



10 May 2016

ASX RELEASE

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

Dear Sir

Lindsay's Project Mining Option Exercised

The Directors of KalNorth Gold Mines Limited (ASX: KGM) (the "Company" or "KGM") are pleased to announce that the option which the Company granted to Keras (Gold) Australia Pty Ltd ("Keras"), a wholly owned subsidiary company of AIM listed company Keras Resources plc, to recommence the development of Lindsay's project has been exercised.

On 12 March 2016 the Company announced the grant to Keras of an exclusive and irrevocable option to mine presently published JORC compliant resources at Lindsay's project. The parties will now seek regulatory mining approvals and finalise and execute a formal agreement prior to the commencement of mining operations.

The Lindsay's mine incorporates total open pit and underground resources of 215,000 ounces Au, of which 77% falls in the Indicated Resource category. This includes the high grade Parrot Feathers deposit which comprises a resource of 401,000t at 4.2g/t Au for 54,000 ounces. In addition there is significant potential down dip at Parrot Feathers; mineralisation extends up to 200m below the resource base with historic drill intercepts outside the resource including 4m at 7.88g/t Au and 3m at 7.89g/t Au.

Keras carried out an internal assessment and Identified 3 open pit resources namely Trial pit, LC4 and LC 1, comprising approximately 100,000 tonnes of ore at an average 2.46g/t Au for 7,900 ounces. The Trial Pit comprising 25,000t at 2.2g/t Au for 1,800oz is the most advanced and only requires grade control drilling prior to production. The LC4 and LC1 pit comprise 11,300t at 3.85g/t Au for 1,400oz and 60,000t at 2.45g/t Au for 4,700oz respectively. Further drilling is planned by Keras on the two LC pits before a final decision to mine them is made.

Having exercised the open pit mining option, Keras is now required to prepare and submit (and cover all costs associated with) the Open Pit Mining Proposal within 4 weeks. Keras proposes to commence a 10,000t bulk sample collection through the exploration trial decline at the Lindsay's Parrot Feathers under a Program of Works licence concurrent with the open pit operation. The bulk sample will provide grade and geotechnical data for the underground feasibility study as well as test material for the optical sorting equipment. Keras is required to prepare detailed cost analysis for the decline trialling.

As noted in the announcement dated 12 March 2016, gross revenue from mining production by Keras will be allocated in order as follows:

- Payment of State or Government royalties, direct operating expenditure and working capital expenditure (excluding any capital expenditure on mining equipment which will remain the property of Keras);
- 10% of operating cash flow deemed as a management fee payable to Keras;
- Amount remaining after deducting the management fee to be split 49:51 between Keras and KalNorth for a gold price equal or lower than A\$1,600/oz.; and
- For that part of the Project Profit derived from a Gold Price which is greater than A\$1,600/oz., 30% of the Project Profit attributed to the Gold price above \$1,600/ounce will be for KalNorth, with the remaining 70% to Keras.

The Executive Director of KalNorth Mr Lijun Yang comments: KalNorth welcomes Keras's decision to exercise the option in relation to the Lindsay's Project. Open pit mining by Keras is expected to commence soon and will enable KalNorth to receive cash flow with zero risk under the current gold price environment.

Yours faithfully



Lijun Yang
Executive Director

Table 1: Lindsay's mineral resource estimate, reported under the JORC Code 2004 or 2012.

Deposit	Tonnes	Indicated		Tonnes	Inferred		Tonnes	Total	
		Grade (g/t)	Ounces		Grade (g/t)	Ounces		Grade (g/t)	Ounces
Eastern Structure	1,479,000	1.6	76,000	203,000	1.6	10,500	1,682,000	1.6	86,500
Parrot Feathers ¹	140,000	4.0	18,000	261,000	4.3	36,000	401,000	4.2	54,000
Central Structure	1,315,100	1.1	46,500	47,900	1.1	1,700	1,363,000	1.1	48,200
Neves Prospect	490,900	1.6	24,900	37,700	1.3	1,500	528,600	1.6	26,400
Total	3,425,000	1.5	165,400	549,600	2.8	49,700	3,974,600	1.7	215,100

¹ Parrot Feathers resource estimate complies with the JORC Code 2012 and was first published on 20 July 2015. The information reported above for Eastern Structure, Central Structure and Neves Prospect was prepared and first disclosed under the JORC Code 2004. It has not been updated since to comply with the JORC Code 2012 on the basis that the information has not materially changed since it was last reported.