KalNorth Gold Mines Limited and Controlled Entities
ACN 100 405 954

Financial Report
For the year ended 30 June 2016

CONTENTS

CORPORATE PARTICULARS

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

DIRECTORS' REPORT

The Directors of KalNorth Gold Mines Limited ("the Company") present their financial report on the consolidated entity, being the company and its controlled entities, for the financial year ended 30 June 2016.

Directors

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

- Jiajun Hu — Non-executive Chairman
- Lijun Yang — Executive Director
- Yuanguang Yang — Non-executive Director

Information on Directors

JIAJUN HU
Non-Executive Chairman

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

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

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

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

Interest in shares and options: nil

LIJUN YANG
Executive Director

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

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

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

Interest in shares and options: 47,100 ordinary fully paid shares

Information on Directors (Cont'd)

YUANGUANG YANG
Non-Executive Director

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

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

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

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

Interest in shares and options: 2,375,300

Company Secretary

Mr Lijun Yang

Principal Activities

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

Operating Results and Financial Performance

The operating loss after income tax of the consolidated entity for the year ended 30 June 2016 was $12,330,518 (2015: loss $774,451).

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

(i) A fair value loss of $10,355,775 on the debt to equity conversion.

(ii) Exploration expenditure of $1.09 million (2015: $0.79 million) across all project areas and immediately written-off to the profit and loss.

(iii) Interest expense of $0.31 million (2015: $0.56 million) on the secured and unsecured loans.

(iv) A tax refund of $0.16 million with respect to the 2015 financial year and supported by a tax incentive submission based upon the R&D activities at the Kurnalpi project and was subsequently received on the 15th September 2016.

As at 30 June 2016 the company had $34,105 (2015: $238,640) in cash reserves and an aggregate of $320,054 (2015: $4,764,557) in debt instruments (and accrued interest payable).

At 30 June 2016, the consolidated entity had net assets of $5,569,976 (2015: $1,764,199).

Operating Results and Financial Performance (Continued)

During the Financial Year a number of corporate transactions took place which had a significant effect on the Company's state of affairs. These included the following:

- **Rights Issue** - The Company completed a 1 for 2 Non-Renounceable Rights issue which commenced in the September 2015 quarter (refer to ASX announcement on 29 July 2015). An aggregate amount of $895,320 was raised comprising $295,320 from subscription to entitlements and $600,000 from issue of shortfall shares.

- **Convertible Note -** A $350,000 convertible note due for redemption in March 2016 was converted to 35 million shares in November 2015.

- **Convertible Note Facility –** A convertible note facility agreement was entered into with the Company's then largest shareholder, Cross-Strait Common Development Fund Co., Limited. At balance date an amount of $300,000 had been drawn against the $2 million facility. The facility received shareholder approval at the annual general meeting in November 2015.

- **Debt to Equity Conversion -** The Company entered into a number of agreements for the settlement of loans (~$4.5 million) and accrued interest by issue of shares. These transactions were approved by shareholders in November 2015, loan settlement and completion did not take place until 24 February 2016 on receipt of FIRB approval.

Significant Changes in the State of Affairs

There have not been significant changes in the state of affairs of the consolidated entity during the financial year, other than as noted in this financial report.

Dividends Paid or Recommended

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

Significant Events after the Reporting Date

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

(a) On 26 July 2016, the company has drawn down a further $700,000 via the issue of an additional 70 convertible notes (with a face value of $10,000 each) under the facility. There remains a further $1 Million available to draw down under the facility on or before 31 December 2016.

Likely Developments and Expected Results

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

Environmental Issues

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

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

Meetings of Directors

During the financial year 15 meetings of Directors were held. Attendances by each Director during the year were as follows:

	Directors' Meetings	
	Number of meetings eligible to attend	**Number attended**
Lijun Yang	15	15
Jiajun Hu	15	15
Yuanguang Yang	15	15

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

Options

At the date of this report, there were no unissued ordinary shares of KalNorth Gold Mines Limited under option (2015: Nil).

During the year ended 30 June 2016 and to the date of this report, no shares were issued on the exercise of options (2015: nil).

Risk Management

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

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

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

Remuneration Report (Audited)

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

Remuneration Policy

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

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

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

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

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

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

Performance-Based Remuneration

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

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

Non-Executive Director Remuneration

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

Remuneration Report (Audited) (Cont'd)

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

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

Relationship between Remuneration Policy and Consolidated Entity Performance

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

Key management personnel service agreements

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

	Commencement Date	Notice Period Base Salary	Base Salary	Termination Payments Provided
Lijun Yang	01/08/2013	1 month	$100,000[1]	-

[1]Entitled to statutory superannuation contributions

There are no other agreements with key management personnel.

Voting and comments made at the company's 2015 Annual General Meeting ('AGM')

At the 2015 AGM, 99% of the votes received supported the adoption of the remuneration report for the year ended 30 June 2015. The company did not receive any specific feedback at the AGM regarding its remuneration practices.

Remuneration Report (Cont'd)

Remuneration Details for the Year Ended 30 June 2016

(a) Key management personnel compensation:

2016	Short-term benefits			Post-employment benefits		Share-based payment		
Name	Salary, fees and leave $	Non- Cash bonus $	Non-monetary benefits $	Super-annuation $	Retirement benefits $	Options $	Termination $	Total $
Directors								
Lijun Yang	85,385	-	-	8,111	-	-	-	93,496
Jiajun Hu	50,000	-	-	4,354	-	-	-	54,354
Yuanguang Yang	30,000	-	-	-	-	-	-	30,000
Other key management personnel								
Wade Johnson[1]	148,095	-	-	14,305	-	-	23,076	185,476
Total	**313,480**	**-**	**-**	**26,770**	**-**	**-**	**23,076**	**363,326**

[1] Mr Johnson employment agreement was terminated on 14 April 2016.

Remuneration Report (Cont'd)

Remuneration Details for the Year Ended 30 June 2015

(a) Key management personnel compensation:

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

[1] Mr. Yuanguang Yang was appointed 28 August 2014.
[2] Mr. Connell resigned on 28 August 2014.
[3] Mr Johnson received an additional $33,491 in salary in lieu of forgoing a portion of his accrued annual leave entitlements.

Remuneration Report (Cont'd)

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

No options were granted to Directors or key management personnel during the year ended 30 June 2016 (2015: nil).

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

2016	**Balance 1 July 2015**	**Granted as Remuneration**	**Rights Entitlement Allotment**	**Net Change Other**	**Balance 30 June 2016**
Directors					
Lijun Yang	31,400	-	-	15,700	47,100
Jiajun Hu	-	-	-	-	-
Yuanguang Yang	-	-	-	2,375,300	2,375,300
Other					
Wade Johnson	1,010,000	-	-	(1,010,000)	-
Total	**1,041,400**	**-**	**-**	**1,381,000**	**2,422,400**

Key management personnel option holdings

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

Loans to key management personnel and their related parties

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

The following balances are outstanding at the reporting date in relation to transactions with related parties:

	2016
	$
Trade and other payable	34,167

Use of Remuneration Consultants

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

Remuneration Report (Cont'd)

Additional information

The earnings of the consolidated entity for the five years to 30 June 2016 are summarised below:

	2016 $	2015 $	2014 $	2013 $	2012 $
Sales revenue	1,565,081	9,295	5,211,564	3,629,630	-
EBITDA	(11,958,266)	(95,773)	(9,818,556)	(55,814,673)	(2,410,108)
EBIT	(12,018,044)	(210,686)	(10,037,470)	(56,364,791)	(2,639,101)
Loss after income tax	(12,330,518)	(774,451)	(10,763,483)	(56,492,958)	(2,639,507)

The factors that are considered to affect total shareholders return ('TSR') are summarised below:

	2016	2015	2014	2013	2012
Share price at financial year end ($)	0.023	0.008	0.009	0.065	0.23
Total dividends declared (cents per share)	-	-	-	-	-
Basic loss per share (cents per share)	(2.23)	(0.28)	(5.28)	(35.09)	(1.89)

[END OF REMUNERATION REPORT]

Indemnification and Insurance of Officers and Auditors

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

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

Proceedings on Behalf of Company

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

Non-Audit Services

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

- all non-audit services are reviewed and approved by the Board prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and

- the nature of the services provided does not compromise the general principles relating to auditor independence in accordance with APES 110: Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standards Board.

The following fees were paid or payable to RSM Australia Partners for non-audit services:

	2016	2015
	$	$
Taxation services	5,000	9,000
Other taxation services – R&D return and lodgment assistance	-	48,659
	5,000	57,659

Auditor's Independence Declaration

The auditor, RSM Australia Partners, has provided the Board of Directors with an independence declaration in accordance with section 307C of the Corporations Act 2001 and included within these financial statements.

Auditor
RSM Australia Partners continues in office in accordance with section 327 of the Corporations Act 2001.

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

Lijun Yang

Lijun Yang
Executive Director

Dated at Perth this 28 day of September 2016

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE

For the year ended 30 June 2016

	Note	2016 $	2015 $
Revenue from gold sales		**1,444,329**	9,295
Revenue from non-mineral sales		**120,752**	-
Cost of sales – gold sales		**(1,028,673)**	-
Cost of sales – non-mineral sales		**(119,200)**	-
Gross profit		**417,208**	9,295
Other income	3	**161,697**	550,311
(Loss)/Gain on sale of tenements	3	**(463,207)**	913,460
Director and corporate employee costs		**(188,750)**	(178,812)
Professional fees and consultants		**(199,321)**	(303,285)
Advertising and promotion cost		**(2,160)**	(5,945)
Depreciation expenses	8	**(59,778)**	(114,913)
Listing and registry fees		**(39,377)**	(29,047)
Exploration costs		**(1,098,112)**	(794,899)
Interest expense		**(312,474)**	(563,765)
Debt to equity – fair value loss	4	**(10,355,775)**	-
Other expenses		**(190,469)**	(256,851)
Loss before income tax		**(12,330,518)**	(774,451)
Income tax benefit	5	**-**	-
Loss after income tax for the year		**(12,330,518)**	(774,451)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
		-	-
Other comprehensive income for the year, net of tax		**-**	-
Total comprehensive loss for the year		**(12,330,518)**	(774,451)
Loss per share			
Basic and diluted loss per share (cents)	16	**(2.23)**	(0.28)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2016

	Note	2016 $	2015 $
ASSETS			
Current Assets			
Cash and cash equivalents	18 (b)	**34,105**	238,640
Trade and other receivables	6	**302,293**	15,993
Other assets	7	**7,500**	7,500
Total Current Assets		**343,898**	262,133
Non-Current Assets			
Property, plant and equipment	8	**338,190**	389,920
Exploration and evaluation expenditure	9	**6,999,901**	7,147,846
Total Non-Current Assets		**7,338,091**	7,537,766
TOTAL ASSETS		**7,681,989**	7,799,899
LIABILITIES			
Current Liabilities			
Trade and other payables	10	**288,339**	122,785
Interest bearing liabilities	11	**320,054**	4,764,557
Total Current Liabilities		**608,393**	4,887,342
Non-Current Liabilities			
Restoration provision	12	**1,503,620**	1,148,358
Total Non-Current Liabilities		**1,503,620**	1,148,358
TOTAL LIABILITIES		**2,112,013**	6,035,700
NET ASSETS		**5,569,976**	1,764,199
EQUITY			
Issued capital	13	**92,388,017**	76,251,722
Accumulated losses		**(86,818,041)**	(74,487,523)
TOTAL EQUITY		**5,569,976**	1,764,199

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2016

	Issued Capital $	Accumulated Losses $	Share payment reserve $	Total Equity $
2015				
As at 1 July 2014	**75,226,229**	**(75,047,490)**	**1,334,418**	**1,513,157**
Loss after income tax for the year	-	(774,451)	-	(774,451)
Total comprehensive income for the year, net of tax	-	(774,451)	-	(774,451)
Transfer of expired share option costs	-	1,334,418	(1,334,418)	-
Shares issued during the year, net of costs	1,025,493	-	-	-
As at 30 June 2015	**76,251,722**	**(74,487,523)**	**-**	**1,764,199**
2016				
As at 1 July 2015	**76,251,722**	**(74,487,523)**	**-**	**1,764,199**
Loss after income tax for the year	-	(12,330,518)	-	(12,330,518)
Total comprehensive income for the year, net of tax	-	(12,330,518)	-	(12,330,518)
Shares issued during the year, net of costs	16,109,255	-	-	16,109,255
Equity portion on convertible note issued during year	27,040	-		27,040
As at 30 June 2016	**92,388,017**	**(86,818,041)**	**-**	**5,569,976**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2016

	Note	2016	2015
		$	$
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		**1,319,118**	25,890
Payments to suppliers and employees (inclusive of GST)		**(1,632,110)**	(788,237)
Research and development tax refund		**-**	533,785
Interest received		**3,785**	6,923
Interest paid		**(56,316)**	(13,325)
Other income		**120,752**	-
Other payments		**(119,200)**	-
Refund of office security bond		**-**	27,050
Net cash used in operating activities	18(a)	**(363,971)**	(207,914)
Cash flows from investing activities			
Proceeds from sale of tenements		**40,000**	1,800,000
Payments for plant and equipment		**(8,048)**	-
Payments for mine tenements		**-**	(1,000,000)
Payment for mineral exploration activities		**(1,000,576)**	(782,313)
Net cash used in investing activities		**(968,624)**	(32,313)
Cash flows from financing activities			
Proceeds from issue of shares (net)		**861,060**	-
Proceeds from short-term borrowings		**17,000**	-
Proceeds from borrowings – convertible loan		**300,000**	350,000
Repayment of borrowings - unsecured		**(50,000)**	-
Net cash provided by financing activities		**1,128,060**	350,000
Net increase / (decrease) in cash held		**(204,535)**	109,773
Cash and cash equivalents at the beginning of the financial year		**238,640**	128,867
Cash and cash equivalents at the end of the financial year	18(b)	**34,105**	238,640

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

Note 1: Statement of Significant Accounting Policies

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

The financial report was authorised for issue on 28 September 2016 by the Board of Directors.

Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

Historical cost convention
The financial statements have been prepared under the historical cost convention, except for, where applicable, the revaluation of available-for-sale financial assets, financial assets and liabilities at fair value through profit or loss, investment properties, certain classes of property, plant and equipment and derivative financial instruments.

Critical accounting estimates
The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the consolidated entity's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2.

Going Concern

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

As disclosed in the financial statements, the consolidated entity incurred a loss of $12,330,518 and had net cash outflows from operating and investing activities respectively of $363,971 and $968,624, during the year ended 30 June 2016. As at that date the consolidated entity had net current liabilities of $264,495.

These factors indicate significant uncertainty as to whether the consolidated entity will continue as a going concern and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

The Directors believe that it is reasonably foreseeable that the consolidated entity will continue as a going concern and that it is appropriate to adopt the going concern basis in the preparation of the financial report after consideration of the following mitigating factors:

(a) As disclosed in Notes 4 and 13, the loss for the year includes a non-cash charge to the profit and loss of $10,355,775 pertaining to a debt to equity fair value loss.

(b) As disclosed in Note 11, the Company has access to a convertible note facility of $2,000,000 which was drawn down to $300,000 at 30 June 2016. Subsequent to year-end, a further $700,000 was drawn down under the facility and the Company remains in compliance with the terms and conditions of the facility in order to be able to draw down up to a further $1,000,000 on or before 31 December 2016 should it need to do so. The convertible notes issued under the facility have a redemption date of 30 April 2017 and, whilst no agreement has been reached with the facility holder, the directors believe that they may be able to negotiate an extension to the redemption date, should that become necessary.

(c) As previously announced, the Company is also at an advanced stage of negotiations with AIM listed Keras Resources Inc to recommence mining activities on the Lindsays deposit, which has the potential to generate cash flows for the Company whilst at the same time not incur any expenditure in this regard.

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

(d) Given the current favourable economic conditions for Australian based gold operations, the Company continues to review opportunities for sale or development of its Kurnalpi and Kalpini projects. Active discussions continue with a number of parties in this regard. The Directors also believe that the Company has the capacity to raise new equity capital as demonstrated in prior periods.

(e) The Company has the capacity to further reduce discretionary expenditure in line with available funding.

Accordingly, the Directors believe that the consolidated entity will be able to continue as a going concern and that it is appropriate to adopt the going concern basis in the preparation of the financial report.

The financial report does not include any adjustments relating to the amounts or classification of recorded assets or liabilities that might be necessary if the consolidated entity does not continue as going concerns.

New, revised or amending Accounting Standards and Interpretations adopted

The Company has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Parent entity information

In accordance with the Corporations Act 2001, these financial statements present the results of the consolidated entity only. Supplementary information about the parent entity is disclosed in Note 24.

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of KalNorth Gold Mines Limited ('company' or 'parent entity') as at 30 June 2016 and the results of all subsidiaries for the year then ended. KalNorth Gold Mines Limited and its subsidiaries together are referred to in these financial statements as the 'consolidated entity'.

Subsidiaries are all those entities over which the consolidated entity has control. The consolidated entity controls an entity when the consolidated entity is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the consolidated entity are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the consolidated entity.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Non-controlling interest in the results and equity of subsidiaries are shown separately in the statement of profit or loss and other comprehensive income, statement of financial position and statement of changes in equity of the consolidated entity. Losses incurred by the consolidated entity are attributed to the non-controlling interest in full, even if that results in a deficit balance.

Where the consolidated entity loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The consolidated entity recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

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

Operating Segments

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

Income tax

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

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

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

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

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

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

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

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

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

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

Mining tenements and exploration and evaluation expenditure

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

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

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

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

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

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

Leases

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

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

Employee benefits

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

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

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

Property, plant and equipment

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

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

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

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

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

Depreciation

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

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

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

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

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

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

Current and non-current classification

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

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

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

Current and non-current classification (cont'd)

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

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

Financial instruments

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

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

Derecognition

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

Classification and subsequent measurement

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

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

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

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

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

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

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

Fair value

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

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

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

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

Impairment of non-financial assets

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

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

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

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

Cash and cash equivalents

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

Trade and Other Receivables

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

Inventories

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

Trade and Other Payables

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

Provision for restoration

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

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

Borrowings

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

Goods and services tax (GST)

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

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

Revenue

Sale of gold

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

Interest income

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

Share-based payment transactions

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

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

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

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

Contributed equity

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

Earnings per share

Basic earnings per share

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

Diluted earnings per share

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

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

Comparative figures

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

Finance costs

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

New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 30 June 2016. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, are set out below.

AASB 15 Revenue from Contracts with Customers

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard provides a single standard for revenue recognition. The core principle of the standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard will require: contracts (either written, verbal or implied) to be identified, together with the separate performance obligations within the contract; determine the transaction price, adjusted for the time value of money excluding credit risk; allocation of the transaction price to the separate performance obligations on a basis of relative stand-alone selling price of each distinct good or service, or estimation approach if no distinct observable prices exist; and recognition of revenue when each performance obligation is satisfied. Credit risk will be presented separately as an expense rather than adjusted to revenue. For goods, the performance obligation would be satisfied when the customer obtains control of the goods. For services, the performance obligation is satisfied when the service has been provided, typically for promises to transfer services to customers. For performance obligations satisfied over time, an entity would select an appropriate measure of progress to determine how much revenue should be recognised as the performance obligation is satisfied. Contracts with customers will be presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Sufficient quantitative and qualitative disclosure is required to enable users to understand the contracts with customers; the significant judgments made in applying the guidance to those contracts; and any assets recognised from the costs to obtain or fulfil a contract with a customer. The consolidated entity will adopt this standard from 1 July 2018 but the impact of its adoption is yet to be assessed by the consolidated entity.

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

AASB 16 Leases

This standard is applicable to annual reporting periods beginning on or after 1 January 2019. The standard replaces AASB 117 'Leases' and for lessees will eliminate the classifications of operating leases and finance leases. Subject to exceptions, a 'right-of-use' asset will be capitalised in the statement of financial position, measured as the present value of the unavoidable future lease payments to be made over the lease term. The exceptions relate to short-term leases of 12 months or less and leases of low-value assets (such as personal computers and small office furniture) where an accounting policy choice exists whereby either a 'right-of-use' asset is recognised or lease payments are expensed to profit or loss as incurred. A liability corresponding to the capitalised lease will also be recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs. Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset (included in operating costs) and an interest expense on the recognised lease liability (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results will be improved as the operating expense is replaced by interest expense and depreciation in profit or loss under AASB 16. For classification within the statement of cash flows, the lease payments will be separated into both a principal (financing activities) and interest (either operating or financing activities) component. For lessor accounting, the standard does not substantially change how a lessor accounts for leases. The consolidated entity will adopt this standard from 1 July 2019 but the impact of its adoption is yet to be assessed by the consolidated entity.

Note 2: Critical accounting estimates and judgments

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

The critical accounting estimates and judgments are:

Restoration provision

A provision has been made for the present value of anticipated costs for future rehabilitation of land explored or mined. The consolidated entity's mining and exploration activities are subject to various laws and regulations governing the protection of the environment. The consolidated entity recognises management's best estimate for assets retirement obligations and site rehabilitations in the period in which they are incurred. Actual costs incurred in the future periods could differ materially from the estimates. Additionally, future changes to environmental laws and regulations, life of mine estimates and discount rates could affect the carrying amount of this provision.

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

Note 3: Other income	2016 $	2015 $
Interest received	**3,785**	6,923
Refundable R&D tax offset	**157,912**	533,785
Profit on sale of property, plant and equipment	**-**	103
Other income	**-**	9,500
Total other income	**161,697**	550,311
(Loss)/Gain on sale of tenements (i)	**(463,207)**	913,460

(i) The Company completed settlement for the sale of its 100% interests in the Roe and Spargoville projects as part of its divesture of non-core assets (2015: Settlement of the sale of the Mount Jewell project). All tenements were located within the Goldfields region of Western Australia. The (loss)/gain on sale consists of the following components;

Proceeds from sale (exclusive of GST)	**40,000**	1,800,000
Deferred purchase consideration - early payment discount (Note 10(i))	**-**	50,000
Exploration & evaluation expenditure write-back on disposal (Note 9)	**(522,323)**	(1,000,000)
Rehabilitation provision write-back on disposal	**19,116**	63,460
Total (loss)/gain on sale of tenements	**(463,207)**	913,460

Note 4: Expenses	2016 $	2015 $
Loss before income tax consists of the following specific expenses:		
Fair value loss – extinguishment of debt (Note 11, 13(iv))	**(10,355,775)**	-

Note 5: Income tax

(a) Income tax recognised

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

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

	2016 $	2015 $
Loss before income tax	**(12,330,518)**	(774,451)
Income tax benefit at 28.5% (2015: 30%)	**(3,514,198)**	(232,335)
Tax effect of permanent differences – Impairment	**45,005**	183,816
Tax effect of permanent differences – debt to equity fair value expense	**3,106,733**	-
Tax effect of temporary differences	**474,972**	(77,472)
Tax effect of deferred tax asset not recognised	**(112,512)**	(125,991)
Income tax expense	**-**	-

(c) Unrecognised deferred tax balances

Tax losses attributable to members of the tax consolidated group – revenue	**80,156,769**	78,063,584
Potential tax benefit at 28.5%	**22,844,679**	23,419,075

Note 5: Income tax (continued)

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

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

Note 6: Trade and other receivables	**2016**	**2015**
	$	**$**
Current		
Trade receivables – gold stockpile sales (i)	**137,732**	-
GST receivable	**6,649**	15,993
R&D receivable	**157,912**	-
	302,293	15,993

(i) Trade receivables are non-interest bearing and have payment terms between 30 – 90 days.

Note 7: Other assets	**2016**	**2015**
	$	**$**
Current		
Credit card facility - security deposit	**7,500**	7,500
Total other assets	**7,500**	7,500

Note 8: Property, plant and equipment	**2016 $**	**2015 $**
Plant and equipment		
At cost	**386,121**	381,136
Accumulated depreciation	**(351,975)**	(330,897)
	34,146	50,239
Motor vehicles		
At cost	**113,887**	113,887
Accumulated depreciation	**(113,887)**	(102,283)
	-	11,604
IT Assets		
At cost	**305,072**	302,008
Accumulated depreciation	**(302,087)**	(283,990)
	2,985	18,018
Land and buildings		
At cost	**380,866**	380,866
Accumulated depreciation	**(79,807)**	(70,807)
	301,059	310,059
Total written down value	**338,190**	389,920

(a) Movements in carrying amounts

	Land & Buildings	**Plant & Equipment**	**Motor Vehicles**	**IT Assets**	**Total**
Balance at 1 July 2014	319,059	76,050	30,626	79,098	504,833
Depreciation expense	(9,000)	(25,811)	(19,022)	(61,080)	(114,913)
Balance at 30 June 2015	**310,059**	**50,239**	**11,604**	**18,018**	**389,920**
Additions	-	4,985	-	3,063	8,048
Depreciation expense	(9,000)	(21,078)	(11,604)	(18,096)	(59,778)
Balance at 30 June 2016	**301,059**	**34,146**	**-**	**2,985**	**338,190**

Note 9: Exploration and evaluation expenditure	**2016 $**	**2015 $**
Cost	**6,999,901**	7,147,846
Reconciliation		
Balance at beginning of year	**7,147,846**	8,035,398
Exploration expenditure incurred	**1,098,112**	794,899
Exploration expenditure immediately expensed (i)	**(1,098,112)**	(794,899)
Disposal of tenements (ii)	**(522,323)**	(1,000,000)
Additional allowance for rehabilitation	**374,378**	112,448
Balance at end of year	**6,999,901**	7,147,846

(i) During the year the company incurred exploration expenditure costs which were immediately expensed as their recoverability was uncertain.
(ii) The Roe and Spargoville projects were divested during the year (2015: Mt Jewell Project). (Note 3 (i)).

The ultimate recoupment of costs carried forward for exploration and evaluation phases is dependent on the successful development and commercial exploitation or sale of the respective mining areas.

Note 10: Trade and other payables	**2016** **$**	**2015** **$**
Current		
Trade payables (i)	**188,069**	67,997
Sundry payables and accrued expenses (i)	**100,270**	54,788
	288,339	122,785

(i) There are no amounts included within these balances that are not expected to be settled within the next 12 months. The average credit terms for services received by the Group are 30 days from invoice date and are non-interest bearing.

Note 11: Interest bearing liabilities	**2016** **$**	**2015** **$**
Current		
Secured loans (ii)	**-**	3,500,000
Unsecured loans (ii)	**17,000**	700,000
Convertible notes (iv)	**-**	350,000
Convertible notes – Cross Straits (iii)	**284,577**	-
Interest payable on secured loans (i)(ii)	**-**	173,562
Interest payable on unsecured loans (i)(ii)	**-**	34,712
Interest payable on convertible notes (i)(iv)	**-**	6,283
Interest payable on Cross Straits convertible notes (i)(iii)	**18,477**	-
Total interest bearing liabilities	**320,054**	4,764,557

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

Balance at beginning of year	**214,557**	691,788
Interest expense	**312,474**	563,765
Interest expense – Present value convertible note	**(11,617)**	-
Interest – equity settled on 24 February 2016 (iv)	**(352,511)**	-
Interest – equity settled on 26 November 2015 (iv)	**(16,156)**	-
Interest – equity settled on 11 March 2015	**-**	(667,073)
Interest – equity settled on 2 September 2014	**-**	(358,420)
Interest paid for the year	**(56,316)**	(13,325)
Interest 10% withholding on the convertible note	**(71,954)**	(2,178)
Balance at end of year	**18,477**	214,557

(ii) Secured and unsecured loans

On 25 November 2015, shareholders approved the issue of shares in settlement of secured and unsecured loans and accrued interest subject to regulatory approvals.

Regulatory approval was obtained on 23 February 2016 and on 24 February 2016, debts totalling $4,502,510 was settled via the issue of 450,251,000 ordinary fully paid shares as follows;

- 415,000,000 ordinary fully paid shares to settle $4,150,000 in loans principal; and
- 32,251,100 ordinary fully paid shares to settle $352,511 in accrued interest.

On 1 April 2016, the Company repaid the remaining $50,000 in loan principal and $56,316 in accrued interest.

Note 11: Interest bearing liabilities (cont'd)

(iii) Convertible notes – Cross Straits

On 15 September 2015, a convertible note facility agreement was entered into with (at the time) the Company's largest shareholder, Cross-Strait. Under the terms of the facility, the Company will be able to draw down up to $2 million. The facility has a maturity date of 30 April 2017.

On 25 November 2015, the facility was approved by shareholders at the Annual General Meeting Cross-Strait has the right to convert all or part of the amounts drawn down under the facility into shares in the Company at an issue price of $0.01 per share. On 23 February 2016, regulatory approval was received and the Company issued 30 convertible notes (with a face value of $10,000 each).

Summary of Cross Straits convertible note is as follows:	**2016** **$**	**2015** **$**
Convertible notes – face value	**300,000**	-
Amount classified as equity (Note 13)	**(27,040)**	-
Unwinding of interest	**11,617**	-
Carrying amount at the end of the year	**284,577**	-

As at the balance date, the company had $1,700,000 undrawn convertible note facility available. On 26 July 2016, the company has drawn down a further $700,000 via the issue of an additional 70 convertible notes (with a face value of $10,000 each) under the facility. (note 25 – Subsequent Events).

(iv) Convertible notes

On 20 November 2015, the Company completed the issue of 35,000,000 ordinary fully paid shares on the conversion of one (1) note (with a face value of $350,000) as approved by shareholders at the Company's 2014 Annual General Meeting.

On 25 November 2015 the Company completed the issue 1,615,562 ordinary fully paid shares in settlement of $16,156 in accrued interest up to the date of conversion.

Note 12: Restoration provision	**2016** **$**	**2015** **$**
Non-current		
Restoration provision (i) (ii)	**1,503,620**	1,148,358

(i) The provision movement for the year is as follows:	**2016** **$**	**2015** **$**
Carrying amount at the start of the year	**1,148,358**	1,099,370
Sale of tenements	**(19,116)**	(63,460)
Additional provisions recognised	**374,378**	112,448
Carrying amount at the end of the year	**1,503,620**	1,148,358

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

Note 13: Contributed equity	**2016 $**	**2015 $**
894,240,060 fully paid ordinary shares (2015: 315,966,034)	**92,388,017**	76,251,722

Movements in ordinary shares on issue for the year:	**No. of shares**	**Paid up capital $**
Balance 1 July 2015	315,966,034	76,251,722
Placement from an entitlement offer (i)	29,532,064	295,320
Placement of shortfall shares from an entitlement offer (i)	60,000,000	600,000
Shares issued in settlement of director fees, approved at 2015 Annual General Meeting (iii)	2,375,300	23,753
Shares issued on conversion of convertible note and accrued interest (ii)	36,615,562	366,156
Cancellation of shares – previously issued under the employee share scheme	(500,000)	-
Shares issued in settlement of secured and unsecured loans and accrued interest (iv)	450,251,100	14,858,287
Equity portion on convertible note issued during year (v)	-	27,040
Share issue costs for the period	-	(34,261)
Balance 30 June 2016	894,240,060	92,388,017

(i) On 19 October 2015, the company issued 29,532,064 ordinary fully paid shares (at an issue price of 1.00 cent each) on completion of its 1 for entitlement offer and on 25 November 2016 completed a placement of 60,000,000 ordinary fully paid shares (representing part of the shortfall shares available from the entitlement offer).

(ii) On 20 November 2015, the company issued 35,000,000 ordinary fully paid shares on the conversion of one (1) note (with a face value of $350,000) as approved by shareholders at the Company's 2014 Annual General Meeting, and on 25 November 2015, a further issue of 1,615,562 ordinary fully paid shares in settlement of accrued interest up to the date of conversion, and as completed the issue 1,615,562 ordinary fully paid shares in settlement of $16,156 in accrued interest up to the date of conversion.

(iii) On 25 November 2015, the company issued 2,375,300 ordinary fully paid shares in lieu of director fees, as approved by shareholders at the Company's 2015 Annual General Meeting.

(iv) On 24 February 2016, after receiving shareholder approval (25 November 2016 - 2015 Annual General Meeting) and regulatory approval (23 February 2016), the Company issued 450,251,100 ordinary fully paid shares in settlement of $4.15M in loans principal and $352,511 in accrued interest.

The cost of equity was recorded at fair value, and using the closing share price of 3.3 cents as at 23 February 2016. Accordingly, the company recognised $14,858,287 as the fair value of equity to settle the principal and accrued interest of $4,502,510 with the difference between the carrying amount of the financial liability extinguished, and the consideration paid being $10,355,775 recognised as a loss.

It should be noted that at the time of obtaining shareholder approval the closing share price was 1.2 cents, and in the intervening period from obtaining shareholder to regulatory approval, 1.585 million shares traded in a range of 0.9 cents and 3.3 cents.

(v) This balance represents the equity component of convertible notes (Note 11 (iii)) issued by the Company on 24 February 2016.

Ordinary shares

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

Note 13: Contributed Equity (cont'd)

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

Share buy-back

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

Capital risk management

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

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

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

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

Note 14: Key management personnel compensation

Refer to the Remuneration Report contained in the Directors' Report for details of the remuneration paid to each member of the consolidated entity's key management personnel for the year ended 30 June 2016.

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

	2016 $	2015 $
Short-term employee benefits	**313,480**	368,100
Termination benefits	**23,076**	-
Post-employment benefits	**26,770**	35,088
	363,326	403,188

Note 15: Related party transactions

All transactions were made on normal commercial terms and conditions and at market rates.

Transactions:
During the financial year, other than remuneration paid or payable to key management personnel, the Company had no other related party transactions (2015: no related party transactions).

The following balances are outstanding at the reporting date in relation to transactions with related parties:

	2016 $	2015 $
Trade and other payable	34,167	-

Loans to/from related parties

There were no loans to or from related parties at the current and previous reporting date.

Note 16: Loss per share	2016 $	2015 $
a) Basic loss per share		
Loss after income tax	**(12,330,518)**	(774,451)
Weighted average number of ordinary shares on issue during the year used as the denominator in calculating basic loss per share	**551,825,166**	281,026,497

Diluted loss per share is the same as basic loss per share as there are no securities to be classified as dilutive potential ordinary shares on issue.

Note 17: Auditor's remuneration	2016 $	2015 $
Remuneration of the auditor for:		
- audit and review of financial reports- RSM Australia Partners	**35,000**	33,800
- taxation services – RSM Australia Pty Ltd	**5,000**	9,000
- other taxation services – R&D tax credit assistance- RSM Australia Pty Ltd	**-**	48,659
	40,000	91,459

Note 18: Cash flow information	2016 $	2015 $
a) Reconciliation of the net loss after income tax to the net cash flows from operating activities:		
Net loss for the year	**(12,330,518)**	(774,451)
Non-cash items included in net loss:		
Depreciation expense	**59,778**	114,913
Exploration expenses	**1,098,112**	794,899
Loss/(gain) on sale of tenements	**463,207**	(913,460)
Debt to equity – fair value loss	**10,355,775**	-
Share based settled expenses	**23,753**	-
Share based settled interest expense	**256,158**	548,261
Changes in assets and liabilities:		
Decrease in trade and other receivables	**(286,300)**	16,509
Decrease in other assets	**-**	27,050
Decrease in trade and other creditors	**(3,936)**	(21,636)
Net cash outflow from operating activities	**(363,971)**	(207,915)

b) Reconciliation of cash

Cash balance comprises:		
- Cash at bank and on hand	**34,105**	238,640

c) Non-Cash Financing and Investing Activities

As disclosed in Note 13, the Company issued 486,866,662 ordinary fully paid shares during the year to settle aggregate outstanding loan principal and accrued interest expenses of $4,868,667.

In prior year, the Company issued 77,019,338 shares during the year to settle outstanding interest expense of $1,025,493.

Note 19: Commitments

(i) Mining tenements

The consolidated entity has certain commitments to meet minimum expenditure requirements on the mineral exploration assets in which it has an interest. The current annual minimum lease expenditure commitments on these tenements which covers the Lindsays, Kurnalpi and Kalpini projects is $771,720 (2015: $791,520).

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

	2016 $	**2015 $**
(b) Non-cancellable operating lease commitments		
- Not later than 12 months	-	8,004
- Between 12 months and 5 years	-	-
- Greater than 5 years	-	-
	-	8,004

In 2015, the consolidated entity had an operating lease for a hand held data analyser at a rental of $1,334 per month, which expired on 31 December 2015.

Note 20: Controlled entities	**Country of Incorporation**	**Percentage Owned (%)**	
		2016	**2015**
Subsidiaries of KalNorth Gold Mines Limited:			
Shannon Resources Pty Ltd (dormant)	Australia	100	100
Lusitan Prospecting Pty Ltd (dormant)	Australia	100	100

Shannon Resources Pty Ltd and Lusitan Prospecting Pty Limited are the registered owners of various tenements. The parent entity owns 100% of both entities. There was no income earned and no expenses incurred by these entities for the year end 30 June 2016 (2015: nil).

Note 21: Segment information

Identification of reportable operating segments

The consolidated entity is organised into two operating segments: mine development and mineral exploration, both within Australia. During the year ended 30 June 2016, the consolidated entity's external revenue was derived solely from the sale of certain gold stockpiles and/or its share of prospector gold.

30 June 2016	**Mine development**	**Mineral Exploration**	**Admin**	**Total consolidated group**
Revenue	**$**	**$**	**$**	**$**
Sales to external customers	1,444,329	-	-	1,444,329
Other revenue	-	-	120,752	120,751
Total revenue	**1,444,329**	**-**	**120,752**	**1,565,080**
EBITDA	415,656	(1,098,112)	(618,524)	**(1,300,980)**
Interest revenue	-	-	3,785	**3,785**
Refundable R&D tax offset	-	157,912	-	**157,912**
Depreciation and amortisation	-	(11,604)	(48,174)	**(59,778)**
Loss on sale of tenements	-	(463,207)	-	**(463,207)**
Debt to equity – fair value loss	-	-	(10,355,775)	**(10,355,775)**
Finance costs	-	-	(312,475)	**(312,475)**
Loss before income tax	**415,656**	**(1,415,011)**	**(11,331,163)**	**(12,330,518)**
Income tax benefit	-	-	-	-
Loss after income tax	**415,656**	**(1,415,011)**	**(11,331,163)**	**(12,330,518)**
30 June 2016				
Assets				
Segment assets				
Exploration assets	-	6,999,901	-	**6,999,901**
Property, plant and equipment	-	-	338,190	**338,190**
Unallocated assets:				
Cash and cash equivalents	-	-	34,104	**34,104**
Other current assets	-	-	309,794	**309,794**
Total assets	**-**	**6,999,901**	**682,088**	**7,681,989**
Liabilities				
Segment liabilities				
Trade and other payables	-	-	(288,339)	**(288,339)**
Restoration provision	(1,143,530)	(360,090)	-	**(1,503,620)**
Unallocated liabilities:				
Interest-bearing liabilities	-	-	(320,054)	**(320,054)**
Total liabilities	**(1,143,530)**	**(360,090)**	**(608,393)**	**(2,112,013)**

Note 21: Segment information (cont'd)

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

Note 22: Financial risk management objectives and policies

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

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

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

(a) Interest rate risk

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

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

	Weighted average interest Rate %	Floating interest rate $	Fixed interest maturing 1 year or less $	Fixed interest maturing 1 to 5 years $
30 June 2016				
Cash at bank	1.14%	34,105	-	-
Total assets				
Interest bearing liabilities	8%	-	(300,000)	-
Total liabilities		**-**	**(300,000)**	**-**

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

Interest rate sensitivity analysis – cash at bank

At 30 June 2016, if interest rates had changed by 1% during the entire year with all other variables held constant, profit for the year and equity would have been $3,332 higher/lower (2015: $3,507), mainly as a result of higher/lower interest income from cash and cash equivalents.

(b) Credit risk

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

Note 22: Financial risk management objectives and policies (cont'd)

(c) Liquidity risk

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

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

	Less than 6 months $	6 months to 1 year $	1 to 5 years $	Total $
30 June 2016				
Financial liabilities due for payment				
Trade and other payables	(288,339)	-	-	(288,339)
Interest bearing liabilities	-	(320,054)	-	(320,054)
	(288,339)	**(320,054)**	**-**	**(608,393)**
Financial assets – cash flows realisable				
Cash assets	34,105	-	-	34,105
Trade and other receivables	302,293	7,500	-	309,793
	336,398	**7,500**	**-**	**343,898**
Net (outflow)/inflow from financial instruments	**48,059**	**(312,554)**	**-**	**(264,495)**

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

(d) Foreign exchange risk

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

Note 22: Financial risk management objectives and policies (cont'd)

(e) Net fair value of financial assets and liabilities

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

Note 23: Contingent liabilities and contingent assets

There are no contingent liabilities or assets at reporting date.

Note 24: Parent Information

As referred to in Note 20, the consolidated entity comprises KalNorth Gold Mines Limited, the parent entity and two wholly-owned subsidiaries. The Parent entity disclosures are not materially different to the consolidated entity's disclosures in the Statement of Financial Position and the Statement of Profit or Loss and Other Comprehensive Income. In addition, there are:

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

Note 25: Events subsequent to reporting date

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

(b) On 26 July 2016, the company has drawn down a further $700,000 via the issue of an additional 70 convertible notes (with a face value of $10,000 each) under the facility. There remains a further $1 Million available to draw down under the facility on or before 31 December 2016.

DIRECTORS' DECLARATION

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

(a) the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including

(i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards, including the Interpretations, and the Corporations Regulations 2001;

(b) the financial statements and notes thereto also comply with International Financial Reporting Standards, as disclosed in Note 1; and

(c) the directors have been given the declarations required by s295A of the Corporations Act 2001

(d) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable;

Signed in accordance with a resolution of the directors made pursuant to s295(5) of the Corporations Act 2001.

On behalf of the Directors:

Lijun Yang
Executive Director

Dated at Perth this 28 September 2016

RSM Australia Partners

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AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the financial report of KalNorth Gold Mines Limited for the year ended 30 June 2016, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

RSM

RSM AUSTRALIA PARTNERS

A Whyte

Perth, WA
Dated: 28 September 2016

ALASDAIR WHYTE
Partner

RSM Australia Partners

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

Report on the Financial Report

We have audited the accompanying financial report of KalNorth Gold Mines Limited, which comprises the statement of financial position as at 30 June 2016, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

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

Auditor's Responsibility

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

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

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

Independence

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

Opinion

In our opinion:

(a) the financial report of KalNorth Gold Mines Limited is in accordance with the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the year ended on that date; and

  (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

(b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the financial report, which indicates that the consolidated entity incurred a loss of $12,330,518 and had net cash outflows from operating and investing activities respectively of $363,971 and $968,624, during the year ended 30 June 2016. As at that date the consolidated entity had net current liabilities of $264,495.

These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty which may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business.

Report on the Remuneration Report

We have audited the Remuneration Report contained within the directors' report for the year ended 30 June 2016. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001.* Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion the Remuneration Report of KalNorth Gold Mines Limited for the year ended 30 June 2016 complies with section 300A of the *Corporations Act 2001*.

RSM

RSM AUSTRALIA PARTNERS

AWhyte

ALASDAIR WHYTE
Partner

Perth, WA
Dated: 28 September 2016