the exploration to date and the quality of the mineral resources.



### Valuation of Surrounding Exploration Tenure

Ravensgate has derived implied ranges and preferred values varying on the Lindsay's tenements prospectivity per km<sup>2</sup> to apply to the area of the granted licences (see Table 15) which have a total combined area of 54.03km<sup>2</sup>. These values relate to approximately \$1.835M to \$2.798M. From this range a preferred value of \$2.317M has been selected, which reflects the outcome of exploration to date and the quality of the exploration ground.

A brief description of the factors that have been taken into account in determining the value range and preferred value for the tenements are as follows:

- Licences E27/517, P27/2094 and P27/2111 are considered to be greenfields tenements at the early exploration stage.
- Licence P27/2058 is considered to be at the average exploration stage, with some defined gold targets for follow up.
- M27/34 has low end gold potential, but strategic for overall tenure security.
- Licence M27/486 is considered to be prospective for gold with possible extensions of the Parrot Feathers, Eastern Structure and Central Structure Mineral Resources. The full area of the tenement is 9.52km<sup>2</sup>, Ravensgate has valued 8km<sup>2</sup> of the tenement based on its exploration prospectivity with the rest attributed to part of the Central Structure Mineral Resource valuation.





**Table 14      Lindsays Mineral Resource Valuation**

Mineral Resource	Category	Tonnes	Grade g/t	Ounces	Gold Price \$A	Normalised Valuation %			Equivalent \$/oz			Equity %	Valuation \$M		
						Min	Preferred	Max	Min	Preferred	Max		Min	Preferred	Max
Parrot Feathers	Indicated	140,000	4.00	18,000	1,570	0.88	1.10	1.32	13.82	17.27	20.73	100	0.249	0.311	0.373
	Inferred	261,000	4.30	36,000	1,570	0.64	0.80	0.96	10.05	12.56	15.07	100	0.362	0.452	0.543
Eastern Structure	Indicated	1,479,000	1.60	76,000	1,570	0.88	1.10	1.32	13.82	17.27	20.73	100	1.050	1.313	1.575
	Inferred	203,000	1.60	10,500	1,570	0.64	0.80	0.96	10.05	12.56	15.07	100	0.106	0.132	0.158
Central Structure	Indicated	1,315,000	1.10	46,500	1,570	0.88	1.10	1.32	13.82	17.27	20.73	100	0.642	0.803	0.964
	Inferred	47,900	1.10	1,700	1,570	0.64	0.80	0.96	10.05	12.56	15.07	100	0.017	0.021	0.026
Neves	Indicated	490,900	1.60	24,900	1,570	0.88	1.10	1.32	13.82	17.27	20.73	100	0.344	0.430	0.516
	Inferred	37,700	1.30	1,500	1,570	0.64	0.80	0.96	10.05	12.56	15.07	100	0.015	0.019	0.023
Stockpile	Measured	64,100	0.87	1,800	1,570	0.88	1.10	1.32	13.82	17.27	20.73	100	0.025	0.031	0.037
<b>Total</b>	<b>All</b>	<b>4,038,600</b>		<b>216,900</b>	<b>1,570</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>12.47</b>	<b>15.58</b>	<b>18.70</b>	<b>100</b>	<b>2.810</b>	<b>3.512</b>	<b>4.214</b>

*The valuation has been compiled to an appropriate level of precision and minor rounding errors may occur*

**Table 15 Valuation of the Lindsays Project Surrounding Exploration Tenure**

Tenement	Equity %	Area km <sup>2</sup>	Value per km <sup>2</sup>			Valuation		
			Low \$	Preferred \$	High \$	Low \$K	Preferred \$K	High \$K
E27/517	100	42.00	500	750	1,000	21.0	31.5	42.0
M27/34	100	1.30	150,000	200,000	250,000	194.3	259.1	323.9
M27/0486	100	8.00*	200,000	250,000	300,000	1,600.0	2,000.0	2,400.0
P27/2058	100	0.35	15,000	20,000	25,000	5.3	7.0	8.8
P27/2094	100	0.63	6,000	8,000	10,000	3.8	5.0	6.3
P27/2111	100	1.75	6,000	8,000	10,000	10.5	14.0	17.5
<b>TOTAL</b>	<b>100</b>	<b>54.03</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>1,834.9</b>	<b>2,316.6</b>	<b>2,798.4</b>

The valuation has been compiled to an appropriate level of precision and minor rounding errors may occur.

\* - The full area of the tenement is 9.52km<sup>2</sup>, Ravensgate has valued 8km<sup>2</sup> of the tenement based on its prospectivity with the rest attributed to part of the Central Structure Mineral Resource valuation.

#### 4.5.5 Kurnalpi Project

In valuing the Kurnalpi project, Ravensgate has divided the project between tenure containing Mineral Resources and the prospectivity of the surrounding exploration tenure.

##### Valuation of Mineral Resources

Ravensgate has derived implied ranges with a preferred value per ounce of contained gold to apply to the individual Kurnalpi mineral resources listed in Section 3.6, using the gold spot price at 11 September 2015 of \$1,570.12 (US\$1,110.70) see Table 17 below. These derived values are based on the dollar value per ounce of gold expressed as a percentage of the gold price. These ranges reflect the confidence and gold grade of the mineral resources. These values relate to approximately \$2.273M to \$3.410M for the total contained metal within the current mineral resource estimates (205,000oz Au metal). From this range a preferred value of \$2.841M has been selected which reflects the outcome of the exploration to date and the quality of the mineral resources.

##### Valuation of Surrounding Exploration Tenure

Ravensgate has derived implied ranges and preferred values varying on the Kurnalpi tenements prospectivity per km<sup>2</sup> to apply to the area of the granted licences (see Table 16) which have a total combined area of 80.54km<sup>2</sup>. These values relate to approximately \$1.141M to 1.902M. From this range a preferred value of \$1.521M has been selected, which reflects the outcome of exploration to date and the quality of the exploration ground.

A brief description of the factors that have been taken into account in determining the value range and preferred value for the tenements are as follows:

- Licences E28/2015, P28/1156, P28/1187 and P28/1224 are considered to be greenfields tenements at the early exploration stage or with little potential at present.
- Licences E28/2153, E28/2226 and P28/1225 are relatively early stage tenements with some potential for nickel mineralisation.
- Licences P28/1105, P28/1226, P28/1229, P28/1230 and P28/1231 are considered to have very good potential with defined gold targets ready for drilling.
- Licence M28/90 has good gold potential with extensions of the mineralised trends hosting the Brilliant Mineral Resource.
- Licences M28/72 and M28/113 have a low end gold potential.



- The remaining licences were considered to be at the average exploration stage, with some defined gold targets for follow up.

**Table 16 Valuation of the Kurnalpi Project Surrounding Exploration Tenure**

Tenement	Equity %	Area km <sup>2</sup>	Value per km <sup>2</sup>			Valuation		
			Low \$	Preferred \$	High \$	Low \$K	Preferred \$K	High \$K
E28/1477	100	16.80	1,000	2,500	4,000	16.8	42.0	67.2
E28/2015	100	2.80	500	750	1,000	1.4	2.1	2.8
E28/2153	100	2.80	1,000	1,500	2,000	2.8	4.2	5.6
E28/2226	100	2.80	1,000	1,500	2,000	2.8	4.2	5.6
E28/2256	100	14.00	1,000	2,500	4,000	14.0	35.0	56.0
M28/72	100	0.35	150,000	175,000	200,000	52.7	61.5	70.3
M28/90	100	1.40	250,000	350,000	450,000	350.0	490.0	630.0
M28/113	100	0.21	150,000	175,000	200,000	31.3	36.5	41.7
P28/1097	100	0.81	15,000	20,000	25,000	12.2	16.2	20.3
P28/1100	100	1.64	15,000	20,000	25,000	24.6	32.8	41.0
P28/1101	100	1.72	15,000	20,000	25,000	25.8	34.4	43.0
P28/1102	100	0.93	15,000	20,000	25,000	14.0	18.6	23.3
P28/1103	100	0.80	15,000	20,000	25,000	12.0	16.0	20.0
P28/1104	100	1.70	15,000	20,000	25,000	25.5	34.0	42.5
P28/1105	100	1.69	30,000	35,000	40,000	50.7	59.2	67.6
P28/1106	100	0.69	15,000	20,000	25,000	10.4	13.8	17.3
P28/1107	100	1.10	15,000	20,000	25,000	16.5	22.0	27.5
P28/1108	100	0.58	15,000	20,000	25,000	8.7	11.6	14.5
P28/1111	100	1.10	15,000	20,000	25,000	16.5	22.0	27.5
P28/1112	100	0.10	15,000	20,000	25,000	1.5	2.0	2.5
P28/1113	100	0.10	15,000	20,000	25,000	1.5	2.0	2.5
P28/1114	100	0.09	15,000	20,000	25,000	1.4	1.8	2.3
P28/1115	100	0.26	15,000	20,000	25,000	3.9	5.2	6.5
P28/1116	100	0.54	15,000	20,000	25,000	8.1	10.8	13.5
P28/1117	100	1.22	15,000	20,000	25,000	18.3	24.4	30.5
P28/1118	100	0.28	15,000	20,000	25,000	4.2	5.6	7.0
P28/1119	100	0.46	15,000	20,000	25,000	6.9	9.2	11.5
P28/1125	100	0.43	15,000	20,000	25,000	6.4	8.6	10.7
P28/1126	100	0.50	15,000	20,000	25,000	7.5	9.9	12.4
P28/1154	100	0.17	15,000	20,000	25,000	2.6	3.4	4.3
P28/1155	100	1.85	15,000	20,000	25,000	27.8	37.0	46.3
P28/1156	100	0.87	6,000	8,000	10,000	5.2	7.0	8.7
P28/1157	100	1.52	15,000	20,000	25,000	22.8	30.3	37.9
P28/1180	100	0.10	15,000	20,000	25,000	1.5	2.0	2.5
P28/1184	100	0.10	15,000	20,000	25,000	1.5	2.0	2.5
P28/1186	100	0.16	15,000	20,000	25,000	2.4	3.2	4.0
P28/1187	100	1.94	6,000	8,000	10,000	11.6	15.5	19.4
P28/1190	100	1.98	15,000	20,000	25,000	29.7	39.6	49.5



Tenement	Equity %	Area km <sup>2</sup>	Value per km <sup>2</sup>			Valuation		
			Low \$	Preferred \$	High \$	Low \$K	Preferred \$K	High \$K
P28/1191	100	0.15	15,000	20,000	25,000	2.3	3.0	3.8
P28/1224	100	1.98	6,000	8,000	10,000	11.9	15.8	19.8
P28/1225	100	2.00	12,000	14,000	16,000	24.0	28.0	32.0
P28/1226	100	1.13	30,000	35,000	40,000	33.9	39.6	45.2
P28/1227	100	1.92	15,000	20,000	25,000	28.8	38.4	48.0
P28/1228	100	1.05	15,000	20,000	25,000	15.8	21.0	26.3
P28/1229	100	1.75	30,000	35,000	40,000	52.5	61.3	70.0
P28/1230	100	1.95	30,000	35,000	40,000	58.5	68.3	78.0
P28/1231	100	1.99	30,000	35,000	40,000	59.7	69.7	79.6
P28/1254	100	0.00	15,000	20,000	25,000	0.0	0.1	0.1
P28/1255	100	0.04	15,000	20,000	25,000	0.5	0.7	0.9
<b>TOTAL</b>	<b>100</b>	<b>80.54</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>1,141.1</b>	<b>1,521.3</b>	<b>1,901.6</b>

*The valuation has been compiled to an appropriate level of precision and minor rounding errors may occur.*



**Table 17 Kurnalpi Mineral Resource Valuation**

Mineral Resource	Category	Tonnes	Grade g/t	Ounces	Gold Price \$A	Normalised Valuation %			Equivalent \$/oz			Equity %	Valuation \$M		
						Min	Preferred	Max	Min	Preferred	Max		Min	Preferred	Max
Brilliant	Indicated	2,820,000	1.30	115,200	1,570	0.88	1.10	1.32	13.82	17.27	20.73	100	1.592	1.990	2.388
	Inferred	1,120,000	1.00	38,000	1,570	0.64	0.80	0.96	10.05	12.56	15.07	100	0.382	0.477	0.573
Dazzle	Inferred	510,000	0.80	12,600	1,570	0.32	0.40	0.48	5.02	6.28	7.54	100	0.063	0.079	0.095
Sparkle	Indicated	290,000	0.90	8,500	1,570	0.56	0.70	0.84	8.79	10.99	13.13	100	0.075	0.093	0.112
	Inferred	190,000	1.50	5,800	1,570	0.40	0.50	0.60	6.28	7.85	9.42	100	0.036	0.046	0.055
Scottish Lass	Inferred	80,000	1.00	2,600	1,570	0.32	0.40	0.48	5.02	6.28	7.54	100	0.013	0.016	0.020
Halfway Hill	Inferred	510,000	1.10	18,700	1,570	0.32	0.40	0.48	5.02	6.28	7.54	100	0.094	0.117	0.141
Discovery Hill	Inferred	130,000	0.90	3,600	1,570	0.32	0.40	0.48	5.02	6.28	7.54	100	0.018	0.023	0.027
<b>Total</b>	<b>All</b>	<b>5,650,000</b>	<b>1.10</b>	<b>205,000</b>	<b>1,570</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>10.68</b>	<b>13.82</b>	<b>16.96</b>	<b>100</b>	<b>2.273</b>	<b>2.841</b>	<b>3.410</b>

*The valuation has been compiled to an appropriate level of precision and minor rounding errors may occur*

**Table 18 Kalpini Mineral Resource Valuation**

Mineral Resource	Category	Tonnes	Grade g/t	Ounces	Gold Price \$A	Normalised Valuation %			Equivalent \$/oz			Equity %	Valuation \$M		
						Min	Preferred	Max	Min	Preferred	Max		Min	Preferred	Max
Gambia	Indicated	3,072,000	1.86	183,700	1,570	0.88	1.10	1.32	13.82	17.27	20.73	100	2.538	3.173	3.807
	Inferred	1,074,000	1.56	53,900	1,570	0.64	0.80	0.96	10.05	12.56	15.07	100	0.542	0.677	0.812
Atlas	Indicated	169,000	1.27	6,900	1,570	0.56	0.70	0.84	8.79	10.99	13.19	100	0.061	0.076	0.091
	Inferred	299,000	1.20	11,100	1,570	0.40	0.50	0.60	6.28	7.85	9.42	100	0.070	0.087	0.105
<b>Total</b>	<b>All</b>	<b>4,615,000</b>	<b>1.37</b>	<b>255,600</b>	<b>1,570</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>12.56</b>	<b>15.70</b>	<b>18.84</b>	<b>100</b>	<b>3.210</b>	<b>4.013</b>	<b>4.815</b>

*The valuation has been compiled to an appropriate level of precision and minor rounding errors may occur.*

**Table 19 Spargoville Mineral Resource Valuation**

Mineral Resource	Category	Tonnes	Grade g/t	Ounces	Gold Price \$A	Normalised Valuation %			Equivalent \$/oz			Equity %	Valuation \$M		
						Min	Preferred	Max	Min	Preferred	Max		Min	Preferred	Max
Spargoville	Inferred	2,130,000	1.30	87,000	1,570	0.40	0.50	0.60	10.05	12.56	15.07	100	0.546	0.683	0.820

*The valuation has been compiled to an appropriate level of precision and minor rounding errors may occur*



#### 4.5.6 Kalpini Project

In valuing the Kalpini project, Ravensgate has divided the project between tenure containing Mineral Resources and the prospectivity of the surrounding exploration tenure.

##### Valuation of Mineral Resources

Ravensgate has derived implied ranges with a preferred value per ounce of contained gold to apply to the individual Kalpini mineral resources listed in Section 3.6, using the gold spot price at 11 September 2015 of \$1,570.12 (US\$1,110.70) see Table 18 above. These derived values are based on the dollar value per ounce of gold expressed as a percentage of the gold price. These ranges reflect the confidence and gold grade of the mineral resources. These values relate to approximately \$3.210M to \$4.815M for the total contained metal within the current mineral resource estimates (255,600oz Au metal). From this range a preferred value of \$4.013M has been selected which reflects the outcome of the exploration to date and the quality of the mineral resources.

##### Valuation of Surrounding Exploration Tenure

Ravensgate has derived implied ranges and preferred values varying on the Kalpini tenements prospectivity per km<sup>2</sup> to apply to the area of the granted licences (see Table 20) which have a total combined area of 68.67km<sup>2</sup>. These values relate to approximately \$0.034M to \$0.069M. From this range a preferred value of \$0.052M has been selected, which reflects the outcome of exploration to date and the quality of the exploration ground.

A brief description of the factors that have been taken into account in determining the value range and preferred value for the tenements are as follows:

- All the Kalpini exploration licences are considered to be greenfields tenements at the early exploration stage.

**Table 20** Valuation of the Kalpini Project Surrounding Exploration Tenure

Tenement	Equity %	Area km <sup>2</sup>	Value per km <sup>2</sup>			Valuation		
			Low \$	Preferred \$	High \$	Low \$K	Preferred \$K	High \$K
E27/411	100	39.20	500	750	1,000	19.6	29.4	39.2
E27/412	100	14.00	500	750	1,000	7.0	10.5	14.0
E27/524	100 (Au)	15.47	500	750	1,000	7.7	11.6	15.5
<b>TOTAL</b>	<b>100</b>	<b>68.67</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>34.3</b>	<b>51.5</b>	<b>68.7</b>

*The valuation has been compiled to an appropriate level of precision and minor rounding errors may occur.*

#### 4.5.7 Spargoville Project

In valuing the Spargoville project, Ravensgate has divided the project between tenure containing Mineral Resources and the prospectivity of the surrounding exploration tenure.

##### Valuation of Mineral Resources

Ravensgate has derived implied ranges with a preferred value per ounce of contained gold to apply to the Spargoville mineral resource listed in Section 3.6, using the gold spot price at 11 September 2015 of \$1,570.12 (US\$1,110.70) see Table 19 above. These derived values are based on the dollar value per ounce of gold expressed as a percentage of the gold price. These ranges reflect the confidence and gold grade of the mineral resources. These values relate to





approximately \$0.546M to \$0.820M for the total contained metal within the current mineral resource estimates (87,000oz Au metal). From this range a preferred value of \$0.683M has been selected which reflects the outcome of the exploration to date and the quality of the mineral resources.

#### Valuation of Surrounding Exploration Tenure

Ravensgate has derived implied ranges and preferred values varying on the Spargoville tenements prospectivity per km<sup>2</sup> to apply to the area of the granted licences (see Table 21) which have a total combined area of 53.79km<sup>2</sup>. These values relate to approximately \$0.092M to \$0.160M. From this range a preferred value of \$0.126M has been selected, which reflects the outcome of exploration to date and the quality of the exploration ground.

A brief description of the factors that have been taken into account in determining the value range and preferred value for the tenements are as follows:

- The Spargoville exploration licence is considered to be a greenfields tenement at the early exploration stage.
- The Spargoville prospecting licences are considered to hold little prospectivity based on the exploration done to date.

**Table 21**      **Valuation of the Spargoville Project Surrounding Exploration Tenure**

Tenement	Equity %	Area km <sup>2</sup>	Value per km <sup>2</sup>			Valuation		
			Low \$	Preferred \$	High \$	Low \$K	Preferred \$K	High \$K
E15/1174	100	42.00	500	750	1,000	21.0	31.5	42.0
P15/4801	100	1.02	6,000	8,000	10,000	6.1	8.2	10.2
P15/4802	100	1.39	6,000	8,000	10,000	8.3	11.1	13.9
P15/5216	100	1.95	6,000	8,000	10,000	11.7	15.6	19.5
P15/5236	100	1.93	6,000	8,000	10,000	11.6	15.4	19.3
P15/5264	100	0.60	6,000	8,000	10,000	3.6	4.8	6.0
P15/5392	100	1.04	6,000	8,000	10,000	6.2	8.3	10.4
P15/5409	100	0.17	6,000	8,000	10,000	1.0	1.4	1.7
P15/5537	100	2.00	6,000	8,000	10,000	12.0	16.0	20.0
P15/5545	100	0.01	6,000	8,000	10,000	0.1	0.1	0.1
P15/5546	100	0.07	6,000	8,000	10,000	0.4	0.5	0.7
P15/5547	100	0.03	6,000	8,000	10,000	0.2	0.2	0.3
P15/5548	100	0.04	6,000	8,000	10,000	0.2	0.3	0.4
P15/5766	100	0.89	6,000	8,000	10,000	5.3	7.1	8.9
P15/5772	100	0.65	6,000	8,000	10,000	3.9	5.2	6.5
<b>TOTAL</b>	<b>100</b>	<b>53.79</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>91.7</b>	<b>125.8</b>	<b>159.9</b>

*The valuation has been compiled to an appropriate level of precision and minor rounding errors may occur.*

#### 4.5.8 Roe Project

Ravensgate has valued the Roe project on the prospectivity of its exploration tenure.

#### Valuation of Surrounding Exploration Tenure

Ravensgate has derived implied ranges and preferred values varying on the Roe tenements prospectivity per km<sup>2</sup> to apply to the area of the granted licences (see Table 22) which have a



total combined area of 36.40km<sup>2</sup>. These values relate to approximately \$0.009M to \$0.027M. From this range a preferred value of \$0.018M has been selected, which reflects the outcome of exploration to date and the quality of the exploration ground.

A brief description of the factors that have been taken into account in determining the value range and preferred value for the tenements are as follows:

- Both the Roe exploration licences are considered to be early stage greenfields tenements at the early exploration stage.

**Table 22 Valuation of the Roe Project Surrounding Exploration Tenure**

Tenement	Equity %	Area km <sup>2</sup>	Value per km <sup>2</sup>			Valuation		
			Low \$	Preferred \$	High \$	Low \$K	Preferred \$K	High \$K
E28/2303	100	19.60	250	500	750	4.9	9.8	14.7
E28/2304	100	16.80	250	500	750	4.2	8.4	12.6
<b>TOTAL</b>	<b>100</b>	<b>36.40</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>9.1</b>	<b>18.2</b>	<b>27.3</b>

*The valuation has been compiled to an appropriate level of precision and minor rounding errors may occur.*

#### 4.6 Summary Valuation

Ravensgate has concluded that KalNorth's Lindsays, Kurnalpi, Kalpini, Spargoville and Roe projects are of merit (although at varying stages of exploration and subsequent Mineral Asset classification), and worthy of further exploration. A summary of the KalNorth project valuation in ownership equity terms is provided in Table 23. The applicable valuation date is 11 September 2015 and is derived from using the Comparable Transactions valuation method. The value of KalNorth's projects are considered to lie in a range from \$11.950M to \$18.215M, within this range Ravensgate has selected a preferred value of \$15.083M.

**Table 23 KalNorth's Technical Valuation in Equity Ownership Percentage Terms**

Project	Mineral Asset	Equity %	Area km <sup>2</sup>	Valuation		
				Low \$M	Preferred \$M	High \$M
Lindsays	Pre-development Project	100	56.71	4.644	5.829	7.013
Kurnalpi	Advanced Exploration Area	100	186.17	3.414	4.363	5.311
Kalpini	Advanced Exploration Area	100	74.52	3.245	4.064	4.884
Spargoville	Advanced Exploration Area	100	57.21	0.638	0.809	0.979
Roe	Exploration Area	100	36.40	0.009	0.018	0.027
<b>Total</b>	<b>Various</b>	<b>100</b>	<b>411.01</b>	<b>11.950</b>	<b>15.083</b>	<b>18.215</b>

*The valuation has been compiled to an appropriate level of precision and minor rounding errors may occur.*

As the technical valuation for KalNorth's projects are based on comparable market transactions it can be considered to also be the market value. The definition of market value that Ravensgate adopts is that used in the VALMIN code, which is the market value definition as defined by the International Valuation Standards Committee (IVSC).



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## 6. LIST OF ABBREVIATIONS

<i>A\$</i>	Australian dollar(s)
<i>AC</i>	Aircore (drill hole)
<i>Ag</i>	Silver
<i>ASX</i>	Australian Securities Exchange
<i>Au</i>	Gold
<i>Azi</i>	Azimuth
<i>Cu</i>	Copper
<i>DTM</i>	Digital terrain model
<i>g/t</i>	Grams per tonne
<i>IPO</i>	Initial Public Offering
<i>JORC Code</i>	2012 Edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves
<i>K</i>	Thousand(s)
<i>km</i>	kilometre(s)
<i>km<sup>2</sup></i>	Square kilometre(s)
<i>m</i>	Metre(s)
<i>M</i>	Million(s)
<i>MAIG</i>	Member of the Australian Institute of Geoscientists
<i>MAusIMM</i>	Member of the Australasian Institute of Mining and Metallurgy
<i>MLTEM</i>	Moving Loop Transient Electromagnetic
<i>mm</i>	Millimetre(s)
<i>MMI</i>	Mobile Metal Ion
<i>Mt</i>	Million Tonnes.
<i>NPV</i>	Net present value
<i>NQ</i>	Diamond Drilling. A core diameter of 47.6mm.
<i>oz</i>	Ounce (Troy ounce measure of weight)
<i>Pb</i>	Lead
<i>PGE</i>	Platinum Group Element
<i>ppb</i>	Parts per billion; a measure of concentration
<i>ppm</i>	Parts per million; a measure of concentration
<i>QAQC</i>	Quality Assurance / Quality Control
<i>RAB</i>	Rotary Air Blast (drill hole)
<i>RC</i>	Reverse circulation (drill hole)
<i>t</i>	Tonne(s)
<i>Zn</i>	Zinc



## 7. GLOSSARY

aeromagnetic	A survey undertaken by helicopter or fixed-wing aircraft for the purpose of recording magnetic characteristics of rocks by measuring deviations of the Earth's magnetic field.
aircore drilling	A relatively inexpensive drilling technique similar to RC drilling, in which the drill cuttings are returned to surface inside the rods.
allochthonous	Denoting a deposit or formation that originated at a distance from its present position.
anomaly	An area where exploration has revealed results higher than the local background level.
Archaean	The oldest geologic time period, pertaining to rocks older than about 2,500 million years.
assay	The testing and quantification metals of interest within a sample.
auriferous	Contains gold in economically significant concentration.
azimuth	The horizontal angle measured in degrees clockwise from true north (describing the orientation of a drill hole or geological feature).
batholith	Massive igneous intrusion extending deep into the earth's crust.
brittle fracture	Geological structure formed whereby strength in tension was greatly different from strength in compression.
carbonate	Rock or mineral dominated by the carbonate ion ( $\text{CO}_3^{2-}$ ), of sedimentary or hydrothermal origin, composed primarily of calcium, magnesium or iron and carbon and oxygen. Essential component of limestones and marbles.
chlorite	A green coloured hydrated aluminium-iron-magnesium silicate mineral common in metamorphic rocks.
complex	An intricate assemblage of geological units, typically in metamorphic or igneous terranes.
craton	An old and stable part of the continental lithosphere.
D1, D2, D3,	Structural geology term: Deformations are numbered according to their order of formation with the letter D denoting a deformation event.
deformation	A change in the original shape of a rock unit in response to stress and strain. It can be brittle deformation that results in faulting or plastic deformation that results in folding.
diamond drilling	Drilling method employing a (industrial) diamond encrusted drill bit for retrieving a cylindrical core of rock.
diorite	A coarse-grained intrusive igneous rock that contains a mixture of feldspar pyroxene hornblende and sometimes quartz.
domain	Geological zone of rock with similar geostatistical properties; typically a zone of mineralisation
dykes	A tabular body of intrusive igneous rock, crosscutting the host strata at a high angle.
fabric	In geology, a rock's fabric describes the spatial and geometric configuration of all the elements that make it up.
fault	A wide zone of structural dislocation and faulting.
felsic	Igneous rocks with a large percentage of light-colored minerals such as quartz, feldspar, and muscovite. It is contrasted with mafic rocks, which are relatively richer in magnesium and iron.
field duplicate	Second drill sample collected at the rig and analysed independently. Used to monitor the precision of the sampling and analytical process.
field standard	A rock material with a consistent and known geochemical composition, inserted with drill samples in the field. Used to monitor the accuracy of the analytical process.



foliation	The planar or layered characteristics of metamorphic rocks that are evidence of the pressures to which the rock was exposed.
gabbro	A black coarse-grained intrusive igneous rock that is the compositional equivalent of basalt.
geochemical	Pertains to the concentration of an element.
geochronology	The science of determining the absolute age of rocks. Dating methods involve measuring the amount of radioactive decay of a radioactive isotope with a known half-life.
geophysical	Pertains to the physical properties of a rock mass.
gneiss	A common metamorphic rock formed at high temperatures and pressures from igneous or sedimentary rocks, having characteristic foliations (gneissic banding) of alternating dark/light coloured bands.
granite	A coarse-grained igneous rock containing mainly quartz and feldspar minerals and subordinate micas.
granitoid	A broad category of coarse-grained acid igneous rock including granite, quartz monzonite, quartz diorite, syenite and granodiorite.
greenstone	A metamorphosed basic igneous rock which owes its colour and schistosity to abundant chlorite.
greenstone belt	A broad term used to describe an elongate belt of rocks that have undergone regional metamorphism to greenschist facies.
intrusive	Any igneous rock formed by intrusion and cooling of hot liquid rock below the earth's surface.
laterite	Superficial rock formed during long-lasting weathering in hot wet tropical areas, characterised by high iron oxide, alumina oxide and silica content.
lithology	The description of a rock unit's physical characteristics visible in hand or core samples, such as colour texture grain-size and composition.
lode	A deposit of metalliferous ore formed in a fissure or vein.
mafic	Igneous rock composed dominantly of dark coloured minerals such as amphibole pyroxene and olivine, generally rich in magnesium and iron.
magmatic	Derived from or associated with magma. Magma is a complex high-temperature fluid substance present within the earth, which on cooling forms igneous rocks.
magnetite	A mineral comprising iron and oxygen which commonly exhibits magnetic properties.
metamorphic	A rock that has been altered by metamorphism from a pre-existing igneous or sedimentary rock type.
metamorphism	Alteration of the minerals, textures and composition of a rock caused by exposure to severe heat, pressure and chemical actions.
meta-volcanic	Volcanic rock which has been altered by metamorphism.
NQ	Type of diamond drilling producing a drill core of 47.6mm diameter.
outcrop	A visible exposure of bedrock or ancient superficial deposits on the surface of the Earth.
overprint	The superposition of a new set of structural geological features on an older set.
pegmatite	An exceptionally coarse-grained igneous rock with interlocking crystals, usually found as irregular dykes lenses or veins around the margins of batholiths.
peridotitic cumulate	A dense coarse-grained igneous rock, formed by precipitation and collection of cumulate olivine and pyroxene crystals from mantle-derived magma.
plunge	The vertical angle between a horizontal plane and the line of maximum elongation (of an orebody for example).





porphyritic	Textural term for igneous rocks in which large crystals (phenocrysts) are set in finer groundmass, which may be crystalline or glass.
Precambrian quartz	A period of geological time older than 570 million years before present. Common mineral composed of crystalline silica, with chemical formula $\text{SiO}_2$ .
RAB drilling	Rotary Air Blast. A relatively inexpensive but less accurate percussion drilling technique involving the collection of sample returned by compressed air from outside the drill rods.
RC drilling	Reverse Circulation. A percussion drilling method in which the fragmented sample is brought to the surface inside the drill rods, thereby reducing contamination.
resource	In situ mineral occurrence from which valuable or useful minerals may be recovered.
schist	A metamorphic rock dominated by fibrous or platy minerals, with a strongly foliated fabric (schistose cleavage).
sedimentary shear	A term describing a rock formed from sediment. A deformation resulting from stresses that cause rock bodies to slide relatively to each other in a direction parallel to their plane of contact.
sill	A concordant sheet of igneous rock lying nearly horizontal.
soil sampling	The collection of soil specimens for mineral analysis.
strata	Sedimentary rock layers.
stratigraphic	Pertaining to the composition, sequence and correlation of stratified rocks.
strike	Horizontal direction or trend of a geological strata or structure.
structural	Pertaining to rock deformation or to features that result from it.
succession	Group of rock strata that succeed one another in chronological order.
superterrane	Composite terranes that comprise groups of individual terranes and other assemblages that share a distinctive tectonic history.
tailings	The materials left over after the process of separating the valuable fraction from the uneconomic fraction (gangue) of an ore.
terrane	Any rock formation or series of formations or the area in which a particular formation or group of rocks is predominant.
ultramafic	Igneous and meta-igneous rocks composed of greater than 90% mafic minerals with very high magnesium and iron content, very low silica and potassium content.
volcanics	Rocks formed or derived from volcanic activity.

