



KalNorth Gold Mines and Controlled Entities
ACN 100 405 954

Financial Report

For the half-year ended 31 December 2015

KalNorth Gold Mines Limited and Controlled Entities
For the half year ended 31 December 2015

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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 2015 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 2015**

CORPORATE PARTICULARS

Directors	Jiajun Hu (Non-Executive Chairman) Yuanguang Yang (Non-Executive Director) Lijun Yang (Executive Director)
Company Secretary	Lijun Yang
Registered Office	224 Dugan Street Kalgoorlie, Western Australia 6430
Corporate Office	224 Dugan Street Kalgoorlie, Western Australia 6430
Mailing Address	PO Box 131 Subiaco WA 6904
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 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 2015.

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
Lijun Yang

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 2015 was \$1,154,538 (2014: profit of \$288,062).

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

Exploration Activities

Exploration during the six months to December 31 2015 was strongly focussed on the Kurnalpi Project where several high priority drilling targets were identified after the completion of ground based geophysical surveys and an updated geological interpretation undertaken from February to May 2015. The company believes that the Kurnalpi Project has all the key regional geological and geophysical attributes that are associated with other major gold deposits hosted in greenstone belts in the Eastern Goldfields of Western Australia. The Company's exploration strategy remains focused on further evaluation of recently defined priority gold targets in the Kurnalpi project which are indicative of an emerging gold trend.

During December 2015 exploration focused on follow up evaluation of four priority targets defined from a revised geological interpretation of the Kurnalpi area announced in the June 2015 quarterly report. Significantly this was the first drilling program initiated at Kurnalpi since late 2012. The new geological interpretation was prepared using detailed aeromagnetic and ground gravity survey data and integrated with previous geological mapping and provides a solid foundation for future exploration on the project. The priority targets evaluated in December were primarily based on the combined occurrence of gravity and magnetic anomalies with the detailed gravity data acquired in 2012 and 2015 providing increased level of support to areas of interpreted alteration and structural complexity. The quarter's exploration involved Rotary Air Blast (RAB)-AirCore (AC)-Reverse Circulation (RC)-Diamond (DC) drilling and a ground-based infill gravity survey

A total of 6,186m of reconnaissance RAB and AC drilling in 91 holes was completed during the quarter evaluating three targets, being "Red Kettle", "Zandor", and "Schiedam" which are located along or immediately adjacent to the regional scale Avoca Fault on the western margin of the Kurnalpi Project. At Brilliant North, two RC and two diamond drill tails for a total of 556m were completed. The ground-based gravity survey was designed to infill the 2012 Kurnalpi survey to a 125m by 125m grid spacing over the Brilliant trend.

DIRECTORS' REPORT (Cont'd)

Air core drilling at the Schiedam Prospect has identified an emerging new gold trend that is supported by results from RC blade drilling completed by a previous explorer (Mt Kersey Mining NL) in the period 1992-1996. The Schiedam Prospect was identified as a priority exploration target in 2015 based upon the following: proximity to the Avoca Fault, the complex structural framework and zone of magnetic destruction- coincident gravity low with the latter two features suggesting a zone of significant alteration. Drilling was completed over a 2km strike length with east-west lines spaced at approximately 320-400m apart and holes at 80m centres.

Encouraging gold intersections (plus 0.30gptAu) were returned from 16 air core holes at Schiedam. Significant intersections include 17m at 1.03gpt Au in hole KUAC 371 and 8m at 1.43gpt Au in hole KUAC369 (refer ASX;KGM December 2015 Quarterly Report) with the main intersections defining an anomalous gold trend over a 1000m strike length. The Schiedam Prospect is a high priority emerging gold trend for the company and additional infill and extensional drilling is planned to be conducted in early 2016.

At the Brilliant North Prospect which is located approximately 200m to the north of the Brilliant Deposit, two RC holes for 260m and two diamond holes for 296m were completed on three 40m spaced drill sections to test for the extension of the altered and mineralised dolerite that hosts the gold resource at Brilliant. The drilling successfully demonstrated the extension of the host altered dolerite a further 120m to the north and with continuity at depth. The dolerite is approximately 20-25m in true width and is hosted within a sequence of talc-carbonate altered komatiite. Alteration in the dolerite is restricted to hematite-pyrite-sericite selvages around narrow stacked west-dipping quartz carbonate veins. The company is encouraged by the confirmation of the continuity of host altered dolerite at the north end of the Brilliant trend and supports the Company's interpretation of a significant alteration trend to the north of Brilliant based upon results from previous reconnaissance AC drilling and interpretation of detailed ground based gravity data, which highlights a linear gravity low. The company will continue to progressively evaluate the Brilliant North alteration system with additional step out deeper drilling.

Lindsays Project

The company continues to seek value from the Lindsays mine site which remains under suspension with the Department of Mines and Petroleum (DMP). Subsequent to the end of the half year the company reported that an agreement for the processing of the medium grade stockpile has been executed with first ore being hauled for processing on January 23.

The company has very recently announced an agreement with a third party for the redevelopment of the Lindsays mine site with focus on the development of the Parrot Feathers lode beneath the base of the open pit and also remnant ore within the open pits.

Spargoville Project

The company continues to review its tenement portfolio to reduce holding costs and during the half year transfer of five small prospecting licenses to one of the original royalty holders was initiated.

Corporate

During 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:

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.

DIRECTORS' REPORT (Cont'd)

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. An advance amount of \$300,000 was drawn against the \$2 million facility. The facility received shareholder approval at the annual general meeting in November 2015.

Additionally, the Company entered into a number of agreements for the settlement of loans (~\$4.5 million) by issue of shares. Whilst the transactions the subject of these agreements were approved by shareholders in November 2015, loan settlement and completion did not take place until after balance date.

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 2015.

Signed in accordance with a resolution of the Directors.



Lijun Yang
Director

Dated at Perth this 14 March 2016



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AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the review of the financial report of KalNorth Gold Mines Limited for the half-year ended 31 December 2015, 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 review; and
- (ii) any applicable code of professional conduct in relation to the review.

RSM
RSM AUSTRALIA PARTNERS

A Whyte
ALASDAIR WHYTE
Partner

Perth, WA
Dated: 14 March 2016

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KalNorth Gold Mines Limited and Controlled Entities
For the half year ended 31 December 2015

STATEMENT OF COMPREHENSIVE INCOME
For the half year ended 31 December 2015

	Consolidated	
	31 December 2015	31 December 2014
	\$	\$
Revenue from gold sales	-	9,295
R&D tax refund	-	533,785
Other income	2,128	924,164
Director and corporate employee costs	(60,754)	(170,395)
Professional fees and consultants	(112,443)	(228,462)
Advertising and promotion costs	(2,160)	(1,500)
Depreciation expenses	(39,451)	(64,094)
Occupancy costs	-	(72,921)
Listing and registry fees	(24,443)	(22,024)
Exploration expenses	2 (566,830)	(169,837)
Interest expense	(229,205)	(342,450)
Other expenses	(121,380)	(107,499)
(Loss)/Profit before income tax	<u>(1,154,538)</u>	<u>288,062</u>
Income tax expense	-	-
(Loss)/Profit for the period	<u>(1,154,538)</u>	<u>288,062</u>
Other Comprehensive income	-	-
Total Comprehensive Income for the period	<u>(1,154,538)</u>	<u>288,062</u>
Earnings Per Share		
Basic and diluted (loss) / earnings per share (cents)	(0.33)	0.11

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 2015

STATEMENT OF FINANCIAL POSITION
As at 31 December 2015

	Note	Consolidated 31 December 2015 \$	30 June 2015 \$
Assets			
Current Assets			
Cash and cash equivalents		619,367	238,640
Trade and other receivables		38,500	15,993
Other assets		126,700	7,500
Total Current Assets		<u>784,567</u>	<u>262,133</u>
Non-Current Assets			
Property, plant and equipment		352,618	389,920
Exploration and evaluation expenditure	2	7,147,846	7,147,846
Total Non-Current Assets		<u>7,500,464</u>	<u>7,537,766</u>
Total Assets		<u>8,285,031</u>	<u>7,799,899</u>
Liabilities			
Current Liabilities			
Trade and other payables	3	420,592	122,785
Interest bearing liabilities	4	4,855,652	4,764,557
Total Current Liabilities		<u>5,276,244</u>	<u>4,887,342</u>
Non-Current Liabilities			
Provision for rehabilitation		1,148,358	1,148,358
Total Non-Current Liabilities		<u>1,148,358</u>	<u>1,148,358</u>
Total Liabilities		<u>6,424,602</u>	<u>6,035,700</u>
Net Assets		<u>1,860,429</u>	<u>1,764,199</u>
Equity			
Issued capital	5	77,502,490	76,251,722
Accumulated losses		<u>(75,642,061)</u>	<u>(74,487,523)</u>
Total Equity		<u>1,860,429</u>	<u>1,764,199</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 2015

STATEMENT OF CHANGES IN EQUITY
For the half year ended 31 December 2015

	Issued Capital	Share Based Payment Reserve	Accumulated Losses	Total
At 1 July 2014	75,226,229	1,334,418	(75,047,490)	1,513,157
Profit for the period	-	-	288,062	288,062
Total comprehensive income for the period	-	-	288,062	288,062
Shares issued during the period, net of issue costs	358,420	-	-	358,420
Transfer of expired share options to retained earnings	-	(1,275,554)	1,275,554	-
At 31 December 2014	75,584,649	58,864	(73,483,874)	2,159,639
At 1 July 2015	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
At 31 December 2015	77,502,490	-	(75,642,061)	1,860,429

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 2015

STATEMENT OF CASH FLOWS
For the half year ended 31 December 2015

	Consolidated	
	31 December 2015	31 December 2014
	\$	\$
Cash flows from Operating Activities		
Receipts from external parties	-	25,890
Payments to suppliers and employees	(293,809)	(747,778)
Proceeds from return of security deposit – office lease	-	27,050
GST collected on sale of tenements	-	180,000
Interest received	2,128	344
Other payments	(119,200)	-
Net cash (used in) operating activities	(410,881)	(514,494)
Cash flows from Investing Activities		
Payments for mineral exploration activities	(367,103)	-
Payments for mining tenements	-	(1,050,000)
Proceeds from sale of exploration tenements	-	1,800,000
Payments for plant and equipment	(2,149)	-
Net cash provided by/(used in) investing activities	(369,252)	750,000
Cash flows from Financing Activities		
Proceeds from issue of share capital	895,321	-
Share issue costs	(34,461)	-
Proceeds from borrowings – unsecured	300,000	-
Proceeds from borrowings – convertible loans	-	350,000
Net cash provided by financing activities	1,160,860	350,000
Net increase in cash held	380,727	585,506
Cash and cash equivalent at the beginning of the half-year	238,640	128,867
Cash and cash equivalent at the end of the half-year	619,367	714,373

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

NOTES TO THE FINANCIAL STATEMENTS
For the half year ended 31 December 2015

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 2015 (the "period"), the consolidated entity conducted operations in Australia.

These general purpose financial statements for the interim half-year reporting period ended 31 December 2015 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 2015, 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 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 \$1,154,538 and had net cash outflows from operating and investing activities of \$410,881 and \$369,252 respectively for the half-year ended 31 December 2015. As at that date the consolidated entity had current assets of \$784,567, which includes \$619,367 in cash and cash equivalents. Its total current liabilities of \$5,276,244 resulted in a net working capital deficiency of \$4,491,677.

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 after consideration of the following factors:

- (i) At the Annual General Meeting held on 25 November 2015, shareholders approved the issue of shares in settlement of loans amounting to approximately \$4.5m and an additional \$2m convertible note facility from the Company's then largest shareholder – Cross Strait Common Development Fund Co Limited. However, as other regulatory approvals were not received until February 2016, the settlement of loans (Note 8(b)) and approval of the convertible note facility (Note 8(c)) did not take place until after the reporting date. As at the issue date of this report, loans of \$4.5m that are classified as current liabilities at the reporting date have been settled (Note 8(b)) and \$1.7m in convertible notes was available to be drawn upon.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

- (ii) As disclosed on Note 8(a), on 18 February 2016 the Company announced that it has entered into two separate agreements for the sale of ore stockpiles which were carried at nil value in the Company's Statement of Financial Position at 31 December 2015. These sales will provide operating revenue and cash flows over the short term. In addition, the Company has very recently announced an agreement for the redevelopment of the Lindsays mine site with focus on the development of the Parrot Feathers lode beneath the base of the open pit, which again provides the potential for generation of cash flows in the near future.

2. Exploration and Evaluation Expenditure

	Consolidated	
	31 December 2015	30 June 2015
	\$	\$
Cost	7,147,846	7,147,846
<i>Reconciliation</i>		
Balance at beginning of period/year	7,147,846	
Exploration expenditure incurred for the period/year	566,830	
Exploration expenditure immediately expensed	(566,830)	
Balance at end of period/year	7,147,846	

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 2015	30 June 2015
	\$	\$
<i>Current</i>		
Trade payables	256,322	67,997
Other payables – withholding interest	71,955	-
Sundry payables and accrued expenses	92,315	54,788
	420,592	122,785

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

4. Interest Bearing Liabilities

	Consolidated	
	31 December 2015	30 June 2015
	\$	\$
Current		
Secured loans (i)	3,500,000	3,500,000
Unsecured loans (i)	700,000	700,000
Convertible notes (ii)	-	350,000
Interest payable on secured loans (i)	279,142	173,562
Interest payable on unsecured loans (i)	70,000	34,712
Interest payable on convertible notes (ii)	-	6,283
Other borrowings – unsecured (iii)	300,000	-
Interest payable on other borrowings	6,510	-
 Total interest bearing liabilities	4,855,652	4,764,557

(i) *Secured and unsecured loans*

On 31 August 2015 and 11 September 2015, binding agreements were entered into with Renergy Pty Ltd, South Victory Global Limited, Smarter Group (Australia) Pty Ltd and Mr John McKinstry, as a result of which principal amounts and all outstanding interest owed to these parties will be settled by issue of shares at an issue price of \$0.01 each.

On 25 November 2015, shareholders approved the issue of shares in settlement of secured and unsecured loans and accrued interest of up to \$4,529,753, subject to regulatory approvals.

Regulatory approvals were received after balance date and the settlement of \$4,502,510 in debts was made via the issue of 450,251,000 ordinary fully paid shares on 23 February 2016 (Note 8).

There remains one unsecured loan, with a maturity date of 30 April 2016, owing to Mr. Henry Yu of \$55,000, inclusive of accrued interest.

(ii) *Convertible loan*

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 26 November 2015 the Company completed the issue 1,615,562 ordinary fully paid shares in settlement of all accrued interest up to the date of conversion.

(iii) *Other Borrowings – unsecured*

On 15 September 2015, a convertible note facility agreement was entered into with the Company's largest shareholder, Cross-Strait, under the terms of which the Company will be able to draw down up to \$2 million. As at the Balance date, \$0.3m was drawn down under this facility. Cross-Strait will have 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. The facility has a maturity date of 30 April 2017.

Regulatory approvals were received after balance date and the initial unsecured \$300,000 advance was converted by issue of convertible notes (with a face value of \$300,000) on 23 February 2016 (Note 8).

As at 31 December 2015, the Company has \$1.7 million available for future drawdown under the convertible note facility.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

5. Issued Capital

	31 December 2015	30 June 2015
	\$	\$
Ordinary Shares		
443,988,960 fully paid ordinary shares (June 2015: 315,966,034)	77,502,490	76,251,722
	<hr/>	<hr/>
Movement in fully paid ordinary shares:	No. of Shares	\$
At 1 July 2015	315,966,034	76,251,722
Placement from rights offer	29,532,064	295,320
Placement of shortfall shares from rights offer	60,000,000	600,000
Shares issued in settlement of director fees, as approved at 2015 Annual General Meeting	2,375,300	23,753
Shares issued on conversion of convertible note and accrued interest (Note 4 ii)	36,615,562	366,156
Cancellation of shares – previously issued under the employee share scheme	(500,000)	-
Share issue costs for the period	-	(34,461)
	<hr/>	<hr/>
At 31 December 2015	443,988,960	77,502,490

6. Dividends

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

KalNorth Gold Mines Limited and Controlled Entities
For the half year ended 31 December 2015

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

7. Segment Information

Identification of reportable operating segments

The consolidated entity is organised into two operating segments: mine development and mineral exploration both within Australia. Although mine development at the Lindsay's Project was suspended in August 2013, the Company continues to seek out opportunities to recommence mining.

<u>31 December 2015</u>	Mine Development	Mineral Exploration	Unallocated	Total Consolidated Group
	\$	\$	\$	\$
Revenue				
Sales to external customers	-	-	-	-
Other revenue	-	-	-	-
Total revenue	-	-	-	-
EBITDA		(566,830)	(321,180)	(888,010)
Depreciation and amortisation	-	-	(39,451)	(39,451)
Interest revenue	-	-	2,128	2,128
Finance costs	-	-	(229,205)	(229,205)
Profit/(loss) before income tax	-	(566,830)	(587,708)	(1,154,538)
Income tax expense	-	-	-	-
Profit/(loss) after income tax	-	(566,830)	(587,708)	(1,154,538)
Segment Assets	-	7,152,213	1,132,818	8,285,031
<u>31 December 2014</u>	Mine Development	Mineral Exploration	Unallocated	Total Consolidated Group
	\$	\$	\$	\$
Revenue				
Sales to external customers	-	9,295	-	9,295
Other revenue	-	-	1,456,881	1,456,881
Total revenue	-	9,295	1,456,881	1,466,176
EBITDA	-	(160,542)	854,080	693,538
Depreciation and amortisation	-	(30,798)	(33,296)	(64,094)
Interest revenue	-	-	1,068	1,068
Finance costs	-	-	(342,450)	(342,450)
Profit/(loss) before income tax	-	(191,340)	479,402	288,062
Income tax expense	-	-	-	-
Profit/(loss) after income tax	-	(191,340)	479,402	288,062
Segment Assets	-	\$7,270,492	1,483,594	8,754,086

NOTES TO THE FINANCIAL STATEMENTS

8. Events Subsequent to Reporting Date

(a) Sale of Medium and Low Grade Stockpiles – Lindsay’s Project

On 18 February 2016, the Company announced the following development initiatives:

- The sale of approximately 18,000 tonne medium grade ore stockpile from the Lindsay’s project to a local processing plant under a profit sharing arrangement. The counterparty was responsible for haulage, milling and processing and the Company is entitled to a 50% share of the profit after deduction of all costs from the gross revenue. Subject to final reviews and reconciliations, it is estimated that the Company’s share of the profit will be around \$180,000.
- The Company has also executed a separate agreement to sell the low grade ore stockpile of approximately 80,000 tonnes from Lindsay’s project at a fixed rate per tonne and expects to generate revenues of \$240,000, of which \$120,000 had been received at the date of this report.
- The Company expects that the removal of these stockpiles will have the additional effect of reducing the rehabilitation liability at this project.

(b) Loans Settled after receiving Foreign Investment Review Board (FIRB) Approval

On 23 February 2016, the Company announced the receipt of FIRB approval for the conversion of debt and accrued interest payable into ordinary fully paid shares, with respect to one of the secured loans owing to foreign corporation South Victory Global Limited. The Company completed the allotment of 450,251,000 ordinary fully paid shares in settlement of \$4,502,510 in interest bearing liabilities and accrued interest, inclusive of the loan to South Victory Global Limited.

(c) Cross-Strait Common Development Fund \$2M Convertible Note Facility – FIRB Approved

On 23 February 2016, the Company announced the receipt of FIRB approval with respect to its new \$2M convertible note facility with major shareholder Cross-Strait Common Development Fund Co., Limited. \$0.3 million was drawn down as an advance under this facility prior to 31 December 2015 and, at the date of this report, an amount of up to \$1.7 million remains available for drawdown.

Other than the above, there have been no other material items, transactions, or events subsequent to 31 December 2015 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 2015 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.



Lijun Yang
Director

Dated at Perth this 14th day of March 2016



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

We have reviewed the accompanying half-year financial report of KalNorth Gold Mines Limited which comprises the statement of financial position as at 31 December 2015, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, 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 half-year 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.

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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 2015 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*.

RSM

RSM AUSTRALIA PARTNERS


ALASDAIR WHYTE
Partner

Perth, WA
Dated: 14 March 2016