



KalNorth Gold Mines Limited and Controlled Entities  
ACN 100 405 954

Financial Report

For the half-year ended 31 December 2016

**KalNorth Gold Mines Limited and Controlled Entities**  
**For the half year ended 31 December 2016**

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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 2016 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 2016**

**CORPORATE PARTICULARS**

<b>Directors</b>	Jiajun Hu (Executive Chairman) Yuanguang Yang (Non-Executive Director) Xiaojing Wang (Rebecca) (Non-Executive Director)
<b>Company Secretary</b>	Jiajun Hu
<b>Registered Office</b>	224 Dugan Street Kalgoorlie, Western Australia 6430
<b>Corporate Office</b>	224 Dugan Street Kalgoorlie, Western Australia 6430
<b>Mailing Address</b>	PO Box 281 Mount Hawthorn WA 6915
<b>Share Registry</b>	Advanced Share Registry Limited 110 Stirling Highway Perth WA 6009
<b>Auditor</b>	BDO Audit (WA) Pty Ltd 38 Station Street Subiaco WA 6008
<b>Solicitor</b>	Steinepreis Paganin 16 Milligan St Perth WA 6000
<b>Stock Exchange Listing</b>	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 entity it controlled ("the Consolidated Entity") for the half-year ended 31 December 2016.

### **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 – Non-Executive Chairman up to 11 January 2017, thereafter Executive Chairman

Yuanguang Yang – Non-Executive Director

Xiaojing Wang - Non- Executive Director (appointed 11 January 2017)

Lijun Yang – Executive Director (resigned 11 January 2017)

### **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 2016 was \$744,120 (2015: \$1,154,538).

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

### ***Exploration Activities***

#### **Kurnalpi Project**

During the half year, the Company engaged CSA Global Pty Ltd (CSA) to complete a three staged review to assess the project area in respect to geology, structure, alteration and mineralisation to deliver an integrated interpretation that will allow the Company to prioritize targets and progress exploration.

The stage 1 scope study included review of the existing data including surface geochemistry, drilling database, geophysical data, satellite imagery, Bottom of Hole (BOH) and down-hole multi-element geochemistry as well as other data that KalNorth collected or owned by CSA; The stage 2 consisted of field reconnaissance, mapping and sample collection for litho-geochemical analysis and structure analysis. A total of 666 samples were collected from the field by locating and accessing historic RAB, AirCore and RC sample spoils or bags left in the field by historic exploration process, another 105 samples were collected from existing chip trays on store at the company's sample facility in Kalgoorlie. A total of 266 structural measurements with a focus on veins, foliations and cleavage, lineations, faults and shear zones as well as possible primary bedding were collected to provide additional geological setting context. All samples were analysed in 51 litho-geochemical multi-elements at Bureau Veritas Kalgoorlie Lab and Short Infrared Spectrometry TerraSpec Analyzer (ASD) by Mineral Mapping, the former was used to ascertain both the lithology and assess the type and relative strength of alteration within the samples. The later allows the identification of carbonate and phyllosilicate minerals within the sample that occur commonly in Archaean gold system as alteration products; The stage 3 works covered regional interpretation and target analysis completed on the basis of understanding of the local geological setting, collected samples' litho-geochemical characteristics as well as regional structure analysis.

## **DIRECTORS' REPORT (Cont'd)**

### **Lindsay's Project**

In March 2016, the Company entered into a Heads of Agreement (HOA) with Keras (Gold) Australia Pty Ltd (Keras) to regulate activities relating to the contemplated development of KalNorth's Lindsay's Project. Key terms of the HOA made provision for further activities to investigate the economic mining of the Lindsay's Project deposits, the lodgement of certain mining approvals and further negotiations regarding a formal arrangement between the parties.

In May 2016, Keras exercised the option to mine Lindsay's project which was subject to an economic evaluation and the completion of a formal agreement between the parties. On 21 December 2016, the Company announced the HOA had been terminated by mutual agreement.

The board is reviewing its future strategy with respect to the Lindsay's Project which has demonstrated both open-cut and underground mining potential. The Company has, as part of this review, commenced preliminary discussions with other interested parties.

### **Kalpini Project**

The Kalpini Project, located 70km northeast of Kalgoorlie town via Yarri and Kurnalpi-Pingjin Road, consists of only one Mining Lease currently which contains the Kalpini gold resource at 4.61Mt @1.7 g/t for 255.6Koz. The gold resource is hosted at three prospects, Atlas, Gambia and Camelia which are all hosted within dolerite but having contrasting controls on the mineralisation.

During 2016, the Company had been approached by a number of parties interested in this project. With the improved and stabilised A\$ gold price, the Company engaged PCF to manage its Kalpini Project divesture program and this process remains underway.

### **Competent Person Statement-Exploration Results and Mineral Resources**

*The information in this report that relates to exploration results is based on, and fairly represents information and supporting documentation prepared by Mr Lijun Yang, a Competent Person who is a member of Australian Institute of Geoscientists. Mr Yang was Executive Director and full time employee of the Company and currently exploration consultant to the Company. Mr Yang has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration and to the activity being undertaken to qualify as a Competent Person as defined in the 2012 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves". Mr Yang consents to the inclusion in this report of the matters based on his information in the form and context in which it appears.*

## DIRECTORS' REPORT (Cont'd)

### Corporate

During or since the Half-Year Period, a number of corporate transactions took place which had a significant effect on the Company's state of affairs. These included the following:

On 11 January 2017, Mr. Lijun Yang announced his retirement as an Executive Director of KalNorth, as well as the role of Company Secretary. The Company appointment of Mrs. (Rebecca) Xiaojing Wang as a Non-Executive Director. Mrs. Wang holds a Bachelor of Applied Finance, from Macquarie University, NSW and is currently the Finance Manager for a Sydney based private company.

Mr. (Jerry) Jiajun Hu has moved into the role of Executive Chairman and as the Company Secretary. Mr. Lijun Yang is assisting in the provision of ongoing technical services to the Company in a consulting capacity.

**Research & Development (R&D) Grant** - the Company received a cash refund of \$157,912 pursuant to its 2015 R&D claim. The claim relates to costs incurred in relation to a nuggets research programme which the Company set up with Geological Survey of West Australia ("GSWA") at the Kurnalpi Gold Project.

**Financial Facility Draw Down** - the Company has a \$2 million convertible note facility ("CNF") made available to it by Cross-Strait Common Development Fund Co., Limited ("Cross Strait"). The Cross Strait CNF was approved by shareholders at the November 2015 AGM and subsequently received other regulatory approvals in late February 2016.

At balance date, Cross-Strait had issued a total of 100 convertible notes (with a face value of \$10,000 each). In March 2017 and subsequent to balance date, Cross Strait and Kalnorth entered into a letter agreement to extend the expiry date of the facility to 30 April 2018 and to allow Kalnorth the right (but not the obligation) to draw down the remaining \$1M under the facility at any time up to 28 February 2018.

As at balance date, the Company has submitted a formal notice for a further \$300,000 drawdown under the facility and to meet its ongoing exploration and corporate expenditure commitments. As at the date of this report, there remains a further \$700,000 available to draw down under the facility on or before 28 February 2018.

### 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 5 and forms part of the Directors' Report for the half-year ended 31 December 2016.

Signed in accordance with a resolution of the Directors.



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Jiajun Hu  
Director

Dated at Perth this 16<sup>th</sup> day of March 2017

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 2016, 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, 16 March 2017

**KalNorth Gold Mines Limited and Controlled Entities**  
**For the half year ended 31 December 2016**

**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**  
**For the half year ended 31 December 2016**

	<b>Consolidated</b>	
	<b>31 December</b>	31 December
	<b>2016</b>	2015
	\$	\$
Revenue from gold sales	<b>10,050</b>	-
Other income	<b>2,114</b>	2,128
Director and corporate employee costs	<b>(192,860)</b>	(60,754)
Professional fees and consultants	<b>(68,005)</b>	(112,443)
Advertising and promotion costs	-	(2,160)
Depreciation expenses	<b>(16,070)</b>	(39,451)
Listing and registry fees	<b>(42,773)</b>	(24,443)
Exploration expenses	<b>(337,594)</b>	(566,830)
Interest expense	<b>(49,282)</b>	(229,205)
Other expenses	<b>(49,700)</b>	(121,380)
<b>(Loss)/Profit before income tax</b>	<b>(744,120)</b>	(1,154,538)
Income tax expense	-	-
<b>(Loss)/Profit for the period</b>	<b>(744,120)</b>	(1,154,538)
<b>Other Comprehensive income</b>	-	-
<b>Total Comprehensive Income for the period</b>	<b>(744,120)</b>	(1,154,538)
<b>Earnings Per Share</b>		
Basic and diluted (loss) / earnings per share (cents)	<b>(0.08)</b>	(0.33)

*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 2016**

**STATEMENT OF FINANCIAL POSITION**  
**As at 31 December 2016**

	Note	<b>Consolidated</b> 31 December 2016 \$	30 June 2016 \$
<b>Assets</b>			
<b>Current Assets</b>			
Cash and cash equivalents		147,485	34,105
Trade and other receivables		18,158	302,293
Other assets		7,500	7,500
<b>Total Current Assets</b>		<u>173,143</u>	<u>343,898</u>
<b>Non-Current Assets</b>			
Property, plant and equipment		322,119	338,190
Exploration and evaluation expenditure	2	<u>6,999,901</u>	<u>6,999,901</u>
<b>Total Non-Current Assets</b>		<u>7,322,020</u>	<u>7,338,091</u>
<b>Total Assets</b>		<u>7,495,163</u>	<u>7,681,989</u>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Trade and other payables	3	113,423	288,339
Interest bearing liabilities	4	<u>1,020,588</u>	<u>320,054</u>
<b>Total Current Liabilities</b>		<u>1,134,011</u>	<u>608,393</u>
<b>Non-Current Liabilities</b>			
Provision for rehabilitation		<u>1,503,620</u>	<u>1,503,620</u>
<b>Total Non-Current Liabilities</b>		<u>1,503,620</u>	<u>1,503,620</u>
<b>Total Liabilities</b>		<u>2,637,631</u>	<u>2,112,013</u>
<b>Net Assets</b>		<u>4,857,532</u>	<u>5,569,976</u>
<b>Equity</b>			
Issued capital	5	92,419,693	92,388,017
Accumulated losses		<u>(87,562,161)</u>	<u>(86,818,041)</u>
<b>Total Equity</b>		<u>4,857,532</u>	<u>5,569,976</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 2016**

**STATEMENT OF CHANGES IN EQUITY**  
**For the half year ended 31 December 2016**

	<b>Issued Capital</b>	<b>Accumulated Losses</b>	<b>Total</b>
<b>At 1 July 2015</b>	76,251,722	(74,487,523)	1,764,199
Loss for the period	-	(1,154,538)	(1,154,538)
Total comprehensive income for the period	-	(1,154,538)	(1,154,538)
Shares issued during the period, net of issue costs	1,250,768	-	1,250,768
<b>At 31 December 2015</b>	<b>77,502,490</b>	<b>(75,642,061)</b>	<b>1,860,429</b>
<b>At 1 July 2016</b>	<b>92,388,017</b>	<b>(86,818,041)</b>	<b>5,569,976</b>
Loss for the period	-	(744,120)	(744,120)
Total comprehensive income for the period	-	(744,120)	(744,120)
Equity portion on convertible note issue during the period	31,676	-	31,676
<b>At 31 December 2016</b>	<b>92,419,693</b>	<b>(87,562,161)</b>	<b>4,857,532</b>

*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 2016**

**STATEMENT OF CASH FLOWS**  
**For the half year ended 31 December 2016**

	<b>Consolidated</b>	
	<b>31 December 2016</b>	31 December 2015
	\$	\$
<b>Cash flows from Operating Activities</b>		
Receipts from external parties	148,182	-
Payments to suppliers and employees	(489,216)	(293,809)
Research & Development tax refund	157,912	-
Interest received	1,714	2,128
Interest paid	(71)	-
Other payments	-	(119,200)
Net cash (used in) operating activities	<u>(181,479)</u>	<u>(410,881)</u>
<b>Cash flows from Investing Activities</b>		
Payments for mineral exploration activities	(388,141)	(367,103)
Payments for plant and equipment	-	(2,149)
Net cash provided by/(used in) investing activities	<u>(388,141)</u>	<u>(369,252)</u>
<b>Cash flows from Financing Activities</b>		
Proceeds from issue of share capital	-	895,321
Share issue costs	-	(34,461)
Proceeds from borrowings – unsecured	-	300,000
Proceeds from borrowings – convertible loans	700,000	-
Repayment of borrowings - unsecured	(17,000)	-
Net cash provided by financing activities	<u>683,000</u>	<u>1,160,860</u>
Net increase in cash held	113,380	380,727
Cash and cash equivalent at the beginning of the half-year	<u>34,105</u>	<u>238,640</u>
<b>Cash and cash equivalent at the end of the half-year</b>	<u><b>147,485</b></u>	<u><b>619,367</b></u>

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**For the half year ended 31 December 2016**

**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 2016 (the "period"), the consolidated entity conducted operations in Australia.

These general purpose financial statements for the interim half-year reporting period ended 31 December 2016 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

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 2016, 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 annual 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 a going concern basis, which contemplates continuity of normal business activities and the realisation of assets and settlement of liabilities in the normal course of business.

The consolidated entity has incurred a net loss after tax for the half year ended 31 December 2016 of \$744,120 (2015: \$1,154,53) and experienced net cash outflows from operating activities of \$181,479 (2015: \$410,881). At 31 December 2016, the consolidated entity had current assets of \$173,143, which includes \$147,485 in cash and cash equivalents. Its total current liabilities of \$1,134,011 resulted in a net working capital deficiency of \$960,868.

The ability of the consolidated entity to continue as a going concern is dependent on the Company securing additional funding through debt or equity issues as and when the need to raise working capital arises, to continue to fund its operational activities.

These conditions indicate a material uncertainty that may cast a significant doubt about the consolidated entity's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

The Directors believe there are sufficient funding available to meet the consolidated entity's working capital requirements as at the date of this report. Subsequent to balance date the consolidated entity expects to receive additional funds through debt or equity issues and/or asset divestures.

**NOTES TO THE FINANCIAL STATEMENTS (CONT'D)**

The financial statements have prepared on the basis that the consolidated entity is a going concern, which contemplates the continuity of normal business activity, realisation of assets and settlement of liabilities in the normal course of business for the following reasons:

- (a) Subsequent to period end, the Company has entered into a letter agreement with convertible note holder, Cross-Strait Common Development Fund Co., Limited (“Cross Strait”) to amend terms for the Convertible Note Facility Agreement, such that;
  - (i) the maturity date has been extended from 30 April 2017 to 30 April 2018;
  - (ii) the Company’s right (but not the obligation) to drawdown a further up to \$1 Million of the Facility amount was extended from 31 December 2017 to 28 February 2018;
- (b) In March 2017 and subsequent to balance date, the Company submitted a formal notice for a further \$300,000 drawdown under the Convertible Note Facility.
- (c) Given the current favourable economic conditions for Australian based gold operations, the Company continues to progress opportunities for the divesture of its projects. Active discussions continue with a number of parties in this regard.
- (d) 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.

Should the consolidated entity not be able continue as a going concern, it may be required to realise its assets and discharge its liabilities other than in the normal course of business, and at amounts that differ from those states in the financial statements and that the financial report does not include any adjustments relating to the recoverability and classification of recorded assets amounts or liabilities that might be necessary should the entity not continue as a going concern.

**2. Exploration and Evaluation Expenditure**

	<b>Consolidated</b>	
	<b>31 December 2016</b>	<b>30 June 2016</b>
	<b>\$</b>	<b>\$</b>
Cost	<b>6,999,901</b>	6,999,901
<i>Reconciliation</i>		
Balance at beginning of period/year	<b>6,999,901</b>	
Exploration expenditure incurred for the period/year	337,594	
Exploration expenditure immediately expensed	(337,594)	
Balance at end of period/year	<b>6,999,901</b>	

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.

**NOTES TO THE FINANCIAL STATEMENTS (CONT'D)**

**3. Trade and Other Payables**

	<b>Consolidated</b>	
	<b>31 December 2016</b>	30 June 2016
<i>Current</i>	<b>\$</b>	<b>\$</b>
Trade payables	<b>80,007</b>	188,069
Sundry payables and accrued expenses	<b>33,416</b>	100,270
	<b>113,423</b>	288,339

**4. Interest Bearing Liabilities**

	<b>Consolidated</b>	
	<b>31 December 2016</b>	30 June 2016
	<b>\$</b>	<b>\$</b>
Unsecured loans	-	17,000
Convertible notes – Cross Straits (i)	979,229	284,577
Interest payable on Cross Straits convertible notes	41,359	
 Total interest bearing liabilities	<b>1,020,588</b>	320,054
 <i>Classified as:</i>		
<i>Current liabilities</i>	<b>1,020,588</b>	320,054

(i) *Convertible loan*

On 15 September 2015, a Convertible Note Facility Agreement (“CNFA”) was entered into with (at the time) the Company’s then largest shareholder, Cross-Strait Common Development Fund Co., Limited (“Cross Strait”) for a facility drawdown limit of \$2 million and a maturity date of 30 April 2017.

As at balance date, Cross Strait holds a total of 100 convertible notes (with a face value of \$10,000 each). Subject to compliance with all legislative requirements, the noteholder has the right, but not the obligation, to convert the notes to fully paid ordinary shares in the Company at an issue price of \$0.01 per share.

As at the date of this report, the Company had also submitted a formal notice for an additional \$300,000 drawdown under the CNFA (Note 8 – Subsequent Events).

**NOTES TO THE FINANCIAL STATEMENTS (CONT'D)**

**5. Issued Capital**

	<b>31 December 2016</b>	30 June 2016
<b>Ordinary Shares</b>	<b>\$</b>	<b>\$</b>
894,240,060 fully paid ordinary shares (June 2016: 894,240,060)	<b>92,419,693</b>	92,388,017

Movement in fully paid ordinary shares:

<b>At 1 July 2016</b>	92,388,017
Equity portion on convertible note issued during the period	<u>31,676</u>
<b>At 31 December 2016</b>	<b><u>92,419,693</u></b>

**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**

Subsequent to the balance date and following on from discussions and negotiations that had commenced prior to the reporting date, the Company finalised amendment terms for the Convertible Note Facility Agreement with convertible note holder, Cross-Strait Common Development Fund Co., Limited. The key changes were as follows:

- (i) The maturity date was extended from 30 April 2017 to 30 April 2018;
- (ii) KalNorth's right (but not the obligation) to drawdown a further up to \$1 Million of the Facility amount was extended from 31 December 2017 to 28 February 2018.

In March 2017 and subsequent to balance date, the Company submitted a formal notice for a further \$300,000 drawdown under the Convertible Note Facility.

Other than the above, there have been no other material items, transactions, or events subsequent to 31 December 2016 which, although they do not relate to conditions existing at that date, have not been dealt with in this report and which would cause reliance on the information shown in this report to be misleading.

**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 2016 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 company 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.



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Jiajun Hu  
Director

Dated at Perth this 16<sup>th</sup> day of March 2017



## INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Kalnorth Gold Mines Limited

### Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Kalnorth Gold Mines Limited, which comprises the consolidated statement of financial position as at 31 December 2016, 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 ended on that date, notes comprising a statement of accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year's end or from time to time during the half-year.

#### 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 consolidated entity's financial position as at 31 December 2015 and its 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 Kalnorth Gold Mines Limited, 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 Kalnorth Gold Mines Limited, would be in the same terms if given to the directors as at the time of this auditor's review report.



## Conclusion

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 Kalnorth Gold Mines Limited is not in accordance with the Corporations Act 2001 including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 Interim Financial Reporting and Corporations Regulations 2001

## Emphasis of matter - Material uncertainty relating to going concern

Without modifying our conclusion, we draw attention to Note 1 in the financial report which describes the conditions which give rise to the existence of a material uncertainty that 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.

BDO Audit (WA) Pty Ltd

A handwritten signature in blue ink, appearing to read 'Glyn O'Brien', with the 'BDO' logo written above it.

Glyn O'Brien

Director

Perth, 16 March 2017