



**KalNorth Gold Mines Limited and Controlled Entities**

ACN 100 405 954

**Annual Report**

For the year ended 30 June 2016

# KalNorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2016

## CONTENTS

Corporate Particulars	1
Chairman Statement	2
Directors' Report	3
Financial Report	
Consolidated Statement of Profit or Loss and Other	
Comprehensive Income	16
Consolidated Statement of Financial Position	17
Consolidated Statement of Changes in Equity	18
Consolidated Statement of Cash Flows	19
Notes to the Financial Statements	20
Directors' Declaration	45
Auditors' Independence Declaration	46
Independent Auditors' Report	47
Corporate Governance Statements	49
Mineral Resources and Ore Reserves Statement	57
Mining Tenement Statements	60
Shareholders Information	62

# KalNorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2016

## CORPORATE PARTICULARS

<b>Directors</b>	Mr Jiajun Hu Mr Lijun Yang Mr Yuanguang Yang	<i>Chairman</i> <i>Executive Director</i> <i>Non-Executive Director</i>
<b>Company Secretary</b>	Mr Lijun Yang	
<b>Registered Office and Principal Place of Business</b>	224 Dugan Street Kalgoorlie, Western Australia 6430	
<b>Share Registry</b>	Advanced Share Registry Limited 110 Stirling Highway Perth WA 6009	
<b>Auditor</b>	RSM Australia Partners 8 St Georges Terrace Perth WA 6000	
<b>Solicitor</b>	Steinepreis Paganin 16 Milligan St Perth WA 6000	
<b>Stock Exchange Listing</b>	Australian Securities Exchange (ASX: KGM)	
<b>Company Website</b>	<a href="http://www.kalnorthgoldmines.com">www.kalnorthgoldmines.com</a>	

# KalNorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2016

Dear Shareholders,

It is my pleasure to present to you the 2016 Annual Report as Chairman of KalNorth Gold Mines Limited. The past financial year is another turning point of KalNorth since 2013 when the company suspended the development of Lindsay's project.

The Company completed a 1 for 2 Non-Renounceable Rights issue which commenced in September 2015 and an aggregate amount of \$895,320 was raised comprising \$295,320 from subscription to entitlements and \$600,000 from issue of shortfall shares.

Significant progress was made in improving the Company's financial conditions with agreement being reached for settlement of \$4.15 million of loans (together with interest accruing on those loans) by issue of shares. Shareholder approval for the loan to equity settlement was received at the November 2015 AGM, with completion occurring in late February 2016 on receipt of Foreign Investment Review Board (FIRB) approval.

The Company entered into a convertible note facility agreement with its then largest shareholder, Cross-Strait Common Development Fund Co., Limited. At the end of reporting period, an amount of \$300,000 had been drawn against the \$2 million facility which had been approved by shareholders at the annual general meeting in November 2015.

The past financial year saw a further improvement in conditions for Australian gold explorers and producers with the gold price (in AUD\$) improving steadily and capital market conditions following suit. As a result, there has been renewed interest in the Company's mineral asset portfolio. The Company disposed of low grade stockpiles, resulting in welcome revenue enabling the Company to resume limited exploration activity. A resumption of development at Lindsay's, both open pit and underground, is also actively being considered and progressed by the Board. The Board looks forward to an improvement in the Company's prospects in the current financial year.

On behalf of the Board, I thank you, our shareholders, for your continuing support and I also acknowledge the efforts by executive director, Lijun Yang and his team in difficult conditions.



Jiajun Hu  
Chairman  
20 October 2016

**KalNorth Gold Mines Limited and Controlled Entities**  
**For the year ended 30 June 2016**  
**DIRECTORS' REPORT**

The Directors of KalNorth Gold Mines Limited (“the Company”) present their financial report on the consolidated entity, being the company and its controlled entities, for the financial year ended 30 June 2016.

## **Directors**

The names of directors in office at any time during or since the end of the financial year are listed hereunder. Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

- Jiajun Hu Non-executive Chairman
- Lijun Yang Executive Director
- Yuanguang Yang Non-executive Director

## **Information on Directors**

### **JIAJUN HU**

Non-Executive Chairman

Mr. Jiajun Hu acts as Regional Business Executive of Cross-Strait Common Development Fund Co., Ltd (hereinafter referred to as “Cross-Strait”). Currently, Cross-Strait, with its global headquarters in Hong Kong, is the largest shareholder in the Company.

He is responsible for supervising and administrating the investment projects of Cross-Strait in Oceania and he directly reports to the managing director of Cross-Strait and has gained significant experience in international investment, financial accounting, commercial contract negotiation and contract dispute negotiation through corporate transactions in North America, Africa, Asia and Oceania.

He has a Bachelor’s Degree in Business Studies in 2008 from the Australian National University majoring in finance and accounting. Mr. Hu has specialized knowledge of financial transaction market and investment capital market, and is familiar with Chinese business and capital market operation. Mr. Hu is fluent in both English and Chinese

Mr Hu has held no other directorships of other public companies within the last three years.

Interest in shares and options: nil

### **LIJUN YANG**

Executive Director

Mr Yang is a geologist with more than 10 years working experience at various Chinese and Australian gold operations. He received his Master’s Degree in Exploration Mineralogy from the China University of Geosciences in 2012 and developed new methodologies to explore for gold mineralisation using the typomorphic properties of minerals. He commenced working for KalNorth as a Project Evaluation Geologist in August 2013 and was appointed to the Board in November 2013 as an Executive Director. Mr Yang is multi-lingual (Chinese & English).

He is a member of the Australian Institute of Geoscientists (“AIG”) and the Society of Economic Geologists (“SEG”).

Mr Yang has held no other directorships of other public companies within the last three years.

Interest in shares and options: 47,100 ordinary fully paid shares

**KalNorth Gold Mines Limited and Controlled Entities**  
For the year ended 30 June 2016  
**DIRECTORS' REPORT**

**Information on Directors (Cont'd)**

**YUANGUANG YANG**

Non-Executive Director

Mr. Yang is a Hong Kong CPA (practising) and currently operates a CPA firm in Hong Kong with business focus in markets of Hong Kong, Mainland China, Australia and New Zealand. Mr. Yang is also a Chartered Accountant in Australia and New Zealand.

He has over 15 years' experience in audit and assurance, global tax planning, corporate advisory, family business and M & A business and also worked with the Industrial and Commercial Bank of China for several years before running his CPA business.

Mr Yang resides in Hong Kong and is an authorised officer of South Victory Global Limited, a major lender to and shareholder in the Company.

Mr. Yang has held no other directorships of other public companies within the last three years.

Interest in shares and options: 2,375,300

**Company Secretary**

Mr Lijun Yang

**Principal Activities**

The consolidated entity's principal activity during the year was gold exploration on the Lindsays, Kalpini and Kurnalpi projects near Kalgoorlie, Western Australia.

**Operating Results and Financial Performance**

The operating loss after income tax of the consolidated entity for the year ended 30 June 2016 was \$12,330,518 (2015: loss \$774,451).

The operating loss for the year was impacted by the following key items:

- (i) A fair value loss of \$10,355,775 on the debt to equity conversion.
- (ii) Exploration expenditure of \$1.09 million (2015: \$0.79 million) across all project areas and immediately written-off to the profit and loss.
- (iii) Interest expense of \$0.31 million (2015: \$0.56 million) on the secured and unsecured loans.
- (iv) A tax refund of \$0.16 million with respect to the 2015 financial year and supported by a tax incentive submission based upon the R&D activities at the Kurnalpi project and was subsequently received on the 15<sup>th</sup> September 2016.

As at 30 June 2016 the company had \$34,105 (2015: \$238,640) in cash reserves and an aggregate of \$320,054 (2015: \$4,764,557) in debt instruments (and accrued interest payable).

At 30 June 2016, the consolidated entity had net assets of \$5,569,976 (2015: \$1,764,199).

**KalNorth Gold Mines Limited and Controlled Entities**  
For the year ended 30 June 2016  
**DIRECTORS' REPORT**

## **Operating Results and Financial Performance (Continued)**

During the Financial Year 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.
- **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. At balance date an amount of \$300,000 had been drawn against the \$2 million facility. The facility received shareholder approval at the annual general meeting in November 2015.
- **Debt to Equity Conversion** - The Company entered into a number of agreements for the settlement of loans (~\$4.5 million) and accrued interest by issue of shares. These transactions were approved by shareholders in November 2015, loan settlement and completion did not take place until 24 February 2016 on receipt of FIRB approval.

## **Review of Operations**

**During the 2016 Financial Year, the Company continued focusing on exploration at Kurnalpi project and seeking development opportunities at Lindsay's and Kalpini projects which all three projects 100% owned by the Company and located at less 90 kilometres radius at the centre of Kalgoorlie town of East Goldfields of West Australia.**

### **Kurnalpi Project (KGM 100%)**

In June Quarter of 2015, The Company finalized a geological interpretation using detailed aeromagnetic and ground gravity survey data and integrated with previous geological mapping which set a solid foundation for 2016 exploration on Kurnalpi project. The follow up evaluation of those priority targets defined from achieved geological interpretation in 2016 involved Rotary Air Blast (RAB)-AirCore (AC)-Reverse Circulation (RC)-Diamond (DC) drilling and a ground-based infill gravity survey.

#### **Schiedam Prospect**

In December 2015, A total of 6186m of reconnaissance RAB and AC drilling in 91 holes was completed over a 2km strike length with east-west lines spaced at approximately 320-400m apart and holes at 80m centres as the first pass to evaluate the top priority three targets, being "Red Kettle", "Zandor", and "Schiedam" which are identified as a priority exploration target based upon 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.

52 angled AirCore holes 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 in the period 1992-1996. Assay results have been returned from the entire RAB-AC drill program, with encouraging intersections (plus 0.30gptAu) returned from 16 holes at Schiedam. Significant intersections include 17m at 1.03gpt Au in hole KUAC 371 and 8m at 1.43gpt Au in hole KUAC369 with the main intersections defining an anomalous gold trend over a 1000m strike length.

In June quarter of 2016, the Company completed a second pass (29 holes, 2,039m) of angled air core drilling at the Schiedam Prospect to follow up the positive gold results returned from an initial drill test in December 2015. The drill spacing is down to 160m between drill lines and either 40-80m between drill holes over a strike length of approximately 750m. The drilling intersected a sequence of predominantly variably altered and weakly deformed ultramafic rocks (komatiite). The most intensely altered zones are now manifested as a quartz carbonate fuchsite rock.

**KalNorth Gold Mines Limited and Controlled Entities**  
For the year ended 30 June 2016  
**DIRECTORS' REPORT**

### **Review of Operations (Continued)**

The gold results were very encouraging which are considered anomalous given the wide spaced pattern of the drilling to scope out the geochemical footprint of the system. This and the results of the 2015 drill program have defined a northerly trending basement gold system over a 500m strike length and with a width of 50-100m wide based on interpretation of the maximum gold value in the drill holes.

The Company is very encouraged by these results that have confirmed and extended an emerging gold discovery in the Kurnalpi Project. Additional infill drilling of the main Schiedam anomaly and additional gold anomalies has been planned.

#### **Brilliant North Prospect**

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 RC holes evaluated the shallower (surface to 100m vertical) position of the dolerite beneath 35m of palaeochannel sediments. The two diamond drill tails utilized existing RC holes (2011 era) as pre-collars and targeted the host dolerite some 140m from surface and some 50m down dip of the shallower RC holes.

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.

#### **Project Review and Targeting Exercise**

The Company engaged CSA Global Pty Ltd (CSA) to commence a staged project review with the intention to physically assess the project area in respect to geology, structure, alteration and mineralization in order to deliver an integrated interpretation that will allow the delivery of constrained targets.

The 1st stage scope includes review of the existing data including surface geochemistry, drilling data, geophysical data, satellite imagery as well as other data that may be available, the 2nd stage as field reconnaissance, mapping and sample collection for litho-geochemical analysis and 3rd stage as regional interpretation and target analysis and exploration model development.

The work program has progressed very well with stage 1 and 2 being completed within 2016 financial year and the final results anticipated in the September quarter 2016.

#### **Brilliant Resources Update**

The Brilliant deposit is part of KalNorth's Kurnalpi project, located 90 km east-northeast of Kalgoorlie in Western Australia. The Brilliant Deposit is concentrated in two mineralised corridors: the east and the west mineralised structures. The east mineralised structure is more consistent with a strike length of approximately 800 meters, the west mineralised structure has a strike length of approximately 200 meters as previously defined. Gold mineralisation at Brilliant exists within a brittle dolerite host rock which has intruded upward into a sequence of Komatiite ultramafic rock units. The gold mineralisation is predominantly associated with quartz sulphide alteration in the host rock.

The Brilliant deposit Mineral Resource was previously reported at the Kurnalpi project (refer KGM ASX annual report 2012) under JORC 2004. In late 2012, a further round of RC drilling was completed at the Brilliant North prospect. In December 2015, a small targeted program of diamond and Reverse Circulating (RC) drilling was completed to test extensions at the Brilliant North prospect, which extended the western structures a further 120 meters to the north.

In June quarter 2016, the Company updated the mineral resource estimation of the Brilliant deposit by adding three of new north western gold mineralised lodes identified at Brilliant North and removing deep mineralisation due to insufficient grade to support underground mine development as well as unlikely to support a high stripping ratio for extraction via open pit mining.



**KalNorth Gold Mines Limited and Controlled Entities**  
For the year ended 30 June 2016  
**DIRECTORS' REPORT**

### **Review of Operations (Continued)**

The Mineral Resource estimate has been classified as Indicated and Inferred and reported in accordance with JORC 2012 and comparisons to the previous estimate have been detailed in Mineral Resources and Ore Reserve Statement of this report.

#### **Prospecting**

The company continues to manage several prospectors who operate over much of the Kurnalpi tenement package. The prospecting activities not only provide a very small income from a share of the nuggets recovered, but valuable information on the spatial distribution of the nuggets in relation to the regolith and geology.

A research project had been successfully set up with Geological Survey of West Australia (GSWA) to track the primary source or sources of the widespread occurrence of the gold nuggets at Kurnalpi.

### **Lindsay's Project (100% KGM)**

Lindsays is one of three projects which held JORC compliance mineral resources, 100% owned by KalNorth and located 70 kilometres northeast of Kalgoorlie. The Company developed this project, mainly the Parrot Feathers deposit, in early 2013 but suspended mining after 6 months as a result of the falling gold price.

In March quarter 2016, the Company executed a Heads of Agreement ("HOA") to recommence the development of Lindsays Mine with Keras Resources plc ("Keras") (refer to ASX announcement on 14 March 2016). KalNorth has granted Keras an exclusive and irrevocable option to mine presently published JORC compliant resources at Lindsay's project. Mining at the Lindsays project may comprise an open pit mining prospect (Open Pit Mining Proposal) and an underground deposit known as the Parrot Feathers Deposit (Parrot Feathers Proposal).

On 10 May 2016, the Company announced that Keras had exercised the option and both parties will seek regulatory mining approvals and finalise the formal agreement. Later Keras lodged the requested documents for open pit mining to Department of Mines and Petroleum ("DMP") in Western Australia and the approval of open pit mining had been received. Both parties are performing final assessment before any of the mining activities being carried out.

### **Kalpini Project (100% KGM)**

The company's wholly owned Kalpini project is located some 60km to the north east of Kalgoorlie and 23km east of the Lindsay's project. The project consists of two tenements one of which is a mining lease centred on the historical Atlas gold working as well as Camellia and Gambia deposit. The Company estimated the resource of 4.6Mt @ 1.7g/t Au for 255,600 oz. (refer KGM ASX announcement dated 24 October 2012). The Company is progressing of negotiation with couple of approached parties to realize the value of the project by development or divestment.

### **Significant Changes in the State of Affairs**

There have not been significant changes in the state of affairs of the consolidated entity during the financial year, other than as noted in this financial report.

### **Dividends Paid or Recommended**

The Directors do not recommend the payment of a dividend and no dividends have been paid or declared since the end of the last financial year.

**KalNorth Gold Mines Limited and Controlled Entities**  
**For the year ended 30 June 2016**  
**DIRECTORS' REPORT**

**Significant Events after the Reporting Date**

Since the end of the financial year and to the date of this report no matter or circumstance has arisen which has significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations or the state of affairs of the consolidated entity in subsequent financial years other than the matters referred to below.

- (a) On 26 July 2016, the company has drawn down a further \$700,000 via the issue of an additional 70 convertible notes (with a face value of \$10,000 each) under the facility. There remains a further \$1 Million available to draw down under the facility on or before 31 December 2016.

**Likely Developments and Expected Results**

The company intends to remain focused on adding value through ongoing exploration activities at its main projects and may seek alliance partners to fast track development of existing resource assets.

**Environmental Issues**

The consolidated entity is subject to significant environmental regulation in respect of its exploration activities.

The consolidated entity aims to ensure the appropriate standard of environmental care is achieved and, in doing so, comply with all environmental legislation. The directors of the consolidated entity are not aware of any breach of environmental legislation for the year under review.

**Meetings of Directors**

During the financial year 15 meetings of Directors were held. Attendances by each Director during the year were as follows:

	<b>Directors' Meetings</b>	
	<b>Number of meetings eligible to attend</b>	<b>Number attended</b>
Lijun Yang	15	15
Jiajun Hu	15	15
Yuanguang Yang	15	15

<sup>1</sup>There were no Audit or Remuneration Committee meetings held, with all matters dealt with by the Board as a whole.

**Options**

At the date of this report, there were no unissued ordinary shares of KalNorth Gold Mines Limited under option (2015: Nil).

During the year ended 30 June 2016 and to the date of this report, no shares were issued on the exercise of options (2015: nil).

**Risk Management**

The Board is responsible for ensuring that risks and opportunities are identified in a timely manner and that activities are aligned with the risks and opportunities identified by the Board.

**KalNorth Gold Mines Limited and Controlled Entities**  
For the year ended 30 June 2016  
**DIRECTORS' REPORT**

### **Risk Management (Continued)**

The consolidated entity believes that it is crucial for all Board members to be a part of this process and, as such, the Board has not established a separate risk management committee, but considers these matters at Board meetings.

The Board has a number of mechanisms in place to ensure that management's objectives and activities are aligned with the risks identified by the Board. These include Board approval of a strategic plan which encompasses strategy statements designed to meet stakeholders needs and manage business risk, and implementation of Board approved operating plans and budgets and the monitoring thereof.

### **Remuneration Report (Audited)**

This report outlines the remuneration arrangements in place for Directors and executives of the consolidated entity.

#### *Remuneration Policy*

The remuneration policy of KalNorth Gold Mines Limited has been designed to align Director and executive objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long-term incentives based on key performance areas affecting the consolidated entity's ability to attract and retain the best Directors and executives to run and manage the consolidated entity.

The Board's policy for determining the nature and amount of remuneration for Board members and senior executives of the consolidated entity is as follows:

The remuneration policy setting out the terms and conditions for executive directors and other senior executives was developed by the Board. All executives receive a base salary (which is based on factors such as the length of service and experience) and superannuation. The Board reviews executive packages annually by reference to the consolidated entity's performance, executive performance, and comparable information from industry sectors and other listed companies in similar industries.

The Board may exercise discretion in relation to approving incentives, bonuses, and options. The policy is designed to attract the highest calibre of executives and reward them for performance that results in long-term growth in shareholder wealth.

All remuneration paid to Directors and executives is valued at the cost to the consolidated entity and expensed.

Executives are also entitled to participate in the employee share and option arrangements. Shares given to Directors and executives are valued as the difference between the market price of those shares and the amount paid by the Director or executive. Options are valued using the Black-Scholes methodology.

#### *Performance-Based Remuneration*

The consolidated entity currently has no compulsory performance-based remuneration component built into Director and executive remuneration packages. However, performance-based bonuses may be awarded from time to time at the discretion of the Board, and this will be dependent on individual performance linked to the consolidated entity's strategic objectives for that period.

In the current year, no bonuses were paid or declared.

#### *Non-Executive Director Remuneration*

The Board seeks to set aggregate remuneration at a level that provides the Company with the ability to attract and retain Directors of the highest calibre, whilst incurring a cost that is acceptable to shareholders.

**KalNorth Gold Mines Limited and Controlled Entities**  
**For the year ended 30 June 2016**  
**DIRECTORS' REPORT**

**Remuneration Report (Audited) (Cont'd)**

The Board considers the fees paid to non-executive Directors of comparable companies when undertaking the annual review process. Independent advice is obtained when considered necessary to confirm that remuneration is in line with market practice. Each Director may receive a fee for being a Director of the Company.

Non-executive Directors may also receive performance rights (subject to shareholder approval) as it is considered an appropriate method of providing sufficient reward whilst maintaining cash reserves.

*Relationship between Remuneration Policy and Consolidated Entity Performance*

The remuneration policy has been tailored to increase goal congruence between shareholders and Directors and executives. From time to time, this is facilitated through the issue of options to the majority of directors and executives to encourage the alignment of personal and shareholder interests. The consolidated entity believes this policy will be effective in increasing shareholder wealth.

*Key management personnel service agreements*

Details of the key conditions of service agreements for key management personnel are as follows:

	Commencement Date	Notice Period Base Salary	Base Salary	Termination Payments Provided
Lijun Yang	01/08/2013	1 month	\$100,000 <sup>1</sup>	-

<sup>1</sup>Entitled to statutory superannuation contributions

There are no other agreements with key management personnel.

*Voting and comments made at the company's 2015 Annual General Meeting ('AGM')*

At the 2015 AGM, 99% of the votes received supported the adoption of the remuneration report for the year ended 30 June 2015. The company did not receive any specific feedback at the AGM regarding its remuneration practices.

# KaINorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2016

## DIRECTORS' REPORT

### Remuneration Report (Cont'd)

Remuneration Details for the Year Ended 30 June 2016

(a) Key management personnel compensation:

2016	Short-term benefits			Post-employment benefits		Share-based payment		Total
	Salary, fees and leave \$	Non- Cash bonus \$	Non-monetary benefits \$	Super-annuation \$	Retirement benefits \$	Options \$	Termination \$	
Name								
<i>Directors</i>								
Lijun Yang	85,385	-	-	8,111	-	-	-	93,496
Jiajun Hu	50,000	-	-	4,354	-	-	-	54,354
Yuanguang Yang	30,000	-	-	-	-	-	-	30,000
<i>Other key management personnel</i>								
Wade Johnson <sup>1</sup>	148,095	-	-	14,305	-	-	23,076	185,476
<b>Total</b>	<b>313,480</b>	<b>-</b>	<b>-</b>	<b>26,770</b>	<b>-</b>	<b>-</b>	<b>23,076</b>	<b>363,326</b>

<sup>1</sup> Mr Johnson employment agreement was terminated on 14 April 2016.

# KaINorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2016

## DIRECTORS' REPORT

### Remuneration Report (Cont'd)

*Remuneration Details for the Year Ended 30 June 2015*

(a) Key management personnel compensation:

2015 Name	Short-term benefits			Post-employment benefits		Share-based payment		Total
	Salary, fees and leave \$	Non- Cash bonus \$	Non-monetary benefits \$	Super-annuation \$	Retirement benefits \$	Options \$	Others \$	
<i>Directors</i>								
Lijun Yang	80,000	-	-	7,600	-	-	-	87,600
Jiajun Hu	54,166	-	-	7,521	-	-	-	61,687
Yuanguang Yang <sup>1</sup>	23,753	-	-	-	-	-	-	23,753
Brendan Peter Connell <sup>2</sup>	-	-	-	-	-	-	-	-
<i>Other key management personnel</i>								
Wade Johnson <sup>3</sup>	183,491	-	-	19,967	-	-	26,689	230,148
<b>Total</b>	<b>341,410</b>	<b>-</b>	<b>-</b>	<b>35,088</b>	<b>-</b>	<b>-</b>	<b>26,689</b>	<b>403,188</b>

<sup>1</sup> Mr. Yuanguang Yang was appointed 28 August 2014.

<sup>2</sup> Mr. Connell resigned on 28 August 2014.

<sup>3</sup> Mr Johnson received an additional \$33,491 in salary in lieu of forgoing a portion of his accrued annual leave entitlements.

**KalNorth Gold Mines Limited and Controlled Entities**  
**For the year ended 30 June 2016**  
**DIRECTORS' REPORT**

**Remuneration Report (Cont'd)**

*Share-based payment compensation*

To ensure that the consolidated entity has appropriate mechanisms to continue to attract and retain the services of Directors and Executives of a high calibre, the consolidated entity has a policy of issuing options that are exercisable in the future at a certain fixed price.

No options were granted to Directors or key management personnel during the year ended 30 June 2016 (2015: nil).

*Key management personnel shareholdings*

The number of ordinary shares in KalNorth Gold Mines Limited held by each key management personnel of the consolidated entity during the financial year is as follows:

<b>2016</b>	<b>Balance 1 July 2015</b>	<b>Granted as Remuneration</b>	<b>Rights Entitlement Allotment</b>	<b>Net Change Other</b>	<b>Balance 30 June 2016</b>
<i>Directors</i>					
Lijun Yang	31,400	-	-	15,700	47,100
Jiajun Hu	-	-	-	-	-
Yuanguang Yang	-	-	-	2,375,300	2,375,300
<i>Other</i>					
Wade Johnson	1,010,000	-	-	(1,010,000)	-
<b>Total</b>	<b>1,041,400</b>	<b>-</b>	<b>-</b>	<b>1,381,000</b>	<b>2,422,400</b>

*Key management personnel option holdings*

No options were granted or held by key management personnel in the current or prior year.

*Loans to key management personnel and their related parties*

There were no loans outstanding at the reporting date to key management personnel and their related parties.

The following balances are outstanding at the reporting date in relation to transactions with related parties:

	<b>2016</b>
	<b>\$</b>
Trade and other payable	34,167

*Use of Remuneration Consultants*

The Company did not use any remuneration consultants during the period.

**KalNorth Gold Mines Limited and Controlled Entities**  
**For the year ended 30 June 2016**  
**DIRECTORS' REPORT**

**Remuneration Report (Cont'd)**

**Additional information**

The earnings of the consolidated entity for the five years to 30 June 2016 are summarised below:

	2016	2015	2014	2013	2012
	\$	\$	\$	\$	\$
Sales revenue	1,565,081	9,295	5,211,564	3,629,630	-
EBITDA	(11,958,266)	(95,773)	(9,818,556)	(55,814,673)	(2,410,108)
EBIT	(12,018,044)	(210,686)	(10,037,470)	(56,364,791)	(2,639,101)
Loss after income tax	(12,330,518)	(774,451)	(10,763,483)	(56,492,958)	(2,639,507)

The factors that are considered to affect total shareholders return ('TSR') are summarised below:

	2016	2015	2014	2013	2012
Share price at financial year end (\$)	0.023	0.008	0.009	0.065	0.23
Total dividends declared (cents per share)	-	-	-	-	-
Basic loss per share (cents per share)	(2.23)	(0.28)	(5.28)	(35.09)	(1.89)

**[END OF REMUNERATION REPORT]**

**Indemnification and Insurance of Officers and Auditors**

The Company's Constitution requires it to indemnify Directors and officers of any entity within the consolidated entity against liabilities incurred to third parties and against costs and expenses incurred in defending civil or criminal proceedings, except in certain circumstances. An indemnity is also provided to the Company's auditors under the terms of their engagement. Directors and officers of the consolidated entity have been insured against all liabilities and expenses arising as a result of work performed in their respective capacities, to the extent permitted by law. The insurance premium relates to:

- costs and expenses incurred by the relevant officers in defending proceedings, whether civil or criminal and whatever the outcome;
- other liabilities that may arise from their position, with the exception of conduct involving a wilful breach of duty or improper use of information or position to gain a personal advantage.

**Proceedings on Behalf of Company**

No person has applied for leave of the Court to bring proceedings on behalf of the company or intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings. The company was not a party to any such proceedings during the year.

**Non-Audit Services**

The Board of Directors is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

- all non-audit services are reviewed and approved by the Board prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- the nature of the services provided does not compromise the general principles relating to auditor independence in accordance with APES 110: Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standards Board.

The following fees were paid or payable to RSM Australia Partners for non-audit services:



**KalNorth Gold Mines Limited and Controlled Entities**  
For the year ended 30 June 2016  
**DIRECTORS' REPORT**

	2016	2015
	\$	\$
Taxation services	5,000	9,000
Other taxation services – R&D return and lodgment assistance	-	48,659
	<u>5,000</u>	<u>57,659</u>

**Auditor's Independence Declaration**

The auditor, RSM Australia Partners, has provided the Board of Directors with an independence declaration in accordance with section 307C of the Corporations Act 2001 and included within these financial statements.

**Auditor**

RSM Australia Partners continues in office in accordance with section 327 of the Corporations Act 2001.

The Report of Directors, incorporating the Remuneration Report, is signed pursuant to section 298(2) (a) of the Corporations Act 2001 in accordance with a resolution of the Board of Directors.



\_\_\_\_\_  
Lijun Yang  
Executive Director

Dated at Perth this 28 day of September 2016

# KaiNorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2016

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE

For the year ended 30 June 2016

	Note	2016 \$	2015 \$
Revenue from gold sales		1,444,329	9,295
Revenue from non-mineral sales		120,752	-
Cost of sales – gold sales		<b>(1,028,673)</b>	-
Cost of sales – non-mineral sales		<b>(119,200)</b>	-
<hr/>			
Gross profit		<b>417,208</b>	9,295
Other income	3	<b>161,697</b>	550,311
(Loss)/Gain on sale of tenements	3	<b>(463,207)</b>	913,460
Director and corporate employee costs		<b>(188,750)</b>	(178,812)
Professional fees and consultants		<b>(199,321)</b>	(303,285)
Advertising and promotion cost		<b>(2,160)</b>	(5,945)
Depreciation expenses	8	<b>(59,778)</b>	(114,913)
Listing and registry fees		<b>(39,377)</b>	(29,047)
Exploration costs		<b>(1,098,112)</b>	(794,899)
Interest expense		<b>(312,474)</b>	(563,765)
Debt to equity – fair value loss	4	<b>(10,355,775)</b>	-
Other expenses		<b>(190,469)</b>	(256,851)
<hr/>			
Loss before income tax		<b>(12,330,518)</b>	(774,451)
Income tax benefit	5	-	-
Loss after income tax for the year		<b>(12,330,518)</b>	(774,451)
<hr/>			
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
		-	-
Other comprehensive income for the year, net of tax		-	-
<hr/>			
Total comprehensive loss for the year		<b>(12,330,518)</b>	(774,451)
<hr/>			
Loss per share			
Basic and diluted loss per share (cents)	16	<b>(2.23)</b>	(0.28)

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

# KalNorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2016

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2016

	Note	2016 \$	2015 \$
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	18 (b)	34,105	238,640
Trade and other receivables	6	302,293	15,993
Other assets	7	7,500	7,500
<b>Total Current Assets</b>		<b>343,898</b>	262,133
<b>Non-Current Assets</b>			
Property, plant and equipment	8	338,190	389,920
Exploration and evaluation expenditure	9	6,999,901	7,147,846
<b>Total Non-Current Assets</b>		<b>7,338,091</b>	7,537,766
<b>TOTAL ASSETS</b>		<b>7,681,989</b>	7,799,899
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Trade and other payables	10	288,339	122,785
Interest bearing liabilities	11	320,054	4,764,557
<b>Total Current Liabilities</b>		<b>608,393</b>	4,887,342
<b>Non-Current Liabilities</b>			
Restoration provision	12	1,503,620	1,148,358
<b>Total Non-Current Liabilities</b>		<b>1,503,620</b>	1,148,358
<b>TOTAL LIABILITIES</b>		<b>2,112,013</b>	6,035,700
<b>NET ASSETS</b>		<b>5,569,976</b>	1,764,199
<b>EQUITY</b>			
Issued capital	13	92,388,017	76,251,722
Accumulated losses		<b>(86,818,041)</b>	(74,487,523)
<b>TOTAL EQUITY</b>		<b>5,569,976</b>	1,764,199

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

# KalNorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2016

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2016

	Issued Capital \$	Accumulated Losses \$	Share payment reserve \$	Total Equity \$
<b>2015</b>				
As at 1 July 2014	75,226,229	(75,047,490)	1,334,418	1,513,157
Loss after income tax for the year	-	(774,451)	-	(774,451)
Total comprehensive income for the year, net of tax	-	(774,451)	-	(774,451)
Transfer of expired share option costs	-	1,334,418	(1,334,418)	-
Shares issued during the year, net of costs	1,025,493	-	-	-
<b>As at 30 June 2015</b>	<b>76,251,722</b>	<b>(74,487,523)</b>	<b>-</b>	<b>1,764,199</b>
<b>2016</b>				
As at 1 July 2015	76,251,722	(74,487,523)	-	1,764,199
Loss after income tax for the year	-	(12,330,518)	-	(12,330,518)
Total comprehensive income for the year, net of tax	-	(12,330,518)	-	(12,330,518)
Shares issued during the year, net of costs	16,109,255	-	-	16,109,255
Equity portion on convertible note issued during year	27,040	-	-	27,040
<b>As at 30 June 2016</b>	<b>92,388,017</b>	<b>(86,818,041)</b>	<b>-</b>	<b>5,569,976</b>

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

# KaiNorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2016

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2016

	Note	2016	2015
		\$	\$
<b>Cash flows from operating activities</b>			
Receipts from customers (inclusive of GST)		1,319,118	25,890
Payments to suppliers and employees (inclusive of GST)		(1,632,110)	(788,237)
Research and development tax refund		-	533,785
Interest received		3,785	6,923
Interest paid		(56,316)	(13,325)
Other income		120,752	-
Other payments		(119,200)	-
Refund of office security bond		-	27,050
Net cash used in operating activities	18(a)	<u>(363,971)</u>	<u>(207,914)</u>
<b>Cash flows from investing activities</b>			
Proceeds from sale of tenements		40,000	1,800,000
Payments for plant and equipment		(8,048)	-
Payments for mine tenements		-	(1,000,000)
Payment for mineral exploration activities		(1,000,576)	(782,313)
Net cash used in investing activities		<u>(968,624)</u>	<u>(32,313)</u>
<b>Cash flows from financing activities</b>			
Proceeds from issue of shares (net)		861,060	-
Proceeds from short-term borrowings		17,000	-
Proceeds from borrowings – convertible loan		300,000	350,000
Repayment of borrowings - unsecured		(50,000)	-
Net cash provided by financing activities		<u>1,128,060</u>	<u>350,000</u>
Net increase / (decrease) in cash held		(204,535)	109,773
Cash and cash equivalents at the beginning of the financial year		<u>238,640</u>	<u>128,867</u>
<b>Cash and cash equivalents at the end of the financial year</b>	18(b)	<u>34,105</u>	<u>238,640</u>

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

# KalNorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2016

## Note 1: Statement of Significant Accounting Policies

The financial statements cover KalNorth Gold Mines Limited ("KalNorth" "Company") as a consolidated entity consisting of KalNorth Gold Mines Limited and the entities it controlled at the end of, or during, the year. The financial statements are presented in Australian dollars, which is KalNorth's functional and presentation currency.

The financial report was authorised for issue on 28 September 2016 by the Board of Directors.

### Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

#### *Historical cost convention*

The financial statements have been prepared under the historical cost convention, except for, where applicable, the revaluation of available-for-sale financial assets, financial assets and liabilities at fair value through profit or loss, investment properties, certain classes of property, plant and equipment and derivative financial instruments.

#### *Critical accounting estimates*

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the consolidated entity's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2.

### 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 discharge of liabilities in the normal course of business.

As disclosed in the financial statements, the consolidated entity incurred a loss of \$12,330,518 and had net cash outflows from operating and investing activities respectively of \$363,971 and \$968,624, during the year ended 30 June 2016. As at that date the consolidated entity had net current liabilities of \$264,495.

These factors indicate significant uncertainty as to whether the consolidated entity will continue as a going concern and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

The Directors 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 mitigating factors:

- (a) As disclosed in Notes 4 and 13, the loss for the year includes a non-cash charge to the profit and loss of \$10,355,775 pertaining to a debt to equity fair value loss.
- (b) As disclosed in Note 11, the Company has access to a convertible note facility of \$2,000,000 which was drawn down to \$300,000 at 30 June 2016. Subsequent to year-end, a further \$700,000 was drawn down under the facility and the Company remains in compliance with the terms and conditions of the facility in order to be able to draw down up to a further \$1,000,000 on or before 31 December 2016 should it need to do so. The convertible notes issued under the facility have a redemption date of 30 April 2017 and, whilst no agreement has been reached with the facility holder, the directors believe that they may be able to negotiate an extension to the redemption date, should that become necessary.
- (c) As previously announced, the Company is also at an advanced stage of negotiations with AIM listed Keras Resources Inc to recommence mining activities on the Lindsays deposit, which has the potential to generate cash flows for the Company whilst at the same time not incur any expenditure in this regard.

### Note 1: Statement of Significant Accounting Policies (cont'd)

- (d) Given the current favourable economic conditions for Australian based gold operations, the Company continues to review opportunities for sale or development of its Kurnalpi and Kalpini projects. Active discussions continue with a number of parties in this regard. 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.

Accordingly, the Directors believe that the consolidated entity will be able to continue as a going concern and that it is appropriate to adopt the going concern basis in the preparation of the financial report.

The financial report does not include any adjustments relating to the amounts or classification of recorded assets or liabilities that might be necessary if the consolidated entity does not continue as going concerns.

### New, revised or amending Accounting Standards and Interpretations adopted

The Company has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

### Parent entity information

In accordance with the Corporations Act 2001, these financial statements present the results of the consolidated entity only. Supplementary information about the parent entity is disclosed in Note 24.

### Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of KalNorth Gold Mines Limited ('company' or 'parent entity') as at 30 June 2016 and the results of all subsidiaries for the year then ended. KalNorth Gold Mines Limited and its subsidiaries together are referred to in these financial statements as the 'consolidated entity'.

Subsidiaries are all those entities over which the consolidated entity has control. The consolidated entity controls an entity when the consolidated entity is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the consolidated entity are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the consolidated entity.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Non-controlling interest in the results and equity of subsidiaries are shown separately in the statement of profit or loss and other comprehensive income, statement of financial position and statement of changes in equity of the consolidated entity. Losses incurred by the consolidated entity are attributed to the non-controlling interest in full, even if that results in a deficit balance.

### Note 1: Statement of Significant Accounting Policies (cont'd)

Where the consolidated entity loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The consolidated entity recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

#### Operating Segments

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers ('CODM'). The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

#### Income tax

The income tax expense (income) for the year comprises current income tax expense (income) and deferred tax expense (income).

Current income tax expense charged to the profit or loss is the tax payable on taxable income calculated using applicable income tax rates enacted, or substantially enacted, as at reporting date. Current tax liabilities (assets) are therefore measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well as unused tax losses.

Current and deferred income tax expense (income) is charged or credited directly to equity instead of profit or loss when the tax related to items that are credited or charged directly to equity.

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantially enacted at reporting date. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries, branches, associates, and joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

Current tax assets and liabilities are offset where a largely enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where a legally enforceable right of set-off exists, the deferred tax assets and liabilities related to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.



**Note 1: Statement of Significant Accounting Policies (cont'd)**

**Mining tenements and exploration and evaluation expenditure**

Mining tenements are carried at cost, less accumulated impairment losses.

Exploration, evaluation and development expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves. Accumulated costs in relation to an abandoned area are written off in full against profit in the year in which the decision to abandon the area is made.

When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

Costs of site restoration are provided over the life of the facility from when exploration commences and are included in the costs of that stage. Site restoration costs include the dismantling and removal of mining plant, equipment and building structures, waste removal, and rehabilitation of the site in accordance with clauses of the mining permits. Such costs have been determined using estimates of future costs, current legal requirements and technology on an undiscounted basis.

Any changes in the estimates for the costs are accounted on a prospective basis. In determining the costs of site restoration, there is uncertainty regarding the nature and extent of the restoration due to community expectations and future legislation. Accordingly, the costs have been determined on the basis that the restoration will be completed within one year of abandoning the site.

**Leases**

Leases of fixed assets, where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership that are transferred to the economic entity, are classified as finance leases.

Leases where a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

**Employee benefits**

*Short-term employee benefits*

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled within 12 months of the reporting date are recognised in current liabilities in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

*Defined contribution superannuation expense*

Contributions to defined contribution superannuation plans are expensed in the period in which they are incurred.

**Note 1: Statement of Significant Accounting Policies (cont'd)****Property, plant and equipment**

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses.

*Property*

Freehold land and buildings are measured on the cost basis less depreciation and impairment losses.

*Plant and equipment*

Plant and equipment are measured on the cost basis less depreciation and impairment losses.

The carrying amount of property, plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the assets employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

*Depreciation*

The depreciable amount of all fixed assets including building and capitalised lease assets, but excluding freehold land, is depreciated on a straight-line basis over the useful lives to the consolidated entity commencing from the time the asset is held ready for use.

The depreciation rates used for each class of depreciable assets are:

<b>Class of fixed asset</b>	<b>Depreciation rate</b>
Plant and equipment	10-33%
Buildings	10%
Motor vehicles	25%
IT assets	33%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the statement of comprehensive income or loss. When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

**Current and non-current classification**

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is current when: it is expected to be realised or intended to be sold or consumed in normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within twelve months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period. All other assets are classified as non-current.

**Note 1: Statement of Significant Accounting Policies (cont'd)****Current and non-current classification (cont'd)**

A liability is current when: it is expected to be settled in normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within twelve months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

**Financial instruments**

Financial instruments, incorporating financial assets and financial liabilities, are recognised when the entity becomes a party to the contractual provisions of the instrument. Trade date accounting is adopted for financial assets that are delivered within timeframes established by marketplace convention.

Financial instruments are initially measured at fair value plus transactions costs where the instrument is not classified as at fair value through profit or loss. Transaction costs related to instruments classified as at fair value through profit or loss are expensed to profit or loss immediately. Financial instruments are classified and measured as set out below.

*Derecognition*

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expire. The difference between the carrying value of the financial liability extinguished or transferred to another party and their fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

*Classification and subsequent measurement**Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost using the effective interest rate method.

*Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets that are either designated as such or that are not classified in any of the other categories. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

*Financial liabilities*

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost using the effective interest rate method.

*Impairment of financial assets*

The consolidated entity assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. Objective evidence includes significant financial difficulty of the issuer or obligor; a breach of contract such as default or delinquency in payments; the lender granting to a borrower concessions due to economic or legal reasons that the lender would not otherwise do; it becomes probable that the borrower will enter bankruptcy or other financial reorganisation; the disappearance of an active market for the financial asset; or observable data indicating that there is a measurable decrease in estimated future cash flows.

**Note 1: Statement of Significant Accounting Policies (cont'd)***Impairment of financial assets (cont'd)*

The amount of the impairment allowance for financial assets carried at cost is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the current market rate of return for similar financial assets.

Available-for-sale financial assets are considered impaired when there has been a significant or prolonged decline in value below initial cost. Subsequent increments in value are recognised in other comprehensive income through the available-for-sale reserve.

**Fair value**

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principle market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interest. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Assets and liabilities measured at fair value are classified, into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed each reporting date and transfers between levels are determined based on a reassessment of the lowest level input that is significant to the fair value measurement.

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

**Impairment of non-financial assets**

At each reporting date, the group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the comprehensive statement of income.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

**Note 1: Statement of Significant Accounting Policies (cont'd)****Cash and cash equivalents**

Cash and cash equivalents include cash on hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

**Trade and Other Receivables**

Trade and other receivables include amounts due from customers for goods sold and services performed in the ordinary course of business. Receivables expected to be collected within 12 months of the end of the reporting period are classified as current assets. All other receivables are classified as non-current assets. Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment.

**Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost comprises all direct materials, direct labour and an appropriate portion of variable and fixed overheads. Fixed overheads are allocated on the basis of normal operating capacity. Costs are assigned to inventories using the first-in-first-out basis. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and selling expenses.

**Trade and Other Payables**

Trade and other payables represent the liabilities for goods and services received by the entity that remain unpaid at the end of the reporting period. The balance is recognised as a current liability with the amounts normally paid within 30 days of recognition of the liability.

**Provision for restoration**

Costs of site restoration are recognised in full at present value as a non-current liability and an equivalent amount capitalised as part of the cost of the asset when an obligation arises to decommission or restore a site to a certain condition after abandonment as a result of bringing the assets to their present location. The capitalised cost is amortised over the life of the project and the provision is accredited periodically as the discounting of the liability unwinds. The unwinding of the discount is recorded as interest expense. Site restoration costs include the dismantling and removal of mining plant, equipment and building structures, waste removal and rehabilitation of the site in accordance with clauses of the mining permits. Such costs are determined using estimates of future costs, current legal requirements and technology on an undiscounted basis.

Any changes in the estimates for the costs are accounted for on a prospective basis. In determining the costs of site restoration there is uncertainty regarding the nature and extent of the restoration due to community expectations and future legislation. Accordingly the costs are determined on the basis that restoration will be completed within one year of abandoning a site.

**Borrowings**

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method. Where there is an unconditional right to defer settlement of the liability for at least 12 months after the reporting date, the loans or borrowings are classified as non-current.

**Goods and services tax (GST)**

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST. Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

**Note 1: Statement of Significant Accounting Policies (cont'd)****Revenue***Sale of gold*

Revenue from sale of gold is recognised when the significant risks and rewards of ownership have passed to the buyer and can be reliably measured. Risks are considered passed to buyer when the customer takes possession of the ore, however, revenue is not reliably measurable until that ore has been processed. Therefore revenue from the sale of ore is recognised upon processing.

*Interest income*

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

**Share-based payment transactions**

The consolidated entity provides benefits to employees (including senior executives) in the form of share-based payments, whereby employees render services in exchange for shares or rights over shares (equity settled transactions). The consolidated entity does not provide cash settled share based payments.

The cost of equity settled transactions with employees are measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by reference to the market price of the consolidated entity's shares on the Australian Stock Exchange. The cost of equity settled transactions are recognised, together with a corresponding increase in equity, over the period in which the service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the vesting period).

The cumulative expense recognised for equity settled transactions at each reporting date until vesting date reflects the extent to which the vesting period has expired, and the consolidated entity's best estimate of the number of equity instruments that will ultimately vest. The profit or loss charge or credit for a period represents the movement in cumulative expense recognised for the period.

No cumulative expense is recognised for awards that ultimately do not vest (in respect of non-market vesting conditions).

**Contributed equity**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

**Earnings per share***Basic earnings per share*

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the consolidated entity, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year.

*Diluted earnings per share*

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

**Note 1: Statement of Significant Accounting Policies (cont'd)**

**Comparative figures**

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

**Finance costs**

Finance costs are expensed in the period in which they are incurred.

**New Accounting Standards and Interpretations not yet mandatory or early adopted**

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 30 June 2016. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, are set out below.

*AASB 15 Revenue from Contracts with Customers*

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard provides a single standard for revenue recognition. The core principle of the standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard will require: contracts (either written, verbal or implied) to be identified, together with the separate performance obligations within the contract; determine the transaction price, adjusted for the time value of money excluding credit risk; allocation of the transaction price to the separate performance obligations on a basis of relative stand-alone selling price of each distinct good or service, or estimation approach if no distinct observable prices exist; and recognition of revenue when each performance obligation is satisfied. Credit risk will be presented separately as an expense rather than adjusted to revenue. For goods, the performance obligation would be satisfied when the customer obtains control of the goods. For services, the performance obligation is satisfied when the service has been provided, typically for promises to transfer services to customers. For performance obligations satisfied over time, an entity would select an appropriate measure of progress to determine how much revenue should be recognised as the performance obligation is satisfied. Contracts with customers will be presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Sufficient quantitative and qualitative disclosure is required to enable users to understand the contracts with customers; the significant judgments made in applying the guidance to those contracts; and any assets recognised from the costs to obtain or fulfil a contract with a customer. The consolidated entity will adopt this standard from 1 July 2018 but the impact of its adoption is yet to be assessed by the consolidated entity.

**Note 1: Statement of Significant Accounting Policies (cont'd)***AASB 16 Leases*

This standard is applicable to annual reporting periods beginning on or after 1 January 2019. The standard replaces AASB 117 'Leases' and for lessees will eliminate the classifications of operating leases and finance leases. Subject to exceptions, a 'right-of-use' asset will be capitalised in the statement of financial position, measured as the present value of the unavoidable future lease payments to be made over the lease term. The exceptions relate to short-term leases of 12 months or less and leases of low-value assets (such as personal computers and small office furniture) where an accounting policy choice exists whereby either a 'right-of-use' asset is recognised or lease payments are expensed to profit or loss as incurred. A liability corresponding to the capitalised lease will also be recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs. Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset (included in operating costs) and an interest expense on the recognised lease liability (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results will be improved as the operating expense is replaced by interest expense and depreciation in profit or loss under AASB 16. For classification within the statement of cash flows, the lease payments will be separated into both a principal (financing activities) and interest (either operating or financing activities) component. For lessor accounting, the standard does not substantially change how a lessor accounts for leases. The consolidated entity will adopt this standard from 1 July 2019 but the impact of its adoption is yet to be assessed by the consolidated entity.

**Note 2: Critical accounting estimates and judgments**

The Directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the group.

The critical accounting estimates and judgments are:

*Restoration provision*

A provision has been made for the present value of anticipated costs for future rehabilitation of land explored or mined. The consolidated entity's mining and exploration activities are subject to various laws and regulations governing the protection of the environment. The consolidated entity recognises management's best estimate for assets retirement obligations and site rehabilitations in the period in which they are incurred. Actual costs incurred in the future periods could differ materially from the estimates. Additionally, future changes to environmental laws and regulations, life of mine estimates and discount rates could affect the carrying amount of this provision.

*Deferred exploration and evaluation expenditure*

Exploration and evaluation costs are carried forward where right of tenure of the area of interest is current. These costs are carried forward in respect of an area that has not at statement of financial position date reached a stage that permits reasonable assessment of the existence of economically recoverable reserves, refer to the accounting policy stated in Note 1.



# KaliNorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2016

<b>Note 3: Other income</b>	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
Interest received	3,785	6,923
Refundable R&D tax offset	157,912	533,785
Profit on sale of property, plant and equipment	-	103
Other income	-	9,500
Total other income	<u>161,697</u>	<u>550,311</u>
(Loss)/Gain on sale of tenements (i)	<u>(463,207)</u>	913,460

(i) The Company completed settlement for the sale of its 100% interests in the Roe and Spargoville projects as part of its divestiture of non-core assets (2015: Settlement of the sale of the Mount Jewell project). All tenements were located within the Goldfields region of Western Australia. The (loss)/gain on sale consists of the following components;

Proceeds from sale (exclusive of GST)	40,000	1,800,000
Deferred purchase consideration - early payment discount (Note 10(ii))	-	50,000
Exploration & evaluation expenditure write-back on disposal (Note 9)	(522,323)	(1,000,000)
Rehabilitation provision write-back on disposal	19,116	63,460
Total (loss)/gain on sale of tenements	<u>(463,207)</u>	<u>913,460</u>

<b>Note 4: Expenses</b>	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
Loss before income tax consists of the following specific expenses:		
Fair value loss – extinguishment of debt (Note 11, 13(iv))	(10,355,775)	-

## Note 5: Income tax

(a) Income tax recognised

No income tax is payable by the consolidated entity for the year as a loss was recorded for income tax purposes.

(b) Numerical reconciliation between income tax expense and the loss before income tax

	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
Loss before income tax	(12,330,518)	(774,451)
Income tax benefit at 28.5% (2015: 30%)	(3,514,198)	(232,335)
Tax effect of permanent differences – Impairment	45,005	183,816
Tax effect of permanent differences – debt to equity fair value expense	3,106,733	-
Tax effect of temporary differences	474,972	(77,472)
Tax effect of deferred tax asset not recognised	<u>(112,512)</u>	<u>(125,991)</u>
Income tax expense	<u>-</u>	<u>-</u>

(c) Unrecognised deferred tax balances

Tax losses attributable to members of the tax consolidated group – revenue	80,156,769	78,063,584
Potential tax benefit at 28.5%	<u>22,844,679</u>	<u>23,419,075</u>

# KalNorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2016

## Note 5: Income tax (cont'd)

A deferred tax asset attributable to income tax losses has not been recognised at reporting date as the probability criteria disclosed in Note 1 (Income Tax) is not satisfied and such benefit will only be available if the conditions of deductibility also disclosed in Note 1 (Income Tax) are satisfied.

For the purposes of taxation, KalNorth Gold Mines Limited and its 100% owned Australian subsidiary are a tax consolidated group. The head entity of the tax consolidated group is KalNorth Gold Mines Limited. The group has not entered into a tax sharing agreement.

## Note 6: Trade and other receivables

	2016	2015
	\$	\$
<b>Current</b>		
Trade receivables – gold stockpile sales (i)	137,732	-
GST receivable	6,649	15,993
R&D receivable	157,912	-
	<u>302,293</u>	<u>15,993</u>

(i) Trade receivables are non-interest bearing and have payment terms between 30 – 90 days.

## Note 7: Other assets

	2016	2015
	\$	\$
<b>Current</b>		
Credit card facility - security deposit	<u>7,500</u>	<u>7,500</u>
Total other assets	<u>7,500</u>	<u>7,500</u>

## KaiNorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2016

<b>Note 8: Property, plant and equipment</b>	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
Plant and equipment		
At cost	<b>386,121</b>	381,136
Accumulated depreciation	<b>(351,975)</b>	(330,897)
	<b>34,146</b>	50,239
Motor vehicles		
At cost	<b>113,887</b>	113,887
Accumulated depreciation	<b>(113,887)</b>	(102,283)
	<b>-</b>	11,604
IT Assets		
At cost	<b>305,072</b>	302,008
Accumulated depreciation	<b>(302,087)</b>	(283,990)
	<b>2,985</b>	18,018
Land and buildings		
At cost	<b>380,866</b>	380,866
Accumulated depreciation	<b>(79,807)</b>	(70,807)
	<b>301,059</b>	310,059
 Total written down value	 <b>338,190</b>	 389,920

### (a) Movements in carrying amounts

	<b>Land &amp; Buildings</b>	<b>Plant &amp; Equipment</b>	<b>Motor Vehicles</b>	<b>IT Assets</b>	<b>Total</b>
Balance at 1 July 2014	319,059	76,050	30,626	79,098	504,833
Depreciation expense	(9,000)	(25,811)	(19,022)	(61,080)	(114,913)
<b>Balance at 30 June 2015</b>	<b>310,059</b>	<b>50,239</b>	<b>11,604</b>	<b>18,018</b>	<b>389,920</b>
Additions	-	4,985	-	3,063	8,048
Depreciation expense	(9,000)	(21,078)	(11,604)	(18,096)	(59,778)
<b>Balance at 30 June 2016</b>	<b>301,059</b>	<b>34,146</b>	<b>-</b>	<b>2,985</b>	<b>338,190</b>

<b>Note 9: Exploration and evaluation expenditure</b>	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
Cost	<b>6,999,901</b>	7,147,846
<i>Reconciliation</i>		
Balance at beginning of year	<b>7,147,846</b>	8,035,398
Exploration expenditure incurred	<b>1,098,112</b>	794,899
Exploration expenditure immediately expensed (i)	<b>(1,098,112)</b>	(794,899)
Disposal of tenements (ii)	<b>(522,323)</b>	(1,000,000)
Additional allowance for rehabilitation	<b>374,378</b>	112,448
Balance at end of year	<b>6,999,901</b>	7,147,846

- (i) During the year the company incurred exploration expenditure costs which were immediately expensed as their recoverability was uncertain.
- (ii) The Roe and Spargoville projects were divested during the year (2015: Mt Jewell Project). (Note 3 (i)).

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.

# KaiNorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2016

<b>Note 10: Trade and other payables</b>	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
<b>Current</b>		
Trade payables (i)	188,069	67,997
Sundry payables and accrued expenses (i)	100,270	54,788
	<b>288,339</b>	<b>122,785</b>

(i) There are no amounts included within these balances that are not expected to be settled within the next 12 months. The average credit terms for services received by the Group are 30 days from invoice date and are non-interest bearing.

<b>Note 11: Interest bearing liabilities</b>	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
<b>Current</b>		
Secured loans (ii)	-	3,500,000
Unsecured loans (ii)	17,000	700,000
Convertible notes (iv)	-	350,000
Convertible notes – Cross Straits (iii)	284,577	-
Interest payable on secured loans (i)(ii)	-	173,562
Interest payable on unsecured loans (i)(ii)	-	34,712
Interest payable on convertible notes (i)(iv)	-	6,283
Interest payable on Cross Straits convertible notes (i)(iii)	18,477	-
	<b>320,054</b>	<b>4,764,557</b>
Total interest bearing liabilities		

(i) *The interest payable movement for the year is as follows:*

Balance at beginning of year	214,557	691,788
Interest expense	312,474	563,765
Interest expense – Present value convertible note	(11,617)	-
Interest – equity settled on 24 February 2016 (iv)	(352,511)	-
Interest – equity settled on 26 November 2015 (iv)	(16,156)	-
Interest – equity settled on 11 March 2015	-	(667,073)
Interest – equity settled on 2 September 2014	-	(358,420)
Interest paid for the year	(56,316)	(13,325)
Interest 10% withholding on the convertible note	(71,954)	(2,178)
Balance at end of year	<b>18,477</b>	<b>214,557</b>

(ii) *Secured and unsecured loans*

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

Regulatory approval was obtained on 23 February 2016 and on 24 February 2016, debts totalling \$4,502,510 was settled via the issue of 450,251,000 ordinary fully paid shares as follows;

- 415,000,000 ordinary fully paid shares to settle \$4,150,000 in loans principal; and
- 32,251,100 ordinary fully paid shares to settle \$352,511 in accrued interest.

On 1 April 2016, the Company repaid the remaining \$50,000 in loan principal and \$56,316 in accrued interest.

# KalNorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2016

## Note 11: Interest bearing liabilities (cont'd)

### (iii) Convertible notes – Cross Straits

On 15 September 2015, a convertible note facility agreement was entered into with (at the time) the Company's largest shareholder, Cross-Strait. Under the terms of the facility, the Company will be able to draw down up to \$2 million. The facility has a maturity date of 30 April 2017.

On 25 November 2015, the facility was approved by shareholders at the Annual General Meeting Cross-Strait has 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. On 23 February 2016, regulatory approval was received and the Company issued 30 convertible notes (with a face value of \$10,000 each).

Summary of Cross Straits convertible note is as follows:

	2016 \$	2015 \$
Convertible notes – face value	300,000	-
Amount classified as equity (Note 13)	(27,040)	-
Unwinding of interest	11,617	-
Carrying amount at the end of the year	284,577	-

As at the balance date, the company had \$1,700,000 undrawn convertible note facility available. On 26 July 2016, the company has drawn down a further \$700,000 via the issue of an additional 70 convertible notes (with a face value of \$10,000 each) under the facility. (note 25 – Subsequent Events).

### (iv) Convertible notes

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 25 November 2015 the Company completed the issue 1,615,562 ordinary fully paid shares in settlement of \$16,156 in accrued interest up to the date of conversion.

## Note 12: Restoration provision

	2016 \$	2015 \$
<b>Non-current</b>		
Restoration provision (i) (ii)	1,503,620	1,148,358

(i) The provision movement for the year is as follows:

	2016 \$	2015 \$
Carrying amount at the start of the year	1,148,358	1,099,370
Sale of tenements	(19,116)	(63,460)
Additional provisions recognised	374,378	112,448
Carrying amount at the end of the year	1,503,620	1,148,358

(ii) Costs of site restoration are recognised in full at present value as a non-current liability and an equivalent amount capitalised as part of the cost of the asset when an obligation arises to decommission or restore a site to a certain condition after abandonment as a result of bringing the assets to their present location.

# KalNorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2016

<b>Note 13: Contributed equity</b>	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
894,240,060 fully paid ordinary shares (2015: 315,966,034)	<b>92,388,017</b>	76,251,722
<b>Movements in ordinary shares on issue for the year:</b>	<b>No. of</b>	<b>Paid up</b>
	<b>shares</b>	<b>capital</b>
		<b>\$</b>
Balance 1 July 2015	315,966,034	76,251,722
Placement from an entitlement offer (i)	29,532,064	295,320
Placement of shortfall shares from an entitlement offer (i)	60,000,000	600,000
Shares issued in settlement of director fees, approved at 2015 Annual General Meeting (iii)	2,375,300	23,753
Shares issued on conversion of convertible note and accrued interest (ii)	36,615,562	366,156
Cancellation of shares – previously issued under the employee share scheme	(500,000)	-
Shares issued in settlement of secured and unsecured loans and accrued interest (iv)	450,251,100	14,858,287
Equity portion on convertible note issued during year (v)	-	27,040
Share issue costs for the period	-	(34,261)
<b>Balance 30 June 2016</b>	<b>894,240,060</b>	<b>92,388,017</b>

- (i) On 19 October 2015, the company issued 29,532,064 ordinary fully paid shares (at an issue price of 1.00 cent each) on completion of its 1 for entitlement offer and on 25 November 2016 completed a placement of 60,000,000 ordinary fully paid shares (representing part of the shortfall shares available from the entitlement offer).
- (ii) On 20 November 2015, the company issued 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, and on 25 November 2015, a further issue of 1,615,562 ordinary fully paid shares in settlement of accrued interest up to the date of conversion, and as completed the issue 1,615,562 ordinary fully paid shares in settlement of \$16,156 in accrued interest up to the date of conversion.
- (iii) On 25 November 2015, the company issued 2,375,300 ordinary fully paid shares in lieu of director fees, as approved by shareholders at the Company's 2015 Annual General Meeting.
- (iv) On 24 February 2016, after receiving shareholder approval (25 November 2016 - 2015 Annual General Meeting) and regulatory approval (23 February 2016), the Company issued 450,251,100 ordinary fully paid shares in settlement of \$4.15M in loans principal and \$352,511 in accrued interest.

The cost of equity was recorded at fair value, and using the closing share price of 3.3 cents as at 23 February 2016. Accordingly, the company recognised \$14,858,287 as the fair value of equity to settle the principal and accrued interest of \$4,502,510 with the difference between the carrying amount of the financial liability extinguished, and the consideration paid being \$10,355,775 recognised as a loss.

It should be noted that at the time of obtaining shareholder approval the closing share price was 1.2 cents, and in the intervening period from obtaining shareholder to regulatory approval, 1.585 million shares traded in a range of 0.9 cents and 3.3 cents.

- (v) This balance represents the equity component of convertible notes (Note 11 (iii)) issued by the Company on 24 February 2016.

### **Ordinary shares**

Ordinary shares have the right to receive dividends as declared and, in the event of winding up of the consolidated entity, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held.

# KalNorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2016

## Note 13: Contributed Equity (cont'd)

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

### *Share buy-back*

There is no current on-market share buy-back.

### *Capital risk management*

The consolidated entity's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the consolidated entity may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The consolidated entity would look to raise capital when an opportunity to invest in a business or company was seen as value adding relative to the current company's share price at the time of the investment. The consolidated entity is not actively pursuing additional investments in the short term as it continues to integrate and grow its existing businesses in order to maximise synergies.

The consolidated entity is subject to certain financing arrangements covenants and meeting these is given priority in all capital risk management decisions. There have been no events of default on the financing arrangements during the financial year.

## Note 14: Key management personnel compensation

Refer to the Remuneration Report contained in the Directors' Report for details of the remuneration paid to each member of the consolidated entity's key management personnel for the year ended 30 June 2016.

The totals of remuneration paid to key management personnel of the consolidated entity during the year are as follows:

	2016 \$	2015 \$
Short-term employee benefits	313,480	368,100
Termination benefits	23,076	-
Post-employment benefits	26,770	35,088
	<u>363,326</u>	<u>403,188</u>

## Note 15: Related party transactions

All transactions were made on normal commercial terms and conditions and at market rates.

### *Transactions:*

During the financial year, other than remuneration paid or payable to key management personnel, the Company had no other related party transactions (2015: no related party transactions).

The following balances are outstanding at the reporting date in relation to transactions with related parties:

	2016 \$	2015 \$
Trade and other payable	34,167	-

### *Loans to/from related parties*

There were no loans to or from related parties at the current and previous reporting date.

# KalNorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2016

<b>Note 16: Loss per share</b>	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
a) Basic loss per share		
Loss after income tax	<u>(12,330,518)</u>	<u>(774,451)</u>
Weighted average number of ordinary shares on issue during the year used as the denominator in calculating basic loss per share	<u>551,825,166</u>	<u>281,026,497</u>

Diluted loss per share is the same as basic loss per share as there are no securities to be classified as dilutive potential ordinary shares on issue.

<b>Note 17: Auditor's remuneration</b>	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
Remuneration of the auditor for:		
- audit and review of financial reports- RSM Australia Partners	<b>35,000</b>	33,800
- taxation services – RSM Australia Pty Ltd	<b>5,000</b>	9,000
- other taxation services – R&D tax credit assistance- RSM Australia Pty Ltd	-	48,659
	<u>40,000</u>	<u>91,459</u>

<b>Note 18: Cash flow information</b>	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
a) Reconciliation of the net loss after income tax to the net cash flows from operating activities:		
Net loss for the year	<b>(12,330,518)</b>	<b>(774,451)</b>
<i>Non-cash items included in net loss:</i>		
Depreciation expense	<b>59,778</b>	114,913
Exploration expenses	<b>1,098,112</b>	794,899
Loss/(gain) on sale of tenements	<b>463,207</b>	(913,460)
Debt to equity – fair value loss	<b>10,355,775</b>	-
Share based settled expenses	<b>23,753</b>	-
Share based settled interest expense	<b>256,158</b>	548,261
<i>Changes in assets and liabilities:</i>		
Decrease in trade and other receivables	<b>(286,300)</b>	16,509
Decrease in other assets	-	27,050
Decrease in trade and other creditors	<b>(3,936)</b>	<b>(21,636)</b>
Net cash outflow from operating activities	<u><b>(363,971)</b></u>	<u><b>(207,915)</b></u>
b) Reconciliation of cash		
Cash balance comprises:		
- Cash at bank and on hand	<u><b>34,105</b></u>	<u>238,640</u>

c) Non-Cash Financing and Investing Activities

As disclosed in Note 13, the Company issued 486,866,662 ordinary fully paid shares during the year to settle aggregate outstanding loan principal and accrued interest expenses of \$4,868,667.

In prior year, the Company issued 77,019,338 shares during the year to settle outstanding interest expense of \$1,025,493.



# KalNorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2016

## Note 19: Commitments

### (i) Mining tenements

The consolidated entity has certain commitments to meet minimum expenditure requirements on the mineral exploration assets in which it has an interest. The current annual minimum lease expenditure commitments on these tenements which covers the Lindsays, Kurnalpi and Kalpini projects is \$771,720 (2015: \$791,520).

If the consolidated entity decides to relinquish certain leases and/or does not meet these obligations, assets recognised in the balance sheet may require review to determine the appropriateness of carrying values. The sale, transfer, or farm-out of exploration rights to third parties will reduce or extinguish these obligations.

	2016 \$	2015 \$
(b) Non-cancellable operating lease commitments		
- Not later than 12 months	-	8,004
- Between 12 months and 5 years	-	-
- Greater than 5 years	-	-
	-	8,004

In 2015, the consolidated entity had an operating lease for a hand held data analyser at a rental of \$1,334 per month, which expired on 31 December 2015.

Note 20: Controlled entities	Country of Incorporation	Percentage Owned (%)	
		2016	2015
Subsidiaries of KalNorth Gold Mines Limited:			
Shannon Resources Pty Ltd (dormant)	Australia	100	100
Lusitan Prospecting Pty Ltd (dormant)	Australia	100	100

Shannon Resources Pty Ltd and Lusitan Prospecting Pty Limited are the registered owners of various tenements. The parent entity owns 100% of both entities. There was no income earned and no expenses incurred by these entities for the year end 30 June 2016 (2015: nil).

# KaiNorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2016

## Note 21: Segment information

### Identification of reportable operating segments

The consolidated entity is organised into two operating segments: mine development and mineral exploration, both within Australia. During the year ended 30 June 2016, the consolidated entity's external revenue was derived solely from the sale of certain gold stockpiles and/or its share of prospector gold.

<b>30 June 2016</b>	<b>Mine development</b>	<b>Mineral Exploration</b>	<b>Admin</b>	<b>Total consolidated group</b>
<b>Revenue</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Sales to external customers	1,444,329	-	-	1,444,329
Other revenue	-	-	120,752	120,751
<b>Total revenue</b>	<b>1,444,329</b>	<b>-</b>	<b>120,752</b>	<b>1,565,080</b>
<b>EBITDA</b>	<b>415,656</b>	<b>(1,098,112)</b>	<b>(618,524)</b>	<b>(1,300,980)</b>
Interest revenue	-	-	3,785	<b>3,785</b>
Refundable R&D tax offset	-	157,912	-	<b>157,912</b>
Depreciation and amortisation	-	(11,604)	(48,174)	<b>(59,778)</b>
Loss on sale of tenements	-	(463,207)	-	<b>(463,207)</b>
Debt to equity – fair value loss	-	-	(10,355,775)	<b>(10,355,775)</b>
Finance costs	-	-	(312,475)	<b>(312,475)</b>
<b>Loss before income tax</b>	<b>415,656</b>	<b>(1,415,011)</b>	<b>(11,331,163)</b>	<b>(12,330,518)</b>
Income tax benefit	-	-	-	-
<b>Loss after income tax</b>	<b>415,656</b>	<b>(1,415,011)</b>	<b>(11,331,163)</b>	<b>(12,330,518)</b>
<b>30 June 2016</b>				
<b>Assets</b>				
<i>Segment assets</i>				
Exploration assets	-	6,999,901	-	<b>6,999,901</b>
Property, plant and equipment	-	-	338,190	<b>338,190</b>
<i>Unallocated assets:</i>				
Cash and cash equivalents	-	-	34,104	<b>34,104</b>
Other current assets	-	-	309,794	<b>309,794</b>
<b>Total assets</b>	<b>-</b>	<b>6,999,901</b>	<b>682,088</b>	<b>7,681,989</b>
<b>Liabilities</b>				
<i>Segment liabilities</i>				
Trade and other payables	-	-	(288,339)	<b>(288,339)</b>
Restoration provision	(1,143,530)	(360,090)	-	<b>(1,503,620)</b>
<i>Unallocated liabilities:</i>				
Interest-bearing liabilities	-	-	(320,054)	<b>(320,054)</b>
<b>Total liabilities</b>	<b>(1,143,530)</b>	<b>(360,090)</b>	<b>(608,393)</b>	<b>(2,112,013)</b>

# KaiNorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2016

## Note 21: Segment information (cont'd)

<b>30 June 2015</b>	<b>Mine development</b>	<b>Mineral Exploration</b>	<b>Admin</b>	<b>Total consolidated group</b>
<b>Revenue</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Sales to external customers	-	-	9,265	9,265
Other revenue	-	-	1,456,848	1,456,848
<b>Total revenue</b>	<b>-</b>	<b>-</b>	<b>1,466,113</b>	<b>1,466,113</b>
<b>EBITDA</b>	<b>-</b>	<b>-</b>	<b>(102,696)</b>	<b>(102,696)</b>
Depreciation and amortisation	-	(19,021)	(95,892)	<b>(114,913)</b>
Impairment expense	-	-	-	-
Interest revenue	-	-	6,923	<b>6,923</b>
Finance costs	-	-	(563,765)	<b>(563,765)</b>
<b>Loss before income tax</b>	<b>-</b>	<b>(19,021)</b>	<b>(755,430)</b>	<b>(774,451)</b>
Income tax benefit	-	-	-	-
<b>Loss after income tax</b>	<b>-</b>	<b>(19,021)</b>	<b>(755,430)</b>	<b>(774,451)</b>
<b>30 June 2015</b>				
<b>Assets</b>				
<i>Segment assets</i>				
Exploration assets	-	7,147,846	-	<b>7,147,846</b>
Property, plant and equipment	-	11,603	378,317	<b>389,920</b>
<i>Unallocated assets:</i>				
Cash and cash equivalents	-	-	238,640	<b>238,640</b>
Other current assets	-	-	23,493	<b>23,493</b>
<b>Total assets</b>	<b>-</b>	<b>7,159,449</b>	<b>640,450</b>	<b>7,799,899</b>
<b>Liabilities</b>				
<i>Segment liabilities</i>				
Trade and other payables	-	-	(122,785)	<b>(122,785)</b>
Restoration provision	(1,083,622)	(64,736)	-	<b>(1,148,358)</b>
<i>Unallocated liabilities:</i>				
Interest-bearing liabilities	-	-	(4,764,557)	<b>(4,764,557)</b>
<b>Total liabilities</b>	<b>(1,083,622)</b>	<b>(64,736)</b>	<b>(4,887,342)</b>	<b>(6,035,700)</b>

# KaiNorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2016

## Note 22: Financial risk management objectives and policies

The Consolidated entity's principal financial instruments comprise cash and short-term deposits.

The main purpose of these financial instruments is to finance the consolidated entity's operations. The Consolidated entity has various other financial assets and liabilities such as receivables and payables, which arise directly from its operations.

The main risks arising from the consolidated entity's financial instruments are interest rate risks, commodity price risks, and, indirectly, foreign exchange risk. Other minor risks have been summarised below. The Board reviews and agrees on policies for managing each of these risks.

### (a) Interest rate risk

The Consolidated entity's exposure to market interest rate relates primarily to the consolidated entity's cash and short-term deposits. All other financial assets in the form of receivables and payables are non-interest bearing. The Consolidated entity does not engage in any hedging or derivative transactions to manage interest rate risk.

The following tables set out the carrying amount by maturity of the consolidated entity's exposure to interest rate risk and the effective weighted interest rate for each class of these financial instruments

	Weighted average interest Rate %	Floating interest rate \$	Fixed interest maturing 1 year or less \$	Fixed interest maturing 1 to 5 years \$
<b>30 June 2016</b>				
Cash at bank	1.14%	34,105	-	-
<b>Total assets</b>				
Interest bearing liabilities	8%	-	(300,000)	-
<b>Total liabilities</b>		-	<b>(300,000)</b>	-

	Weighted average interest Rate %	Floating interest rate \$	Fixed interest maturing 1 year or less \$	Fixed interest maturing 1 to 5 years \$
<b>30 June 2015</b>				
Cash at bank	1.97%	238,640	-	-
<b>Total assets</b>				
Interest bearing liabilities	10%	-	(734,712)	-
Interest bearing liabilities	10%	-	(3,673,563)	-
Interest bearing liabilities	8%	-	(356,282)	-
<b>Total liabilities</b>		-	<b>(4,764,557)</b>	-

### *Interest rate sensitivity analysis – cash at bank*

At 30 June 2016, if interest rates had changed by 1% during the entire year with all other variables held constant, profit for the year and equity would have been \$3,332 higher/lower (2015: \$3,507), mainly as a result of higher/lower interest income from cash and cash equivalents.

### (b) Credit risk

The maximum exposure to credit risk at reporting date on financial assets of the consolidated entity is the carrying amount, net of any provisions for doubtful debts, as disclosed in the statement of financial position and notes to the financial statements.

## KaiNorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2016

### Note 22: Financial risk management objectives and policies (cont'd)

(c) Liquidity risk

The consolidated entity manages liquidity risk by monitoring forecast cash flows and ensuring that adequate unutilised borrowing facilities are maintained.

The table below analyses the entity's financial liabilities into relevant maturity groupings based on the remaining period from the statement of financial position date to the contractual maturity date. As the amounts disclosed in the table are the contractual undiscounted cash flows, these balances will not necessarily agree with the amounts disclosed in the statement of financial position.

	Less than 6 months \$	6 months to 1 year \$	1 to 5 years \$	Total \$
<b>30 June 2016</b>				
<b>Financial liabilities due for payment</b>				
Trade and other payables	(288,339)	-	-	(288,339)
Interest bearing liabilities	-	(320,054)	-	(320,054)
	<b>(288,339)</b>	<b>(320,054)</b>	-	<b>(608,393)</b>
<b>Financial assets – cash flows realisable</b>				
Cash assets	34,105	-	-	34,105
Trade and other receivables	302,293	7,500	-	309,793
	<b>336,398</b>	<b>7,500</b>	-	<b>343,898</b>
<b>Net (outflow)/inflow from financial instruments</b>	<b>48,059</b>	<b>(312,554)</b>	-	<b>(264,495)</b>

	Less than 6 months \$	6 months to 1 year \$	1 to 5 years \$	Total \$
<b>30 June 2015</b>				
<b>Financial liabilities due for payment</b>				
Trade and other payables	(122,785)	-	-	(122,785)
Interest bearing liabilities	-	(4,764,557)	-	(4,764,557)
	<b>(122,785)</b>	<b>(4,764,557)</b>	-	<b>(4,887,342)</b>
<b>Financial assets – cash flows realisable</b>				
Cash assets	238,640	-	-	238,640
Trade and other receivables	15,993	7,500	-	23,493
	<b>254,633</b>	<b>7,500</b>	-	<b>262,133</b>
<b>Net (outflow)/inflow from financial instruments</b>	<b>131,848</b>	<b>(4,757,057)</b>	-	<b>(4,625,209)</b>

(d) Foreign exchange risk

The Consolidated entity sold its ore in Australian Dollars (AUD) and costs of production are denominated in Australian Dollars (AUD). However, the AUD gold price is set with reference to the USD price. A rapidly weakening US dollar exposes the consolidated entity to the downside risks related to movement in the AUD/USD exchange rate. The Consolidated entity's current policy is for the all of gold production to be exposed to foreign exchange risk. As production ceased during the prior year and all gold inventories were sold, there is no current intention to enter into any currency hedging contracts and none are outstanding at year end. There were no financial instruments with a foreign currency exposure at the reporting date or at the end of the preceding financial year.

**Note 22: Financial risk management objectives and policies (cont'd)**

- (e) Net fair value of financial assets and liabilities

The carrying amounts of financial instruments included in the statement of financial position approximate their fair values due to their short terms of maturity.

**Note 23: Contingent liabilities and contingent assets**

There are no contingent liabilities or assets at reporting date.

**Note 24: Parent Information**

As referred to in Note 20, the consolidated entity comprises KalNorth Gold Mines Limited, the parent entity and two wholly-owned subsidiaries. The Parent entity disclosures are not materially different to the consolidated entity's disclosures in the Statement of Financial Position and the Statement of Profit or Loss and Other Comprehensive Income. In addition, there are:

- a) no guarantees entered into by the parent entity in relation to the debts of its subsidiaries.
- b) no contingent liabilities of the parent entity as at the reporting date.
- c) no contractual commitments by the parent entity for the acquisition of property, plant and equipment as at the reporting date.

**Note 25: Events subsequent to reporting date**

Since the reporting date and to the date of this report no matter or circumstance has arisen which has significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations or the state of affairs of the consolidated entity in subsequent financial years other than the matters referred to below.

- (b) On 26 July 2016, the company has drawn down a further \$700,000 via the issue of an additional 70 convertible notes (with a face value of \$10,000 each) under the facility. There remains a further \$1 Million available to draw down under the facility on or before 31 December 2016.

**DIRECTORS' DECLARATION**

The directors of the company declare that, in the opinion of the directors:

- (a) the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including
    - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and its performance for the year ended on that date; and
    - (ii) complying with Australian Accounting Standards, including the Interpretations, and the Corporations Regulations 2001;
  - (b) the financial statements and notes thereto also comply with International Financial Reporting Standards, as disclosed in Note 1; and
  - (c) the directors have been given the declarations required by s295A of the Corporations Act 2001
  - (d) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable;
- Signed in accordance with a resolution of the directors made pursuant to s295(5) of the Corporations Act 2001.

On behalf of the Directors:



---

Lijun Yang  
Executive Director

Dated at Perth this 28 September 2016



**RSM Australia Partners**

8 St Georges Terrace Perth WA 6000

GPO Box R1253 Perth WA 6844

T +61 (0) 8 92619100

F +61 (0) 8 92619111

[www.rsm.com.au](http://www.rsm.com.au)

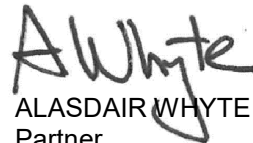
**AUDITOR'S INDEPENDENCE DECLARATION**

As lead auditor for the audit of the financial report of KalNorth Gold Mines Limited for the year ended 30 June 2016, 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 audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

RSM

RSM AUSTRALIA PARTNERS

  
ALASDAIR WHYTE  
Partner

Perth, WA

Dated: 28 September 2016

**THE POWER OF BEING UNDERSTOOD**

AUDIT | TAX | CONSULTING

RSM Australia Partners is a member of the RSM network and trades as RSM. RSM is the trading name used by the members of the RSM network. Each member of the RSM network is an independent accounting and consulting firm which practices in its own right. The RSM network is not itself a separate legal entity in any jurisdiction.

RSM Australia Partners ABN 36 965 185 036

Liability limited by a scheme approved under Professional Standards Legislation





**RSM Australia Partners**

8 St Georges Terrace Perth WA 6000  
GPO Box R1253 Perth WA 6844

T +61 (0) 8 9261 9100  
F +61 (0) 8 9261 9111

[www.rsm.com.au](http://www.rsm.com.au)

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

**Report on the Financial Report**

We have audited the accompanying financial report of KalNorth Gold Mines Limited, which comprises the statement of financial position as at 30 June 2016, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, 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 year's end or from time to time during the financial year.

*Directors' Responsibility for the Financial Report*

The directors of the company are responsible for the preparation of the 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 financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

*Auditor's Responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

**THE POWER OF BEING UNDERSTOOD**  
AUDIT | TAX | CONSULTING

RSM Australia Partners is a member of the RSM network and trades as RSM. RSM is the trading name used by the members of the RSM network. Each member of the RSM network is an independent accounting and consulting firm which practices in its own right. The RSM network is not itself a separate legal entity in any jurisdiction.

RSM Australia Partners ABN 36 965 185 036

Liability limited by a scheme approved under Professional Standards Legislation

### *Independence*

In conducting our audit, 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 report.

### *Opinion*

In our opinion:

- (a) the financial report of KalNorth Gold Mines Limited is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

### *Emphasis of Matter*

Without qualifying our opinion, we draw attention to Note 1 in the financial report, which indicates that the consolidated entity incurred a loss of \$12,330,518 and had net cash outflows from operating and investing activities respectively of \$363,971 and \$968,624, during the year ended 30 June 2016. As at that date the consolidated entity had net current liabilities of \$264,495.

These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty which 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.

### **Report on the Remuneration Report**

We have audited the Remuneration Report contained within the directors' report for the year ended 30 June 2016. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

### *Opinion*

In our opinion the Remuneration Report of KalNorth Gold Mines Limited for the year ended 30 June 2016 complies with section 300A of the *Corporations Act 2001*.

RSM  
RSM AUSTRALIA PARTNERS

A handwritten signature in black ink that reads "A Whyte".  
ALASDAIR WHYTE  
Partner

Perth, WA  
Dated: 28 September 2016

**KalNorth Gold Mines Limited and Controlled Entities**  
**For the year ended 30 June 2016**  
**Corporate Governance**

The Board of Directors of KalNorth Gold Mines Limited is responsible for the corporate governance of the Company. The Board guides and monitors the business and affairs of KalNorth Gold Mines Limited on behalf of the shareholders by whom they are elected and to whom they are accountable. The Company's governance approach aims to achieve exploration, development and financial success while meeting stakeholders' expectations of sound corporate governance practices by proactively determining and adopting the most appropriate corporate governance arrangements.

ASX Listing Rule 4.10.3 requires listed companies to disclose in their Annual Report the extent to which they have complied with the ASX Best Practice Recommendations of the ASX Corporate Governance Council ("CGC") in the reporting period. A description of the Company's main corporate governance practices is set out below. The Corporate Governance Statement is current as at 30 June 2016, and has been approved by the Board of Directors. All these practices, unless otherwise stated, were in place for the entire year. They comply with the ASX Corporate Governance Principles and Recommendations (3rd edition).

The Company's directors are fully cognisant of the Corporate Governance Principles and Recommendations published by CGC and have adopted those recommendations where they are appropriate to the Company's circumstances. However, a number of those principles and recommendations are directed towards listed companies considerably larger than KalNorth Gold Mines Limited, whose circumstances and requirements accordingly differ markedly from the Company's. For example, the nature of the Company's operations and the size of its staff mean that a number of the board committees and other governance structures recommended by the CGC are not only unnecessary in the Company's case, but the effort and expense required to establish and maintain them would, in the directors' view, be an unjustified diversion of shareholders' funds.

As the Company's activities develop in size, nature and scope, the size of the Board and the implementation of additional corporate governance structures will be given further consideration.

The Company's website at [www.kalnorthgoldmines.com](http://www.kalnorthgoldmines.com) contains a corporate governance section that includes copies of the Company's corporate governance policies.

### **Principle 1: Lay solid foundations for management and oversight**

#### **Recommendation 1.1:**

*Companies should disclose the respective roles and responsibilities of its board and management and those matters expressly reserved to the Board and those delegated to management and disclose those functions.*

The Board's role is to govern the Company rather than to manage it. In governing the Company, the Directors must act in the best interests of the Company as a whole. It is the role of the senior management to manage the Company in accordance with the direction and delegations of the Board and the responsibility of the Board to oversee the activities of management in carrying out these delegated duties.

The Board is responsible for:

- overseeing the Company's commitment to the health and safety of employees and contractors, the environment and sustainable development;
- overseeing the activities of the Company, including its control and accountability systems;
- appointing and removing the Managing Director, Company Secretary, and other senior executives, evaluating their performance, reviewing their remuneration and ensuring an appropriate succession plan;
- setting the strategic objectives of the Company and monitoring its progress against those objectives;
- reviewing, ratifying and monitoring systems of risk management and internal control;
- setting the operational and financial objectives and goals for the Company;
- ensuring that there are effective corporate governance policies and practices in place
- approving and monitoring budgets, capital management and acquisitions and divestments;
- approving and monitoring all financial reporting to the market;
- appointing external auditors and principal professional advisors; and
- making formal determinations required by the Company's constitutional documents or by law or other external regulation.

The Managing Director (MD) is normally responsible for running the affairs of the Company under delegated authority from the Board and to implement the policies and strategy set by the Board. In carrying out those

### **Statement of Corporate Governance Practices (cont'd)**

responsibilities, the Managing Director must report to the Board in a timely manner and ensure all reports to the Board present a true and fair view of the Company's financial condition and operational results. Given the present size and scale of operations, the Company does not have a Managing Director but rather an Executive Director supported by a small management team. Consequently, the Board as a whole takes a closer interest in the day to day affairs of the Company.

#### **Recommendation 1.2:**

*Companies should undertake appropriate checks before appointing a person, or putting forward to security holders a candidate for election, as a director and provide security holders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a director.*

The Company undertakes checks on any person who is being considered as a director. These checks may include character, experience, education and financial history and background.

All security holder releases will contain material information about any candidate to enable an informed decision to be made on whether or not to elect or re-elect a director.

#### **Recommendation 1.3:**

*Companies should have a written agreement with each director and senior executive setting out the terms of their appointment.*

All directors have in place a formal letter of appointment including a director's interest agreement with respect to disclosure of security interests.

#### **Recommendation 1.4:**

*The Company Secretary should be accountable directly to the Board, through the chair, on all matters to do with the proper functioning of the Board.*

The Company Secretary has a direct reporting line to the Board, through the Chair. In view of the Company's size and activity level, the Executive Director is also the Company Secretary.

#### **Recommendation 1.5:**

*The Company should establish a policy concerning diversity and disclose the policy or summary of the policy. The policy should include requirements for the Board to establish measurable objectives for achieving gender diversity and for the Board to assess annually both the objectives and progress in achieving them.*

The Company recognises that a talented and diverse workforce is a key competitive advantage. The Company is committed to developing a workplace that promotes diversity. The Company's policy is to recruit and manage on the basis of competence and performance regardless of age, nationality, race, gender, religious beliefs, sexuality, physical ability or cultural background. The Company has not yet formalised this policy into a written document. It is the Board's intention to formalise the policy at a time when the size of the Company and its activities warrants such a structure.

The Company has 6 staff (comprising the three directors and one project geologist, one female part-time bookkeeper and one female exploration technical assistant), - There are no women in senior executive positions or on the Board.

#### **Recommendation 1.6:**

*The Company should have and disclose a process for periodically evaluating the performance of the Board, its committees and individual directors and whether a performance evaluation was undertaken in the reporting period in accordance with that process.*

Due to the size of the Board and the nature of its business, it has not been deemed necessary to institute a formal documented performance review program of individuals. The Chairman conducted an informal review during the financial year whereby the performance of the Board as a whole and the individual contributions of each director were discussed. The Board considers that at this stage of the Company's development an informal process is appropriate.

**KalNorth Gold Mines Limited and Controlled Entities**  
**For the year ended 30 June 2016**  
**Corporate Governance**

**Statement of Corporate Governance Practices (cont'd)**

**Recommendation 1.7:**

*The Company should have and disclose a process for periodically evaluating the performance of senior executives and whether a performance evaluation was undertaken in the reporting period in accordance with that process.*

The Board undertakes a review of the senior executives' performance annually, including setting the goals for the coming year and reviewing the achievement of these goals.

Performance has been measured to date by the efficiency and effectiveness of the enhancement of the Company's mineral interest portfolio, the designing and implementation of the exploration and development programme and the securing of ongoing funding so as to continue its exploration and development activities. This performance evaluation is not based on specific financial indicators such as earnings or dividends as the Company is at the exploration stage and during this period is expected to incur operating losses.

Due to the size of the Company and the nature of its business, it has not been deemed necessary to institute a formal documented performance review program of senior executives. The Non-executive directors conducted an informal review process whereby they discussed with the Executive Director the approach toward meeting the short and long term objectives of the Company. The Board considers that at this stage of the Company's development an informal process is appropriate.

**Principle 2: Structure the board to add value**

**Recommendation 2.1:**

*The Board should establish a Nomination Committee comprising a majority of independent directors (including the Chair).*

The Company established a nomination committee comprising the two non-executive directors, including the Chairman but no separate meetings of this committee were held in the reporting year. The Board considers that the Company is not currently of a size, nor are its affairs of such complexity, to justify separate committee meetings at this time. The Board as a whole is able to address the governance aspects of the full scope of the Company's activities and to ensure that it adheres to appropriate ethical standards. In particular, the full Board considers those matters that would usually be the responsibility of a nomination committee. However, the Board considers that no efficiencies or other benefits would be gained by having separate nomination committee meetings.

Directors are appointed under the terms of the Company's constitution. Appointments to the Board are based upon merit and against criteria that serves to maintain an appropriate balance of skills, expertise, and experience of the board. The categories considered necessary for this purpose are a blend of accounting and finance, business, technical and administration skills. Casual appointments must stand for election at the next annual general meeting of the Company.

Retirement and rotation of Directors are governed by the Corporations Act 2001 and the Constitution of the Company. All Directors, with the exception of the Managing Director (if appointed), serve for a period of three years before they are requested to retire and if eligible offer themselves for re-election.

**Recommendation 2.2:**

*The Company should have and disclose a Board skills matrix setting out the mix of skills and diversity that the Board currently has or is looking to achieve in its membership.*

The Company has a skills or diversity matrix in relation to its Board members which reflects the current size and scope of the Company's operations. The Board will adopt a more detailed and comprehensive matrix if and when there is a significant change in the size and scale of its activities.

Director	Gender	Skills/Qualifications	Experience Based on Skills/Knowledge				
			Accounting/ Finance	Communications/ Investor Relations	Corporate Management	Fund Raising	Geology
Jiajun Hu (Chairman)	Male	Finance and accounting BSc in Business	√	√	√	√	
Lijun Yang	Male	Geologist MSc in Geology MAIG;MSEG		√	√	√	√
Yuanguang Yang	Male	Accounting CPA	√	√	√	√	

**KalNorth Gold Mines Limited and Controlled Entities**  
**For the year ended 30 June 2016**  
**Corporate Governance**

**Statement of Corporate Governance Practices (cont'd)**

**Recommendation 2.3:**

*The Company should disclose the names of the directors considered to be independent directors and length of service of each director.*

The names, position, appointment date and independence classification are set out in the table below:

Director	Position	Date Appointed	Independent
Jiajun Hu (Chairman)	Non-executive Chairman	13 December 2013 (appointed as Chairman on 14 April 2015)	No
Lijun Yang	Executive Director	8 November 2013	No
Yuanguang Yang	Non-executive Director	28 August 2014	No

**Recommendation 2.4:**

*A majority of the Board of the Company should be independent directors.*

In assessing whether a director is classified as independent, the Board considers the independence criteria set out in the ASX Corporate Governance Council Recommendation 2.1 and other facts, information and circumstances deemed by the Board to be relevant. Using the ASX Best Practice Recommendations on the assessment of the independence of Directors, the Board considers that at present none of the Directors can be considered independent. Mr Jiajun Hu and Mr Yuanguang Yang have been nominated to the Board by major shareholders of the Company, whilst Mr Lijun Yang is an executive director.

The Company considers that each of the directors possesses the skills and experience suitable for building the Company. Although the Company does not currently have a majority of independent directors, the current composition of the Board is considered appropriate in the circumstances.

It is the Board's intention to review its composition on a continual basis and in line with any future changes to Company's size and level of activities.

**Recommendation 2.5:**

*The Chair of the Board should be an independent director, and should not be the CEO of the Company.*

The Chair of the Board, Mr Jiajun Hu is not the CEO of the Company and he has a non-executive role. For the reasons explained in the preceding section, Mr Hu is not an independent director.

Given the size of the Company and the complexity of its affairs as well as the Board's desire to maximise exploration expenditure within the constraints of the Company's overall working capital, the Company is not presently in a position to have a majority of independent directors.

**Recommendation 2.6:**

*The Company should have a program for inducting new directors and provide appropriate professional development opportunities for directors to develop and maintain the skills and knowledge needed to perform their role as directors effectively.*

The Company does not currently have a formal induction program for new Directors nor does it have a formal professional development program for existing Directors. The Board does not consider that a formal induction program is necessary given the current size and scope of the Company's operations.

The Board seeks to ensure that all of its members understand the Company's operations. Directors also attend, on behalf of the Company and otherwise, technical and commercial seminars and industry conferences which enable them to maintain their understanding of industry matters and technical advances.

Noting the above, the Board considers that a formal induction program is not necessary given the current size and scope of the Company's operations, though the Board may adopt such a program in the future as the Company's operations grow and evolve.

## Statement of Corporate Governance Practices (cont'd)

### Principle 3: Act ethically and responsibly

#### Recommendation 3.1:

*Companies should have a Code of Conduct for its directors, senior executives and employees.*

The Company has established a Code of Conduct which sets out the Company's key values and how they should be applied within the workplace and in dealings with those outside the Company. A copy of the Code is available on the Company's website.

### Principle 4: Safeguard Integrity in Financial Reporting

#### Recommendation 4.1

*The Board should have an Audit Committee.*

The Board established an audit committee comprising the two non-executive directors of the Company but no separate committee meetings were held during the reporting year. The Board considers that the Company is not currently of a size, nor are its affairs of such complexity, to justify separate committee meetings at this time. The Board as a whole is able to address the governance aspects of the full scope of the Company's activities and to ensure that it adheres to appropriate ethical standards. In particular, the full Board considers those matters that would usually be the responsibility of an audit committee. However, the Board considers that no efficiencies or other benefits would be gained by holding separate audit committee meetings.

The Company requires external auditors to demonstrate quality and independence. The performance of the external auditor is reviewed and applications for tender of external audit services are requested as deemed appropriate, taking into consideration assessment of performance, existing value and tender costs.

The external audit firm partner or an appropriate delegate responsible for the Company audit attends meetings of the Board by invitation.

#### Recommendation 4.2

*The Board of the Company should, before it approves the Company's financial statements for a financial period, receive from its CEO and CFO a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.*

The Company has in place a procedure whereby prior to approval of financial statements by the Board (in addition to any formal management representation letter to the Company's auditor) a declaration is provided in accordance with Sections 286 and 295(3)(b) of the Corporations Act 2001 (Cth) that financial records have been properly maintained, the financial statements comply with the accounting standards, and give a true and fair view of the financial position based on sound risk management and internal controls operating effectively. This declaration was provided by the Executive Director, Mr Lijun Yang who has been nominated by the Board to provide oversight and supervision of the Company's financial affairs.

#### Recommendation 4.3

*The Company should ensure that the external auditor is present at the AGM and be available to answer questions from security holders relevant to the audit.*

The Company invites the auditor or representative of the auditor to the AGM in accordance of the requirements of Section 250RA of the Corporations Act 2001 (Cth) and is available to answer questions relevant to the audit.

## **Statement of Corporate Governance Practices (cont'd)**

### **Principle 5 – Make timely and balanced disclosure**

#### **Recommendation 5.1:**

*Companies should have a written policy for complying with its continuous disclosure obligations under the Listing Rules.*

The Company has developed an ASX Listing Rules Disclosure Strategy which has been endorsed by the Board. The ASX Listing Rules Disclosure Strategy ensures compliance with ASX Listing Rules and Corporations Act obligations to keep the market fully informed of information which may have a material effect on the price or value of its securities and outlines accountability at both the Board and (where and when applicable) senior executive level for that compliance. All ASX announcements are posted to the Company's website as soon as possible after confirmation of receipt is received from ASX.

A copy of the continuous disclosure policy is available on the Company's website.

### **Principle 6 – Respect the rights of security holders**

#### **Recommendation 6.1 and 6.2:**

*Companies should provide information about itself and its governance to investors via its website.*

*Companies should design and implement an investor relations program to facilitate two-way communication with investors.*

The Company is committed to maintaining a Company website with general information about the Company and its operations, information about governance and information specifically targeted at keeping the Company's shareholders informed about all major developments affecting the Company's state of affairs.

The Company has a Shareholder Communication Policy which is available on the Company's website. Through this the Board aims to ensure that the shareholders are informed of the Company's governance and all major developments affecting the Company's state of affairs. Information is communicated to shareholders through the:

- Company website;
- ASX Company Announcements platform;
- Quarterly Operational and Cash flow reports;
- Half-year Financial Report;
- Annual Report;
- Investor Presentations
- Shareholder meetings
- Other correspondence from time to time regarding matters impacting on shareholders.

#### **Recommendations 6.3 and 6.4:**

*Companies should disclose the policies and processes in place to facilitate and encourage participation at meetings of security holders.*

*Companies should give security holders the option to receive communications from, and send communications to, the entity and its security registry electronically.*

In accordance with the Company's Shareholder Communications Policy, the Company supports shareholder participation in general meetings and seeks to provide appropriate mechanisms for such participation. The Company will use general meetings as a tool to effectively communicate with shareholders and allow shareholders a reasonable opportunity to ask questions of the Board of Directors and to otherwise participate in the meeting.

Mechanisms for encouraging and facilitating shareholder participation will be reviewed regularly to encourage the highest level of shareholder participation.



## **Statement of Corporate Governance Practices (cont'd)**

The Company considers that communicating with shareholders by electronic means is an efficient way to distribute information in a timely and convenient manner. In accordance with the Shareholder Communication Policy, the Company has, as a matter of Practice, provided new shareholders with the option to receive communications from the Company electronically and the Company encourages them to do so. Existing shareholders are also encouraged to request communications electronically. All shareholders that have opted to receive communications electronically are provided with notifications by the Company when an announcement or other communication (including annual reports, notices of meeting etc) is uploaded to the ASX announcements platform.

### **Principle 7 – Recognise and manage risk**

#### **Recommendation 7.1:**

*The Board should have a committee or committees to oversee risk.*

The Board established a risk management committee comprising and the two non-executive directors of the Company but no separate committee meetings were held in the reporting year. The role of the risk management committee is therefore undertaken by the full Board. The Board considers that, given the current size and scope of the Company's operations, efficiencies or other benefits would not be gained by having separate risk management committee meetings at present.

As the Company's operations grow and evolve, the Board will reconsider the appropriateness of having separate risk management committee meetings. However, the Board has adopted a Risk Management Policy that sets out a framework for a system of risk management and internal compliance and control, and this is available on the Company's website.

#### **Recommendation 7.2:**

*The Board should review the entity's risk management framework at least annually to satisfy itself that it continues to be sound and disclose whether such a review has taken place.*

As the Board has responsibility for the monitoring of risk management it has not required a formal report regarding the material risks and whether those risks are managed effectively. The Board believes that the Consolidated Group is currently effectively communicating its significant and material risks to the Board and its affairs are not of sufficient complexity to justify the implementation of a more formal system for identifying, assessing, monitoring and managing risk in the Company.

#### **Recommendation 7.3:**

*The Company should disclose if it has an internal audit function.*

The Company does not have an internal audit function. The Board considers that the Company is not currently of a size, nor are its affairs of such complexity, to justify the formation of an internal audit function at this time. The Board as a whole continually evaluates and improves the effectiveness of its risk management and internal control processes.

#### **Recommendation 7.4:**

*The Company should disclose whether it has any material exposure to economic, environmental and social sustainability risks and, if it does, how it manages or intends to manage those risks.*

The Company is of the view that it has adequately disclosed the nature of its operations and relevant information on exposure to economic, environmental and social sustainability risks. Other than general risks associated with the mineral exploration industry, the Company does not currently have material exposure to environmental and social sustainability risks.

**Statement of Corporate Governance Practices (cont'd)**

**Principle 8 – Remunerate fairly and responsibly**

**Recommendation 8.1:**

*The Board should have a Remuneration Committee.*

The Board has established a remuneration committee comprising the two non-executive directors of the Company but no separately remuneration committee meetings were held in the reporting year. The Board considers that the Company is not currently of a size, nor are its affairs of such complexity to justify the separate committee meetings at this time. The Board as a whole is able to address the governance aspects of the full scope of the Company's activities and to ensure that it adheres to appropriate ethical standards. In particular, the full Board considers those matters that would usually be the responsibility of a remuneration committee. However, the Board considers that no efficiencies or other benefits would be gained by having separate remuneration committee meetings at this stage.

**Recommendation 8.2:**

*Companies should separately disclose its policies and practices regarding the remuneration of non-executive directors and the remuneration of executive directors and other senior executives.*

The Company's policies and practices regarding the remuneration of Executive and Non-Executive Directors is set out in its Remuneration Policy which is available on the website.

This information is also set out in the Remuneration Report contained in the Company's Annual Report for each financial year

**Recommendation 8.3:**

*A Company which has an equity based remuneration scheme should have a policy on whether participants are permitted to enter into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the scheme and disclose that policy or summary of it.*

The Company does not have an equity based remuneration scheme which is affected by this recommendation. Recipients of equity-based remuneration (e.g. incentives options) are not permitted to enter into any transactions that would limit the economic risk of options or other unvested entitlements.

**KalNorth Gold Mines Limited and Controlled Entities**  
**For the year ended 30 June 2016**  
**Annual Mineral Resources and Ore Reserves Statement**

The Company's reported Mineral Resources are located within three projects that lie in an arc 50-80kms' to the north east and south west of Kalgoorlie, Western Australia. The project area is to the north east of Kalgoorlie and comprises the Lindsays, Kalpini and Kurnalpi project areas which are spread over a 60km arc from west to east.

The most significant change in the 2016 Annual Mineral Resources and Ore Reserve Statement including Removal of Stockpile ore within Lindsay's project which was processed in 2016 FY, Removal of the mineral resources contained within the Spargoville project as a result of that project's divestment in May 2016 as well as upgrading the resource of Brilliant within Kurnalpi project from JORC 2004 to JORC 2012.

The Lindsays project consists of a contiguous package of tenements centred around the Lindsays Mine site which remains under suspension. The Lindsay's mineral resources are contained within two granted Mining Leases. As the gold price improved significantly since December 2015, the Company processed the stockpile ore in early 2016. There has been no change to the mineral resource estimate of other deposits at Lindsays during the year ended 30 June 2016.

The Kalpini Project resource is contained within a granted Mining Lease. There has been no change to the mineral resource estimate at Kalpini during the year ended 30 June 2016.

The Kurnalpi project lies 85km to the east of Kalgoorlie straddling the Kurnalpi-Pinjin road and consists of a contiguous package of Exploration, Prospecting and Mining leases. The project contains six individual resources all located on granted Mining leases and centred within 3 kilometres of the more significant Brilliant deposit. The resource of Brilliant was upgraded from JORC 2004 to JORC 2012 during 2016 financial year, there has been no change to the mineral resource of other deposits at Kurnalpi during the year ended 30 June 2016.

**KalNorth Gold Mines Limited and Controlled Entities**  
**For the year ended 30 June 2016**  
**Annual Mineral Resources and Ore Reserves Statement**

**Table 1: Ore Resources**  
**Summary of Mineral Resource Estimates (at 30 June 2016)**  
**Reported according to JORC Category and Deposit (JORC 2004 & 2012 Compliant)**

Deposit	Measured			Indicated			Inferred			Total		
	Tonnes (t)	Grade (g/t)	Ounces (oz.)	Tonnes (t)	Grade (g/t)	Ounces (oz.)	Tonnes (t)	Grade (g/t)	Ounces (oz.)	Tonnes (t)	Grade (g/t)	Ounces (oz.)
<b>Kurnalpi</b>												
Discovery Hill	-	-	-	-	-	-	130,000	0.9	3,600	130,000	0.9	3,600
Halfway Hill	-	-	-	-	-	-	510,000	1.1	18,700	510,000	1.1	18,700
Scottish Lass	-	-	-	-	-	-	84,700	1.0	2,600	84,700	1.0	2,600
Brilliant <sup>1</sup>	-	-	-	2,620,000	1.3	109,300	920,000	1	28,300	3,530,000	1.2	137,600
Sparkle	-	-	-	288,900	0.9	8,500	190,000	1.0	5,800	478,900	0.9	14,300
Dazzle	-	-	-	-	-	-	511,000	0.8	12,600	511,000	0.8	12,600
<b>Total</b>	-	-	-	<b>2,908,900</b>	<b>1.3</b>	<b>117,800</b>	<b>1,621,000</b>	<b>0.9</b>	<b>46,700</b>	<b>4,519,900</b>	<b>1.1</b>	<b>164,500</b>
<b>Kalpini</b>												
Gambia/Camelia	-	-	-	3,072,000	1.9	183,700	1,074,000	1.6	53,900	4,146,000	1.8	237,600
Atlas	-	-	-	169,000	1.3	6,900	299,000	1.2	11,100	468,000	1.2	18,000
<b>Total</b>	-	-	-	<b>3,241,000</b>	<b>1.8</b>	<b>190,600</b>	<b>1,373,000</b>	<b>1.5</b>	<b>65,000</b>	<b>4,614,000</b>	<b>1.7</b>	<b>255,600</b>
<b>Lindsays</b>												
Eastern Structure	-	-	-	1,479,000	1.6	76,000	203,000	1.6	10,500	1,682,000	1.6	86,500
Parrot Feathers <sup>1</sup>	-	-	-	140,000	4.0	18,000	261,000	4.3	36,000	401,000	4.2	54,000
Central Structure	-	-	-	1,315,100	1.1	46,500	47,900	1.1	1,700	1,363,000	1.1	48,200
Neves Prospect	-	-	-	490,900	1.6	24,900	37,700	1.3	1,500	528,600	1.6	26,400
<b>Total</b>	-	-	-	<b>3,425,000</b>	<b>1.5</b>	<b>165,400</b>	<b>549,600</b>	<b>2.8</b>	<b>49,700</b>	<b>3,974,600</b>	<b>1.7</b>	<b>215,100</b>

<b>KalNorth Gold Mines Total</b>												
	Measured			Indicated			Inferred			Total		
	Tonnes (t)	Grade (g/t)	Ounces (oz.)	Tonnes (t)	Grade (g/t)	Ounces (oz.)	Tonnes (t)	Grade (g/t)	Ounces (oz.)	Tonnes (t)	Grade (g/t)	Ounces (oz.)
<b>Total</b>				<b>9,574,900</b>	<b>1.5</b>	<b>473,800</b>	<b>3,543,600</b>	<b>1.4</b>	<b>161,400</b>	<b>13,108,500</b>	<b>1.5</b>	<b>635,200</b>

<sup>1</sup> Brilliant and Parrot Feathers reported under JORC 2012, all others under JORC 2004

**KalNorth Gold Mines Limited and Controlled Entities**  
**For the year ended 30 June 2016**  
**Annual Mineral Resources and Ore Reserves Statement**

### **Governance and Internal Controls**

The company ensures that all resource calculations are undertaken and or reviewed by independent industry consultants.

All drill hole data was imported and stored into a master database managed by the company using Datashed and SQL. Data validation and interrogation is performed by KalNorth and independent resource consultants when required. Any errors in the data are communicated to the Exploration Manager and on approval rectified. Amendments made to the format of a drill holes, survey data samples and assay information are recorded in the database for future reference.

Quality control on resource drill programs have been undertaken to industry standards with implementation of appropriate drilling technique, survey data collection, assay standards, sample duplicates and repeat analysis. Samples were analysed by independent internationally accredited laboratories with a QAQC program that reported monthly and showing acceptable levels of accuracy and precision. Regular inspections of the assay laboratory were made during the course of drilling programs to ensure that the laboratory maintained strong adherence to QAQC. The company interrogates and validates its internal assay standards using Datashed QAQC software.

The mineral resource estimate for the Parrot Feathers of Lindsays project as well as Brilliant of Kurnalpi project were undertaken independently by Ravensgate Mining Industry Consultants.

Except the Brilliant deposit, other mineral resource estimates for the Kurnalpi were undertaken independently by Snowden Mining Industry Consultants.

### **Competent Person Statement**

The Mineral Resources and Ore Reserves Statement is based on, and fairly represents information and supporting documentation compiled by the person named below

The Mineral Resources and Ore Reserves statement as a whole has been approved by Mr Lijun Yang who is the Executive Director and a full time employee and a holder of shares in KalNorth Gold Mines Limited and is a member of The Australian Institute of Geoscientists (AIG). The details within the Mineral Resources and Ore Reserve Statement are consistent with information previously released and prepared by previous employees and consultants of the company and compiled by Mr Yang. Mr Yang has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity that he is undertaking to qualify as a Competent Person as defined in the 2012 Edition of the "Australian Code for Reporting of exploration Results, Mineral Resources and Ore Reserves". Mr Yang consents to the inclusion in the report of the matters based on his information in the form and context in which it appears in this announcement.

The information within this Annual Report that relates to Exploration results is based on information compiled by Mr Lijun Yang who is the Executive Director and a full time employee of KalNorth Gold Mines Limited and is a member of The Australian Institute of Geoscientists (AIG). Mr Yang has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity that he is undertaking to qualify as a Competent Person as defined in the 2012 Edition of the "Australian Code for Reporting of exploration Results, Mineral Resources and Ore Reserves". Mr Yang consents to the inclusion in the report of the matters based on his information in the form and context in which it appears in this announcement.

**KalNorth Gold Mines Limited and Controlled Entities**  
**For the year ended 30 June 2016**  
**Mining Tenement**

**Mining Tenements held at 30 June 2016**

All tenements are located in the Goldfields region of Western Australia.

Tenement	Holder	Status	Project	Interest %
L27/0088	KALNORTH GOLD MINES LIMITED	LIVE	Kalpini	100
M27/0485	KALNORTH GOLD MINES LIMITED	LIVE	Kalpini	100
E28/1477	SHANNON RESOURCES PTY LTD	LIVE	Kurnalpi	100
E28/2015	KALNORTH GOLD MINES LIMITED	LIVE	Kurnalpi	100
E28/2153	KALNORTH GOLD MINES LIMITED	LIVE	Kurnalpi	100
E28/2226	SHANNON RESOURCES PTY LTD	LIVE	Kurnalpi	100
E28/2256	SHANNON RESOURCES PTY LTD	LIVE	Kurnalpi	100
E28/2541	SHANNON RESOURCES PTY LTD	LIVE	Kurnalpi	100
M28/0007	SHANNON RESOURCES PTY LTD	LIVE	Kurnalpi	100
M28/0066	SHANNON RESOURCES PTY LTD	LIVE	Kurnalpi	100
M28/0072	SHANNON RESOURCES PTY LTD	LIVE	Kurnalpi	100
M28/0076	SHANNON RESOURCES PTY LTD	LIVE	Kurnalpi	100
M28/0084	SHANNON RESOURCES PTY LTD	LIVE	Kurnalpi	100
M28/0089	SHANNON RESOURCES PTY LTD	LIVE	Kurnalpi	100
M28/0090	SHANNON RESOURCES PTY LTD	LIVE	Kurnalpi	100
M28/0092	SHANNON RESOURCES PTY LTD	LIVE	Kurnalpi	100
M28/0113	SHANNON RESOURCES PTY LTD	LIVE	Kurnalpi	100
M28/0374	SHANNON RESOURCES PTY LTD	LIVE	Kurnalpi	100
M28/0375	SHANNON RESOURCES PTY LTD	LIVE	Kurnalpi	100
P28/1097	SHANNON RESOURCES PTY LTD	LIVE	Kurnalpi	100
P28/1100	SHANNON RESOURCES PTY LTD	LIVE	Kurnalpi	100
P28/1101	SHANNON RESOURCES PTY LTD	LIVE	Kurnalpi	100
P28/1102	SHANNON RESOURCES PTY LTD	LIVE	Kurnalpi	100
P28/1103	SHANNON RESOURCES PTY LTD	LIVE	Kurnalpi	100
P28/1104	SHANNON RESOURCES PTY LTD	LIVE	Kurnalpi	100
P28/1105	SHANNON RESOURCES PTY LTD	LIVE	Kurnalpi	100
P28/1106	SHANNON RESOURCES PTY LTD	LIVE	Kurnalpi	100
P28/1107	SHANNON RESOURCES PTY LTD	LIVE	Kurnalpi	100
P28/1108	SHANNON RESOURCES PTY LTD	LIVE	Kurnalpi	100
P28/1111	SHANNON RESOURCES PTY LTD	LIVE	Kurnalpi	100
P28/1112	SHANNON RESOURCES PTY LTD	LIVE	Kurnalpi	100
P28/1113	SHANNON RESOURCES PTY LTD	LIVE	Kurnalpi	100
P28/1114	SHANNON RESOURCES PTY LTD	LIVE	Kurnalpi	100
P28/1115	SHANNON RESOURCES PTY LTD	LIVE	Kurnalpi	100
P28/1116	SHANNON RESOURCES PTY LTD	LIVE	Kurnalpi	100
P28/1117	SHANNON RESOURCES PTY LTD	LIVE	Kurnalpi	100
P28/1118	SHANNON RESOURCES PTY LTD	LIVE	Kurnalpi	100
P28/1119	SHANNON RESOURCES PTY LTD	LIVE	Kurnalpi	100
P28/1125	SHANNON RESOURCES PTY LTD	LIVE	Kurnalpi	100
P28/1126	SHANNON RESOURCES PTY LTD	LIVE	Kurnalpi	100
P28/1154	KALNORTH GOLD MINES LIMITED	LIVE	Kurnalpi	100
P28/1155	KALNORTH GOLD MINES LIMITED	LIVE	Kurnalpi	100
P28/1156	KALNORTH GOLD MINES LIMITED	LIVE	Kurnalpi	100
P28/1157	KALNORTH GOLD MINES LIMITED	LIVE	Kurnalpi	100
P28/1180	KALNORTH GOLD MINES LIMITED	LIVE	Kurnalpi	100
P28/1184	KALNORTH GOLD MINES LIMITED	LIVE	Kurnalpi	100
P28/1186	KALNORTH GOLD MINES LIMITED	LIVE	Kurnalpi	100
P28/1187	KALNORTH GOLD MINES LIMITED	LIVE	Kurnalpi	100
P28/1190	KALNORTH GOLD MINES LIMITED	LIVE	Kurnalpi	100
P28/1191	KALNORTH GOLD MINES LIMITED	LIVE	Kurnalpi	100

**KalNorth Gold Mines Limited and Controlled Entities**  
**For the year ended 30 June 2016**  
**Mining Tenement**

P28/1226	LUSITAN PROSPECTING PTY LTD	LIVE	Kurnalpi	100
P28/1227	LUSITAN PROSPECTING PTY LTD	LIVE	Kurnalpi	100
P28/1228	LUSITAN PROSPECTING PTY LTD	LIVE	Kurnalpi	100
P28/1229	LUSITAN PROSPECTING PTY LTD	LIVE	Kurnalpi	100
P28/1230	LUSITAN PROSPECTING PTY LTD	LIVE	Kurnalpi	100
P28/1231	LUSITAN PROSPECTING PTY LTD	LIVE	Kurnalpi	100
P28/1254	SHANNON RESOURCES PTY LTD	LIVE	Kurnalpi	100
P28/1255	SHANNON RESOURCES PTY LTD	LIVE	Kurnalpi	100
M28/0377	SHANNON RESOURCES PTY LTD	PENDING	Kurnalpi	100
M28/0378	SHANNON RESOURCES PTY LTD	PENDING	Kurnalpi	100
M28/0379	SHANNON RESOURCES PTY LTD	PENDING	Kurnalpi	100
M28/0380	SHANNON RESOURCES PTY LTD	PENDING	Kurnalpi	100
M28/0381	SHANNON RESOURCES PTY LTD	PENDING	Kurnalpi	100
M28/0382	SHANNON RESOURCES PTY LTD	PENDING	Kurnalpi	100
M28/0383	SHANNON RESOURCES PTY LTD	PENDING	Kurnalpi	100
M28/0384	SHANNON RESOURCES PTY LTD	PENDING	Kurnalpi	100
P28/1282	SHANNON RESOURCES PTY LTD	PENDING	Kurnalpi	100
E27/0517	KALNORTH GOLD MINES LIMITED	LIVE	Lindsays Find	100
L27/0082	KALNORTH GOLD MINES LIMITED	LIVE	Lindsays Find	100
L27/0084	KALNORTH GOLD MINES LIMITED	LIVE	Lindsays Find	100
M27/0034	KALNORTH GOLD MINES LIMITED	LIVE	Lindsays Find	100
M27/0169	KALNORTH GOLD MINES LIMITED	LIVE	Lindsays Find	100
M27/0486	KALNORTH GOLD MINES LIMITED	LIVE	Lindsays Find	100
M15/1806 <sup>1</sup>	KALNORTH GOLD MINES LIMITED	LIVE	Spargoville	100
E27/0524	HERON RESOURCES LIMITED	LIVE	Kalpini	100% Au rights

<sup>1</sup>The Spargoville tenement was divested and in transferring.

**KalNorth Gold Mines Limited and Controlled Entities**  
**For the year ended 30 June 2016**  
**Shareholder Information**

**Shareholder Information**

The shareholder information set out below was applicable as at 18 October 2016.

**A. Distribution of Equity Securities**

Analysis of number of equity holders by size of holding:

Spread of Holdings	Number of Holders	Number of Units	% of Total Issued Capital
1 to 1,000	126	46,509	0.005%
1,001 to 5,000	185	596,655	0.067%
5,001 to 10,000	150	1,233,282	0.138%
10,001 to 100,000	340	11,988,133	1.341%
100,001 and over	131	880,375,481	98.450%
<b>Total</b>	<b>932</b>	<b>894,240,060</b>	<b>100%</b>

The number of shareholders holding less than a marketable parcel is 666.

**B. Voting Rights**

At a general meeting of shareholders:

- a. On a show of hands, each person who is a member or sole proxy has one vote.
- b. On a poll, each shareholder is entitled to one vote for each fully paid share.

**C. Equity Security Holders**

The names of the twenty largest quoted equity security holders are listed below:

Rank	Shareholder	Total Units	Issued Capital %
1	SOUTH VICTORY GLOBAL LIMITED	260,688,116	29.15
2	RENEERGY PTY LTD	188,594,646	21.09
3	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	109,822,914	12.28
4	GOLD FRESH LIMITED	86,615,562	9.69
5	SMARTER GROUP (AUSTRALIA) PTY LTD	65,490,400	7.32
6	FINANCIAL MARKET INFRASTRUCTURE FUND PTY LTD	49,026,086	5.48
7	LINKS GROUP	33,470,170	3.74
8	BOND STREET CUSTODIANS LIMITED	14,619,679	1.64
9	MR JOHN MCKINSTRY	6,013,055	0.67
10	DAHT INTERNATIONAL TRADING PTY LTD	5,000,000	0.56
11	ZAC-ZOOM PTY LTD	5,000,000	0.56
12	PERSHING AUSTRALIA NOMINEES PTY LTD	4,257,096	0.48
13	INTERNATIONAL TECHNOLOGY GROUP PTY LTD	3,398,012	0.38
14	J P MORGAN NOMINEES AUSTRALIA LIMITED	2,793,179	0.31
15	MR JUSTIN JOHN WOOD & MRS CAROLYN WOOD	2,316,839	0.26
16	CITICORP NOMINEES PTY LIMITED	2,040,196	0.23
17	EDWIN PAUL CAYZER & LORAIN HELEN CAYZER	1,860,000	0.21
18	MR GREGORY GERARD RYAN	1,800,000	0.20
19	STEVEN WILLIS SHALL CRASS	1,710,000	0.19
20	MR BEVAN ALFRED JAGGARD GROUP	1,683,100	0.19
<b>Totals</b>		<b>846,199,050</b>	<b>94.63</b>



**KalNorth Gold Mines Limited and Controlled Entities**  
**For the year ended 30 June 2016**  
**Shareholder Information**

**D. Substantial Shareholders**

Substantial shareholders (>5% of shares held) in the Company are listed below:

<b>Rank</b>	<b>Shareholder</b>	<b>Total Units</b>
1	SOUTH VICTORY GLOBAL LIMITED	260,688,116
2	RENEERGY PTY LTD	188,594,646
3	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	109,822,914
4	GOLD FRESH LIMITED	86,615,562
5	SMARTER GROUP (AUSTRALIA) PTY LTD	65,490,400
6	FINANCIAL MARKET INFRASTRUCTURE FUND PTY LTD	49,026,086
	<b>TOTAL</b>	<b>760,237,724</b>