



KalNorth Gold Mines Limited and Controlled Entities
ACN 100 405 954

Financial Report

For the half-year ended 31 December 2017

**KalNorth Gold Mines Limited and Controlled Entities
For the half year ended 31 December 2017**

CONTENTS

Corporate Particulars	1
Directors' Report	2
Auditor's Independence Declaration	4
Financial Report	
Consolidated Statement of Comprehensive Income	5
Consolidated Statement of Financial Position	6
Consolidated Statement of Changes in Equity	7
Consolidated Statement of Cash Flows	8
Notes to the Financial Statements	9
Directors' Declaration	12
Independent Auditor's Review Report	13

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2017 and any public announcements made by KalNorth Gold Mines Limited during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

**KalNorth Gold Mines Limited and Controlled Entities
For the half year ended 31 December 2017**

CORPORATE PARTICULARS

Directors	Jiajun Hu (Executive Chairman) Yuanguang Yang (Non-Executive Director) Xiaojing Wang (Non-Executive Director)
Company Secretary	Jiajun Hu
Registered Office	224 Dugan Street Kalgoorlie, Western Australia 6430
Corporate Office	224 Dugan Street Kalgoorlie, Western Australia 6430
Share Registry	Advanced Share Registry Limited 110 Stirling Highway Perth WA 6009
Auditor	BDO Audit (WA) Pty Ltd 38 Station Street Subiaco WA 6008
Stock Exchange Listing	Australian Securities Exchange ASX code: KGM

DIRECTORS' REPORT

The directors present their report on the consolidated entity consisting of KalNorth Gold Mines Limited and the entities it controlled ("the Consolidated Entity") for the half-year ended 31 December 2017.

Directors

The names of directors who held office during the half year and until the date of this report are provided below. Directors were in office for the entire period unless otherwise stated.

Jiajun Hu
Yuanguang Yang
Xiaojing Wang

Principal Activities

During the financial half-year the principal continuing activities of the consolidated entity consisted of mineral exploration.

Results and Review of Operations

The loss attributable to members of KalNorth Gold Mines Limited for the half year ended 31 December 2017 was \$258,612 (2016: loss of \$744,120).

No dividends were paid or declared payable during or since the half-year.

Exploration Activities

Kurnalpi Project (100% KGM)

The Kurnalpi project is located approximately 85 km north-east of Kalgoorlie in the eastern Goldfields Region of Western Australia, with easy road access. It has been subject to extensive historic small scale gold mining and a number of companies have completed extensive work on this project previously. A series of small to moderate size mineral resources have been defined in the project area and KalNorth is focusing on exploration to define additional resources to increase the potential for development.

During the first half year of 2018, 8 Mining Leases within Kurnalpi project had been granted by Department of Mines, Industry Regulation and Safety (DMIRS) from conversion of the previous Prospecting Licences, which enables prospecting for nuggets to continue in these areas.

Within the same period, the Company commenced a review of potential for economic mineralisation of nickel and cobalt potential around the Grey Dam area, located about 8kms northwest of the Kurnalpi townsite. A strategy decision to advance or divest the deposit is pending to be determined.

Lindsay's Project (100% KGM)

The Lindsay's project is located approximately 65km to the north east of Kalgoorlie and contains the Lindsay's mine site which continues to remain under care and maintenance since August 2013. The Board was seeking to review its strategy with respect to the Lindsay's Project which has demonstrated both open-cut and underground mining potential.

DIRECTORS' REPORT (Cont'd)

During the first half year of 2018, the Company has successfully lodged the Annual Environment Report (AER) and Mining Closure Plan (MCP) for the Lindsay's project in compliance with the environmental regulations, which will allow any future mining activity to resume with minimal lead time.

The Company continued its strategic review of the project and has progressed discussions with several interested parties to redevelop or divest the project.

Corporate

Following the sale of the Kalpini Project in June 2017 for gross proceeds of \$3.2 million, the Company has been actively looking for other opportunities in the resource space.

The Company did consider venturing into other unrelated businesses and, during the half year ended 31 December 2017, did a trial run to assess its viability.

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 ("Cross-Straits") in September 2015. As at 31 December 2017, a total of \$1,300,000 has been drawn down from the \$2 million facility. This facility matures on 30 April 2018 and discussion is ongoing with Cross-Straits for a possible extension of the maturity date.

Research and Development Tax Refund – The Company successfully applied for a refund under the Research and Development Tax Incentive program for tax year 2015/16 and received a gross refund of \$340,327.

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

The lead auditor's independence declaration under section 307C of the *Corporations Act 2001* is set out on page 4 and forms part of the Directors' Report for the half-year ended 31 December 2017.

Signed in accordance with a resolution of the Directors.



Jijun Hu
Chairman

Dated at Perth this 12th of March 2018

DECLARATION OF INDEPENDENCE BY GLYN O'BRIEN TO THE DIRECTORS OF KALNORTH GOLD MINES LIMITED

As lead auditor for the review of Kalnorth Gold Mines Limited for the half-year ended 31 December 2017, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
2. No contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Kalnorth Gold Mines Limited and the entities it controlled during the period.



Glyn O'Brien

Director

BDO Audit (WA) Pty Ltd

Perth, 12 March 2018

KalNorth Gold Mines Limited and Controlled Entities
For the half year ended 31 December 2017

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the half year ended 31 December 2017

	Consolidated	
	31 December 2017	31 December 2016
	\$	\$
Revenue from gold sales	-	10,050
R&D tax refund	340,327	-
Other income	30,351	2,114
Director and corporate employee costs	(130,029)	(192,860)
Professional fees and consultants	(139,464)	(68,005)
Depreciation expenses	(15,345)	(16,070)
Listing and registry fees	(34,963)	(42,773)
Exploration expenses	2 (157,456)	(337,594)
Interest expense	(61,287)	(49,282)
Other expenses	(90,744)	(49,700)
Loss before income tax	<u>(258,612)</u>	<u>(744,120)</u>
Income tax expense	-	-
Loss for the period	<u>(258,612)</u>	<u>(744,120)</u>
Other Comprehensive income	<u>-</u>	<u>-</u>
Total Comprehensive Income for the period	<u>(258,612)</u>	<u>(744,120)</u>
Earnings Per Share		
Basic and diluted (loss) per share (cents)	(0.03)	(0.08)

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

KalNorth Gold Mines Limited and Controlled Entities
For the half year ended 31 December 2017

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2017

	Note	Consolidated 31 December 2017 \$	30 June 2017 \$
Assets			
Current Assets			
Cash and cash equivalents		2,739,648	3,260,565
Trade and other receivables		-	2,834
Other assets		7,500	7,500
Inventory		142,670	-
Total Current Assets		2,889,818	3,270,899
Non-Current Assets			
Property, plant and equipment		294,054	309,400
Exploration and evaluation expenditure	2	5,259,651	5,259,651
Total Non-Current Assets		5,553,705	5,569,051
Total Assets		8,443,523	8,839,950
Liabilities			
Current Liabilities			
Trade and other payables	3	253,509	446,824
Interest bearing liabilities	4	1,428,291	1,372,791
Total Current Liabilities		1,681,800	1,819,615
Non-Current Liabilities			
Restoration provision		1,495,520	1,495,520
Total Non-Current Liabilities		1,495,520	1,495,520
Total Liabilities		3,177,320	3,315,135
Net Assets		5,266,203	5,524,815
Equity			
Issued capital	5	92,438,807	92,438,807
Accumulated losses		(87,172,604)	(86,913,992)
Total Equity		5,266,203	5,524,815

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

KalNorth Gold Mines Limited and Controlled Entities
For the half year ended 31 December 2017

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the half year ended 31 December 2017

	Issued Capital	Accumulated Losses	Total
At 1 July 2016	92,388,017	(86,818,041)	5,569,976
Loss for the period	-	(744,120)	(744,120)
Total comprehensive income for the period	-	(744,120)	(744,120)
Equity portion on convertible note issue	31,676	-	31,676
At 31 December 2016	<u>92,419,693</u>	<u>(87,562,161)</u>	<u>4,857,532</u>
At 1 July 2017	92,438,807	(86,913,992)	5,524,815
Loss for the period	-	(258,612)	(258,612)
Total comprehensive income for the period	-	(258,612)	(258,612)
At 31 December 2017	<u>92,438,807</u>	<u>(87,172,604)</u>	<u>5,266,203</u>

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

KalNorth Gold Mines Limited and Controlled Entities
For the half year ended 31 December 2017

CONSOLIDATED STATEMENT OF CASH FLOWS
For the half year ended 31 December 2017

	Consolidated	
	31 December 2017	31 December 2016
	\$	\$
Cash flows from Operating Activities		
Receipts from external parties	-	148,182
Payments to suppliers and employees	(736,803)	(489,216)
Research and Development tax refund (gross)	340,327	157,912
Interest received	17,815	1,714
Interest paid	-	(71)
Other income	28,844	-
Net cash (used in) operating activities	(349,817)	(181,479)
Cash flows from Investing Activities		
Payments for mineral exploration activities	(137,067)	(388,141)
Facilitation fee – sale of tenements	(34,033)	-
Net cash (used in) investing activities	(171,100)	(388,141)
Cash flows from Financing Activities		
Proceeds from borrowings – convertible loans	-	700,000
Repayment of borrowings – unsecured	-	(17,000)
Net cash provided by financing activities	-	683,000
Net (decrease) increase in cash held	(520,917)	113,380
Cash and cash equivalent at the beginning of the half-year	3,260,565	34,105
Cash and cash equivalent at the end of the half-year	2,739,648	147,485

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

**NOTES TO THE FINANCIAL STATEMENTS
For the half year ended 31 December 2017**

1. Basis of Preparation

KalNorth Gold Mines Limited is a listed public company, incorporated and domiciled in Australia. During the half year ended 31 December 2017 (the "period"), the consolidated entity conducted operations in Australia.

These consolidated interim financial statements of the consolidated entity for the period ended 31 December 2017 are general purpose financial statements prepared in accordance with the requirements of the Australian Corporations Act 2001 (Cth), applicable accounting standards including AASB 134 'Interim Financial Reporting', other authoritative pronouncements of the Australian Accounting Standards Board ('AASB') and Urgent Issues Group Interpretations.

These interim financial statements do not include full disclosures of the type normally included in an annual financial report. Therefore, it cannot be expected to provide as full an understanding of the financial performance, financial position and cash flows of the group as in the full financial report. It is recommended that these interim financial statements be read in conjunction with the annual financial report for the year ended 30 June 2017, and any public announcements made by the group during the half-year in accordance with continuous disclosure requirements arising under the Corporations Act 2001.

The same accounting policies and methods of computation have been followed in this interim financial report as were applied in the most recent annual financial statements, except in relation to the matters discussed below.

New and Revised Accounting Standards

In the current year, KalNorth Gold Mines Limited has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board that are relevant to its operations and effective for the current reporting period. The adoption of these new and revised Standards and Interpretations has not resulted in a significant or material change to the entity's accounting policy.

Going Concern

The financial statements have been prepared on the 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 \$258,612 and the consolidated entity had net cash operating outflows of \$349,817 for the half-year ended 31 December 2017.

As at 31 December 2017, the consolidated entity had current assets of \$2,889,818 which includes \$2,739,648 in cash and cash equivalents. Its total current liabilities of \$1,681,800 resulted in a net working capital surplus of \$1,208,018 as at 31 December 2017.

The Directors believe that it is appropriate to prepare the financial statements on a going concern basis for the following reasons:

- (i) The Company is in discussion with Cross-Straits for an extension of time on the convertible note facility, which matures on 30 April 2018;
- (ii) As at the date of this report, the Company has \$2.7 million in cash and cash equivalents and \$1.3 million in cash and cash equivalents net of convertible note.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

The Directors have reviewed the consolidated entity's overall position and outlook in respect of the matters identified above and 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.

2. Exploration and Evaluation Expenditure

	Consolidated	
	31 December 2017	30 June 2017
	\$	\$
Cost	5,259,651	5,259,651
<i>Reconciliation</i>		
Balance at beginning of period/year	5,259,651	
Exploration expenditure incurred for the period/year	157,456	
Exploration expenditure expensed	(157,456)	
Balance at end of period/year	5,259,651	

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

3. Trade and Other Payables

	Consolidated	
	31 December 2017	30 June 2017
	\$	\$
<i>Current</i>		
Trade payables	180,903	73,809
GST payable	986	279,640
Sundry payables and accrued expenses	71,620	93,375
	253,509	446,824

4. Interest Bearing Liabilities

	Consolidated	
	31 December 2017	30 June 2017
	\$	\$
<i>Current</i>		
Convertible notes – Cross Straits (i)	1,289,459	1,280,887
Interest payable on convertible notes (ii)	138,832	91,904
Total interest bearing liabilities	1,428,291	1,372,791

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

4. Interest Bearing Liabilities (continued)

(i) *Convertible notes – Cross-Strait Common Development Fund Co., Ltd (“Cross-Straits”)*

In September 2015, the Company entered into a convertible note facility agreement with Cross-Straits for an amount up to \$2 million. The facility became effective following shareholder and other regulatory

approvals in February 2016. At the end of the prior financial year and as at 31 December 2017, a total of 130 convertible notes were on issue with a face value of \$1.3 million.

The noteholder can, at its discretion, convert all or part of the amounts drawn down into shares in the Company at an issue price of \$0.01 per share. The repayment date for the principal amount (or face value) of the convertible notes of \$1.3 million together with accrued interest is 30 April 2018.

Interest accrues daily on the principal amounts drawn down under the facility at an annual rate of 8% and Cross-Straits has the rights of security over all of the Company’s assets. Cross-Straits can elect to have the interest paid by issue of shares in the Company at an issue price of \$0.01 per share.

5. Issued Capital

	31 December 2017	30 June 2017
Ordinary Shares	\$	\$
894,240,060 fully paid ordinary shares (June 2017: 894,240,060)	92,438,807	92,438,807
	No. of Shares	\$
Movement in fully paid ordinary shares:		
At 31 December and 30 June 2017	894,240,060	92,438,807

6. Dividends

No dividends were paid or declared payable during or since the half-year.

7. Segment Information

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Board of Directors (chief operating decision makers) in assessing performance and determining the allocation of resources. During the period the consolidated entity operated in one geographical segment being Australia, and one business segment being mineral exploration and development.

8. Events Subsequent to Reporting Date

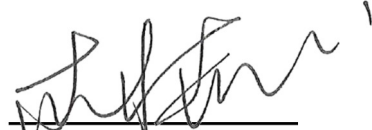
Since the end of the reporting period and to the date of this report, no other matter or circumstance has arisen which significantly affected, or may significantly effect, the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent financial periods.

DIRECTORS' DECLARATION

The Directors of KalNorth Gold Mines Limited declare that:

1. The financial statements and notes, are in accordance with the Corporations Act 2001, including :
 - (a) complying with Accounting Standard AASB 134 Interim Financial Reporting; and
 - (b) giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and of its performance for the half-year ended on that date.
2. In the Directors' opinion there are reasonable grounds to believe that the consolidated entity will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.



Jajun Hu
Chairman

Dated at Perth this 12th day of March 2018

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of KalNorth Gold Mines Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the half-year financial report of KalNorth Gold Mines Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2017, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year then ended, and notes comprising a statement of accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of the Group is not in accordance with the *Corporations Act 2001* including:

- (i) Giving a true and fair view of the Group's financial position as at 31 December 2017 and of its financial performance for the half-year ended on that date; and
- (ii) Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Directors' responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year 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 half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2017 and its financial performance for the half-year ended on that date and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.



Independence

In conducting our review, 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 the Group, would be in the same terms if given to the directors as at the time of this auditor's review report.

BDO Audit (WA) Pty Ltd

A handwritten signature in blue ink. The signature starts with 'BDO' in a stylized, blocky font, followed by a cursive signature that appears to be 'Glyn O'Brien'.

Glyn O'Brien

Director

Perth, 12 March 2018