



KalNorth Gold Mines Limited and Controlled Entities
ACN 100 405 954

Financial Report

For the half-year ended 31 December 2018

KalNorth Gold Mines Limited and Controlled Entities
Half Year ended 31 December 2018

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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 2018 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
Half Year ended 31 December 2018**

CORPORATE DIRECTORY

| | |
|-------------------------------|---------------------------------------------------------------------------------------------------------------------|
| 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 2018.

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 2018 was \$538,540 (2017: loss of \$258,612). The increase in loss was due to increased exploration expenditure during the period, whilst the prior period loss was reduced by the 2017 R&D tax refund.

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, the Company focused on testing potential gold targets identified from the earlier multi-source geophysical interpretation and project review and targeting exercise conducted by CSA Global; however no significant gold intercepts were identified. The Company has planned further drilling to test other targets including the Schiedam Prospect and will commence in Q2 2019.

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)

Corporate

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. An amount of \$1,300,000 had been drawn down from the \$2 million facility as at 30 June 2018. This \$1,300,000 as well as the accrued interest was fully repaid on 11 September 2018 out of existing cash reserves, terminating the agreement.

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 2018.

Signed in accordance with a resolution of the Directors.



Jiajun Hu
Chairman

Dated at Perth this 15 of March 2019

DECLARATION OF INDEPENDENCE BY NAME OF 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 2018, 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, 13 March 2019

KalNorth Gold Mines Limited and Controlled Entities
Half Year ended 31 December 2018

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the half year ended 31 December 2018

| | Note | Consolidated | |
|--------------------------------------------------|-------------|-----------------------------|-----------------------------|
| | | 31 December 2018 | 31 December 2017 |
| | | \$ | \$ |
| R&D tax refund | | - | 340,327 |
| Other income | | 14,934 | 30,351 |
| Director and corporate employee costs | | (139,399) | (130,029) |
| Professional fees and consultants | | (69,763) | (139,464) |
| Depreciation expenses | | (1,402) | (15,345) |
| Listing and registry fees | | (31,313) | (34,963) |
| Exploration expenses | 2 | (253,433) | (157,456) |
| Interest expense | | - | (61,287) |
| Other expenses | | (58,164) | (90,744) |
| Loss before income tax | | <u>(538,540)</u> | <u>(258,612)</u> |
| Income tax expense | | - | - |
| Loss for the period | | <u>(538,540)</u> | <u>(258,612)</u> |
| Other Comprehensive income | | <u>-</u> | <u>-</u> |
| Total Comprehensive Income for the period | | <u>(538,540)</u> | <u>(258,612)</u> |
| | | | |
| Earnings Per Share | | | |
| Basic and diluted (loss) per share (cents) | | (0.06) | (0.03) |

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

KalNorth Gold Mines Limited and Controlled Entities
Half Year ended 31 December 2018

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2018

| | Note | Consolidated | |
|----------------------------------------|-------------|-----------------------------|-------------------------|
| | | 31 December 2018 | 30 June 2018 |
| | | \$ | \$ |
| Assets | | | |
| Current Assets | | | |
| Cash and cash equivalents | | 421,889 | 2,458,022 |
| Trade and other receivables | | - | 21,643 |
| Other assets | | 7,500 | 7,500 |
| Total Current Assets | | 429,389 | 2,487,165 |
| Non-Current Assets | | | |
| Property, plant and equipment | | 291,790 | 293,192 |
| Exploration and evaluation expenditure | 2 | 5,259,651 | 5,259,651 |
| Total Non-Current Assets | | 5,551,441 | 5,552,843 |
| Total Assets | | 5,980,830 | 8,040,008 |
| Liabilities | | | |
| Current Liabilities | | | |
| Trade and other payables | 3 | 72,055 | 123,089 |
| Borrowings | 4 | - | 1,469,604 |
| Total Current Liabilities | | 72,055 | 1,592,693 |
| Non-Current Liabilities | | | |
| Restoration provision | | 1,279,946 | 1,279,946 |
| Total Non-Current Liabilities | | 1,279,946 | 1,279,946 |
| Total Liabilities | | 1,352,001 | 2,872,639 |
| Net Assets | | 4,628,829 | 5,167,369 |
| Equity | | | |
| Issued capital | 5 | 92,438,807 | 92,438,807 |
| Accumulated losses | | (87,809,978) | (87,271,438) |
| Total Equity | | 4,628,829 | 5,167,369 |

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

KalNorth Gold Mines Limited and Controlled Entities
Half Year ended 31 December 2018

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the half year ended 31 December 2018

| | Issued Capital | Accumulated Losses | Total |
|----------------------------------------------|---------------------------|-------------------------------|------------------|
| 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> |
| | | | |
| At 1 July 2018 | 92,438,807 | (87,271,438) | 5,167,369 |
| Loss for the period | - | (538,540) | (538,540) |
| Total comprehensive income for the period | - | (538,540) | (538,540) |
| At 31 December 2018 | <u>92,438,807</u> | <u>(87,809,978)</u> | <u>4,628,829</u> |

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

KalNorth Gold Mines Limited and Controlled Entities
Half Year ended 31 December 2018

CONSOLIDATED STATEMENT OF CASH FLOWS
For the half year ended 31 December 2018

| | Consolidated | |
|-------------------------------------------------------------|-----------------------------|---------------------|
| | 31 December 2018 | 31 December 2017 |
| | \$ | \$ |
| Cash flows from Operating Activities | | |
| Payments to suppliers and employees | (259,926) | (736,803) |
| Research and Development tax refund (gross) | - | 340,327 |
| Interest received | 3,152 | 17,815 |
| Interest paid on convertible loan | (169,604) | - |
| Other income | 14,026 | 28,844 |
| Net cash used in operating activities | <u>(412,352)</u> | <u>(349,817)</u> |
| Cash flows from Investing Activities | | |
| Payments for mineral exploration activities | (324,099) | (137,067) |
| Sale of property, plant and equipment | 318 | - |
| Facilitation fee – sale of tenements | - | (34,033) |
| Net cash used in investing activities | <u>(323,781)</u> | <u>(171,100)</u> |
| Cash flows from Financing Activities | | |
| Repayment of borrowings – convertible loan | <u>(1,300,000)</u> | - |
| Net cash used in financing activities | <u>(1,300,000)</u> | - |
| Net decrease in cash held | (2,036,133) | (520,917) |
| Cash and cash equivalent at the beginning of the half-year | <u>2,458,022</u> | <u>3,260,565</u> |
| Cash and cash equivalent at the end of the half-year | <u>421,889</u> | <u>2,739,648</u> |

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

NOTES TO THE FINANCIAL STATEMENTS
For the half year ended 31 December 2018

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 2018 (the “period”), the consolidated entity conducted operations in Australia.

These consolidated interim financial statements of the consolidated entity for the period ended 31 December 2018 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 2018, 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 Amended Accounting Standards

A number of new or amended standards became applicable for the current reporting period and the Group had to change its accounting policies and make adjustments as a result of adopting the following standards:

- AASB 9 *Financial Instruments*, and
- AASB 15 *Revenue from Contracts with Customers*.

The impact of the adoption of these standards and the new accounting policies are disclosed below. The impact of these standards, and the other new and amended standards adopted by the Group, has not had a material impact on the amounts presented in the Group’s financial statements.

AASB 9 Financial Instruments – Impact of Adoption

AASB 9 replaces the provisions of AASB 139 *Financial Instruments* that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of AASB 9 from 1 July 2018 resulted in no material changes in accounting policies and adjustments to the amounts recognised in the financial statements. The Group assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate AASB 9 categories.

There was no impact on the amounts recognised in the financial statements as a result of adoption.

AASB 15 Revenue from Contracts with Customers – Impact of Adoption

The Group has adopted AASB 15 from 1 July 2018 which has no material impact to the amounts recognised in the financial statements.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

Going Concern

The Financial Statements have been prepared on a going concern basis, which contemplates the continuation of normal business activities and the realisation of assets and the settlement of liabilities in the normal course of business.

For the year ended 31 December 2018, the Group recorded a loss from continuing operations after income tax of \$538,540 (2017: loss \$258,612) and had net cash outflows from operating and investing activities of \$566,530 (2017: \$520,917).

The ability of the Group to continue as a going concern is dependent on securing additional funding through either equity or debt, or a combination of both to continue to fund its operational and exploration activities. These conditions indicate a material uncertainty that may cast a significant doubt about the Group's ability to continue as a going concern, and therefore that it may not be able to realise its assets and discharge its liabilities in the normal course of business.

The Directors believe there are sufficient funds to meet the Group's working capital requirements as at the date of this report. The financial report has been prepared on the basis that the Group 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:

- (i) The Group is cutting cost across the board and is monitoring expenditure closely;
- (ii) The Group is considering partial disposal of assets, including through farm-in and joint venture arrangements, to raise funds; and
- (iii) The Group is in discussion with major shareholders to provide equity and / or loan facilities should this be required.

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

2. Exploration and Evaluation Expenditure

| | Consolidated | |
|------------------------------------------------------|-----------------------------|-------------------------|
| | 31 December 2018 | 30 June 2018 |
| | \$ | \$ |
| Cost | 5,259,651 | 5,259,651 |
| <i>Reconciliation</i> | | |
| Balance at beginning of period/year | 5,259,651 | 5,259,651 |
| Exploration expenditure incurred for the period/year | 253,433 | 394,089 |
| Exploration expenditure expensed | (253,433) | (394,089) |
| Balance at end of period/year | 5,259,651 | 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 2018 | 30 June 2018 |
| <i>Current</i> | \$ | \$ |
| Trade payables | 27,356 | 61,948 |
| GST and other taxes payable | (8,688) | 18,845 |
| Sundry payables and accrued expenses | 51,387 | 40,296 |
| Deposit received | 2,000 | 2,000 |
| | 72,055 | 123,089 |

4. Borrowings

During the half year ending 31 December 2018, the Company repaid borrowings to Cross Straits in full amounting to \$1,469,604.

5. Issued Capital

| | 31 December 2018 | 30 June 2018 |
|-----------------------------------------------------------------|-----------------------------|-------------------------|
| Ordinary Shares | \$ | \$ |
| 894,240,060 fully paid ordinary shares (June 2017: 894,240,060) | 92,438,807 | 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 2018 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.



Jiajun Hu
Chairman

Dated at Perth this 15 day of March 2019

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 2018, 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, 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 2018 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 Corporations Regulations 2001.

Emphasis of matter - Material uncertainty relating to going concern

We draw attention to Note 1 in the financial report which describes the events and/or conditions which give rise to the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern and therefore the Group may be unable to realise its assets and discharge its liabilities in the normal course of business. Our conclusion is not modified in respect of this matter.

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 2018 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

BDO


Glyn O'Brien

Director

Perth, 13 March 2019