24 February 2016

ASX RELEASE

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

Dear Sir

ISSUE OF SECURITIES

KalNorth Gold Mines Limited (“KalNorth” or the “Company”, ASX:KGM) is pleased to confirm the issue of 450.25 million shares in settlement of loan liabilities of just over $4.5 million. These issues of shares were the subject of shareholder approval at the annual general meeting on 25 November 2015 and the share issues follow receipt of regulatory approvals.

The annual general meeting had also approved a convertible note facility agreement with the Company’s then largest shareholder, Cross-Strait Common Development Fund Co., Limited. The terms of that facility agreement have also now received regulatory approval and the Company has completed the issue of convertible notes with respect to the $300,000 previously drawn down amount from the $2M facility.

The settlement of loan liabilities strengthens the Company’s Balance Sheet and comes at a time when the Company’s projects are attracting greater interest in light of improved sentiment in the gold sector.

An Appendix 3B is attached in respect of these securities issues and the Company plans to issue a cleansing prospectus with respect to the shares the subject of the attached Appendix 3B shortly.

Yours faithfully

Lijun Yang
Executive Director

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Rule 2.7, 3.10.3, 3.10.4, 3.10.5

Appendix 3B

New issue announcement, application for quotation of additional securities and agreement

Information or documents not available now must be given to ASX as soon as available. Information and documents given to ASX become ASX's property and may be made public.

Introduced 01/07/96 Origin: Appendix 5 Amended 01/07/98, 01/09/99, 01/07/00, 30/09/01, 11/03/02, 01/01/03, 24/10/05, 01/08/12, 04/03/13

KALNORTH GOLD MINES LIMITED

ABN

55 100 405 954

We (the entity) give ASX the following information.

Part 1 - All issues

You must complete the relevant sections (attach sheets if there is not enough space).

1	+Class of +securities issued or to be issued	Fully paid ordinary shares Convertible Notes
2	Number of +securities issued or to be issued (if known) or maximum number which may be issued	450,251,100 ordinary shares 30 Convertible Notes
3	Principal terms of the +securities (e.g. if options, exercise price and expiry date; if partly paid +securities, the amount outstanding and due dates for payment; if +convertible securities, the conversion price and dates for conversion)	Ordinary shares Each convertible note has a face value of $10,000 and each note has the right to convert to 1 Million ordinary shares.

+ See chapter 19 for defined terms.

4	Do the +securities rank equally in all respects from the +issue date with an existing +class of quoted +securities? If the additional +securities do not rank equally, please state: • the date from which they do • the extent to which they participate for the next dividend, (in the case of a trust, distribution) or interest payment • the extent to which they do not rank equally, other than in relation to the next dividend, distribution or interest payment	Yes, the shares rank equally with existing ordinary shares from the date of issue. Convertible notes are a new class of security
5	Issue price or consideration	$0.01 per Share – non-cash issue, refer to further information below Each convertible note has a face value of $10,000 and the 30 notes issued represent a $300,000 drawdown of funds by the Company under a $2M Convertible Note Facility Agreement.
6	Purpose of the issue (If issued as consideration for the acquisition of assets, clearly identify those assets)	450,251,100 ordinary shares were issued to settle loans, including outstanding interest, following receipt of shareholder approval at the AGM on 25 November 2015 and other regulatory approvals. As noted above the 30 convertible notes have been issued as consideration for an amount of $300,000 drawn down by the Company for working capital and exploration purposes. The Convertible Note Facility Agreement was approved by shareholders at the AGM on 25 November 2015 and has since received other regulatory approvals.
6a	Is the entity an +eligible entity that has obtained security holder approval under rule 7.1A? If Yes, complete sections 6b – 6h *in relation to the +securities the subject of this Appendix 3B*, and comply with section 6i	Yes

6b	The date the security holder resolution under rule 7.1A was passed	25 November 2015
6c	Number of +securities issued without security holder approval under rule 7.1	Nil
6d	Number of +securities issued with security holder approval under rule 7.1A	Nil
6e	Number of +securities issued with security holder approval under rule 7.3, or another specific security holder approval (specify date of meeting)	450,251,100 shares - shareholder approval was received at the AGM on 25 November 2015. 30 Convertible Notes (with conversion rights to up to 30,000,000 shares) - shareholder approval was received at the AGM on 25 November 2015.
6f	Number of +securities issued under an exception in rule 7.2	N/A
6g	If +securities issued under rule 7.1A, was issue price at least 75% of 15 day VWAP as calculated under rule 7.1A.3? Include the +issue date and both values. Include the source of the VWAP calculation.	N/A
6h	If +securities were issued under rule 7.1A for non-cash consideration, state date on which valuation of consideration was released to ASX Market Announcements	N/A
6i	Calculate the entity's remaining issue capacity under rule 7.1 and rule 7.1A – complete Annexure 1 and release to ASX Market Announcements	Refer Annexure 1
7	+Issue dates Note: The issue date may be prescribed by ASX (refer to the definition of issue date in rule 19.12). For example, the issue date for a pro rata entitlement issue must comply with the applicable timetable in Appendix 7A. Cross reference: item 33 of Appendix 3B.	24 February 2016

Number	+Class

+ See chapter 19 for defined terms.

8	Number and +class of all +securities quoted on ASX (*including* the +securities in section 2 if applicable)	894,240,060	Ordinary Fully Paid Shares

		Number	+Class
9	Number and +class of all +securities not quoted on ASX (*including* the +securities in section 2 if applicable)	30	Convertible Notes. Each note has a face value of $10,000, the right to convert to 1M shares on or before 30 April 2017

10	Dividend policy (in the case of a trust, distribution policy) on the increased capital (interests)	Ordinary shares that are issued will rank for dividends equally with the existing ordinary shares

Part 2 - Pro rata issue

11	Is security holder approval required?	N/A
12	Is the issue renounceable or non-renounceable?	N/A
13	Ratio in which the +securities will be offered	N/A
14	+Class of +securities to which the offer relates	N/A
15	+Record date to determine entitlements	N/A
16	Will holdings on different registers (or subregisters) be aggregated for calculating entitlements?	N/A
17	Policy for deciding entitlements in relation to fractions	N/A

+ See chapter 19 for defined terms.

18	Names of countries in which the entity has security holders who will not be sent new offer documents Note: Security holders must be told how their entitlements are to be dealt with. Cross reference: rule 7.7.	N/A
19	Closing date for receipt of acceptances or renunciations	N/A
20	Names of any underwriters	N/A
21	Amount of any underwriting fee or commission	N/A
22	Names of any brokers to the issue	N/A
23	Fee or commission payable to the broker to the issue	N/A
24	Amount of any handling fee payable to brokers who lodge acceptances or renunciations on behalf of security holders	N/A
25	If the issue is contingent on security holders' approval, the date of the meeting	N/A
26	Date entitlement and acceptance form and offer documents will be sent to persons entitled	N/A
27	If the entity has issued options, and the terms entitle option holders to participate on exercise, the date on which notices will be sent to option holders	N/A
28	Date rights trading will begin (if applicable)	N/A
29	Date rights trading will end (if applicable)	N/A

30	How do security holders sell their entitlements *in full* through a broker?	N/A
31	How do security holders sell *part* of their entitlements through a broker and accept for the balance?	N/A
32	How do security holders dispose of their entitlements (except by sale through a broker)?	N/A
33	+Issue date	N/A

Part 3 - Quotation of securities

You need only complete this section if you are applying for quotation of securities

34 Type of +securities
(*tick one*)

(a) ☒ +Securities described in Part 1 Ordinary shares only

(b) ☐ All other +securities

Example: restricted securities at the end of the escrowed period, partly paid securities that become fully paid, employee incentive share securities when restriction ends, securities issued on expiry or conversion of convertible securities

Entities that have ticked box 34(a)

Additional securities forming a new class of securities

Tick to indicate you are providing the information or documents

35 ☐ If the +securities are +equity securities, the names of the 20 largest holders of the additional +securities, and the number and percentage of additional +securities held by those holders

36 ☐ If the +securities are +equity securities, a distribution schedule of the additional +securities setting out the number of holders in the categories
1 - 1,000
1,001 - 5,000

+ See chapter 19 for defined terms.

5,001 - 10,000
10,001 - 100,000
100,001 and over

37 ☐ A copy of any trust deed for the additional +securities

Entities that have ticked box 34(b)

38	Number of +securities for which +quotation is sought	N/A
39	+Class of +securities for which quotation is sought	N/A
40	Do the +securities rank equally in all respects from the +issue date with an existing +class of quoted +securities? If the additional +securities do not rank equally, please state: • the date from which they do • the extent to which they participate for the next dividend, (in the case of a trust, distribution) or interest payment • the extent to which they do not rank equally, other than in relation to the next dividend, distribution or interest payment	N/A
41	Reason for request for quotation now Example: In the case of restricted securities, end of restriction period (if issued upon conversion of another +security, clearly identify that other +security)	N/A

		Number	+Class
42	Number and +class of all +securities quoted on ASX (*including* the +securities in clause 38)	N/A	

Quotation agreement

1 +Quotation of our additional +securities is in ASX's absolute discretion. ASX may quote the +securities on any conditions it decides.

+ See chapter 19 for defined terms.

2 We warrant the following to ASX.

- The issue of the +securities to be quoted complies with the law and is not for an illegal purpose.

- There is no reason why those +securities should not be granted +quotation.

- An offer of the +securities for sale within 12 months after their issue will not require disclosure under section 707(3) or section 1012C(6) of the Corporations Act.

  Note: An entity may need to obtain appropriate warranties from subscribers for the securities in order to be able to give this warranty

- Section 724 or section 1016E of the Corporations Act does not apply to any applications received by us in relation to any +securities to be quoted and that no-one has any right to return any +securities to be quoted under sections 737, 738 or 1016F of the Corporations Act at the time that we request that the +securities be quoted.

- If we are a trust, we warrant that no person has the right to return the +securities to be quoted under section 1019B of the Corporations Act at the time that we request that the +securities be quoted.

3 We will indemnify ASX to the fullest extent permitted by law in respect of any claim, action or expense arising from or connected with any breach of the warranties in this agreement.

4 We give ASX the information and documents required by this form. If any information or document is not available now, we will give it to ASX before +quotation of the +securities begins. We acknowledge that ASX is relying on the information and documents. We warrant that they are (will be) true and complete.

Lijun Yang

Sign here: .... Date: 24/02/2016
(Director/Company secretary)

Print name: Lijun Yang

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+ See chapter 19 for defined terms.

Appendix 3B – Annexure 1

Calculation of placement capacity under rule 7.1 and rule 7.1A for eligible entities

Introduced 01/08/12 Amended 04/03/13

Part 1

Rule 7.1 – Issues exceeding 15% of capital	
Step 1: Calculate "A", the base figure from which the placement capacity is calculated	
Insert number of fully paid +ordinary securities on issue 12 months before the +issue date or date of agreement to issue	274,788,700
Add the following: • Number of fully paid +ordinary securities issued in that 12 month period under an exception in rule 7.2 • Number of fully paid +ordinary securities issued in that 12 month period with shareholder approval • Number of partly paid +ordinary securities that became fully paid in that 12 month period *Note:* • *Include only ordinary securities here – other classes of equity securities cannot be added* • *Include here (if applicable) the securities the subject of the Appendix 3B to which this form is annexed* • *It may be useful to set out issues of securities on different dates as separate line items*	29,532,064 (shares issued under a pro-rata entitlement issue on 19/10/2015) 35,000,000 (shares issued on 20/11/2015, arising from conversion of convertible notes previously approved by shareholders on 28/11/2014) 41,177,334 (share issue ratified 25 November 2015) 60,000,000 (shares issued on 25/11/2015 and utilising part of the shortfall from a pro-rata entitlement issue) 2,375,300 (shares issued to settle the loan and outstanding fees to a director and previously approved by shareholders on 25/11/2015) 450,251,100 (refer to this 3B and previously approved by shareholders on 25/11/2015)
Subtract the number of fully paid +ordinary securities cancelled during that 12 month period	500,000(shares cancelled under an Employee share scheme buy-back on 23 December 2015)
"A"	892,624,498

+ See chapter 19 for defined terms.

Step 2: Calculate 15% of "A"	
"B"	0.15 *[Note: this value cannot be changed]*
Multiply "A" by 0.15	133,893,675
Step 3: Calculate "C", the amount of placement capacity under rule 7.1 that has already been used	
Insert number of +equity securities issued or agreed to be issued in that 12 month period *not counting* those issued: • Under an exception in rule 7.2 • Under rule 7.1A • With security holder approval under rule 7.1 or rule 7.4 *Note:* • *This applies to equity securities, unless specifically excluded – not just ordinary securities* • *Include here (if applicable) the securities the subject of the Appendix 3B to which this form is annexed* • *It may be useful to set out issues of securities on different dates as separate line items*	1,615,562 (shares issued on 26 November 2015 to settle outstanding interest on a convertible note)
"C"	1,615,562
Step 4: Subtract "C" from ["A" x "B"] to calculate remaining placement capacity under rule 7.1	
"A" x 0.15 *Note: number must be same as shown in Step 2*	133,893,675
Subtract "C" *Note: number must be same as shown in Step 3*	1,615,562
Total ["A" x 0.15] – "C"	132,278,113 *[Note: this is the remaining placement capacity under rule 7.1]*

+ See chapter 19 for defined terms.

Part 2

Rule 7.1A – Additional placement capacity for eligible entities	
Step 1: Calculate "A", the base figure from which the placement capacity is calculated	
"A" *Note: number must be same as shown in Step 1 of Part 1*	892,624,498
Step 2: Calculate 10% of "A"	
"D"	0.1 *Note: this value cannot be changed*
Multiply "A" by 0.10	89,262,450
Step 3: Calculate "E", the amount of placement capacity under rule 7.1A that has already been used	
Insert number of +equity securities issued or agreed to be issued in that 12 month period under rule 7.1A *Notes:* • *This applies to equity securities – not just ordinary securities* • *Include here – if applicable – the securities the subject of the Appendix 3B to which this form is annexed* • *Do not include equity securities issued under rule 7.1 (they must be dealt with in Part 1), or for which specific security holder approval has been obtained* • *It may be useful to set out issues of securities on different dates as separate line items*	0
"E"	0

+ See chapter 19 for defined terms.

Step 4: Subtract "E" from ["A" x "D"] to calculate remaining placement capacity under rule 7.1A	
"A" x 0.10 *Note: number must be same as shown in Step 2*	89,262,450
Subtract "E" *Note: number must be same as shown in Step 3*	0
Total ["A" x 0.10] – "E"	89,262,450 *Note: this is the remaining placement capacity under rule 7.1A*

+ See chapter 19 for defined terms.