



KalNorth Gold Mines Limited and Controlled Entities

ACN 100 405 954

Annual Report

For the year ended 30 June 2018



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KalNorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2018

CORPORATE DIRECTORY

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

KalNorth Gold Mines Limited and Controlled Entities
For the year ended 30 June 2018
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 2018.

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 from the start of the financial year to the date of this report unless otherwise stated.

- | | |
|------------------|------------------------|
| • Jiajun Hu | Executive Chairman |
| • Yuanguang Yang | Non-executive Director |
| • Xiaojing Wang | Non-executive Director |

Information on Directors

JIAJUN HU

Executive Chairman & Company Secretary

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

He is responsible for supervision and administration of Cross-Strait’s investment projects in Oceania and reports directly 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 the financial transactions 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

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 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 shares

KalNorth Gold Mines Limited and Controlled Entities
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DIRECTORS' REPORT

Information on Directors (cont'd)

XIAOJING WANG (REBECCA)

Non-Executive Director

Mrs Wang holds a Bachelor of Applied Finance, from Macquarie University, NSW and is currently the Finance Manager for a Sydney based private company.

Mrs Wang has held no other directorships of other public companies within the last three years.

Interest in shares and options: Nil

Principal Activities

The consolidated entity's principal activity during the year was gold exploration on its projects in the Eastern Kalgoorlie region in Western Australia.

Review of Operations

Kurnalpi Project (100 % KGM)

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

- **New Mining Leases Granted**—During the FY 2018, 8 Mining Leases have been granted by Department of Mines, Industry Regulation and Safety (DMIRS) from conversion of the prospecting licences. The issue of mining leases permits small scale mining which could be an attractive scenario under certain circumstances.
- **Grey Dam Tenements Divestment** — the Company divested 3 tenements M28/378, E28/1477 and E28/2226 which form the Grey Dam prospect with nickel and cobalt potential after an economic review determined the prospect as non-core to the Company's assets.
- **Further Mining Leases Applied** — the Company lodged a further 4 applications to convert existing prospecting licences to Mining Leases via the Small Mining Operation (SMO) mechanism, as a result of which there are presently 6 Mining Lease applications pending for approval.
- **Heritage, Flora and Fauna Survey** — a heritage survey conducted during the FY2018 did not identify any new sites of cultural or archaeological significance. Similarly a flora and fauna survey did not identify any threatened flora or fauna, migratory fauna or threatened ecological communities.
- **Air Core Drilling** — 50 early stage Air Core holes, for a total of 1,446 metres were drilled in Kurnalpi project to test potential gold targets generated from previous geophysical and mapping works. Assay results were received in mid-July and, following review, it has been concluded that no significant intercepts were recorded; however the Company will continue testing additional targets within Kurnalpi project.

Lindsay's Project (100 % KGM)

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

The Company continued its strategic review of the project and conducted discussions with several interested parties during FY 2018 to redevelop or divest the project in the future.

KalNorth Gold Mines Limited and Controlled Entities
For the year ended 30 June 2018
DIRECTORS' REPORT

Operating Results and Financial Performance

The operating loss after income tax of the consolidated entity for the year ended 30 June 2018 was \$357,446 (2017: loss \$95,951).

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

- (i) Sale of 3 non-core tenements in Kurnalpi for gross proceeds of \$110,000;
- (ii) Exploration expenditure of \$0.39 million (2017: \$0.55 million) across all project areas and immediately written-off to the profit or loss account;
- (iii) Interest expense of \$0.11 million (2017: \$0.13 million) on the Company's convertible note facilities; and
- (iv) Gain on reduction in rehabilitation obligation of \$0.22 million.

As at 30 June 2018 the Company had \$2,458,022 (2017: \$3,260,565) in cash reserves and an aggregate liability of \$1,469,604 (2017: \$1,372,791) in debt instruments.

At 30 June 2018, the consolidated entity had net assets of \$5,167,368 (2017: \$5,524,815).

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.

Significant Events after the Reporting Date

On 11 September 2018, the loan owing to Cross-Straits Common Development Fund Co., was fully repaid.

Other than the above, no matter or circumstance has arisen which has significantly affected, or may significantly affect, the operations of the consolidated entity.

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 regulation

The consolidated entity is subject to 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 National Greenhouse and Energy Reporting Act 2007 ("NGER Act 2007"). The directors of the consolidated entity are not aware of any breach of environmental legislation for the year under review.

KalNorth Gold Mines Limited and Controlled Entities
For the year ended 30 June 2018
DIRECTORS' REPORT

Meetings of Directors

During the financial year 12 meetings of Directors were held. Attendances by each Director during the year were as follows:

	Directors' Meetings	
	Number of meetings eligible to attend	Number attended
Jiajun Hu	12	12
Yuanguang Yang	12	12
Xiaojing Wang	12	12

No Audit or Remuneration Committee meetings were held in the year, 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 (2017: Nil).

During the year ended 30 June 2018 and to the date of this report, no shares were issued on the exercise of options (2017: 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.

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.

The following were Key Management Personnel of the Company during or since the end of the financial year:

- Jiajun Hu (Executive Chairman)
- Yuanguang Yang (Non-Executive Director)
- Xiaojing Wang (Non-Executive Director)

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

KalNorth Gold Mines Limited and Controlled Entities
For the year ended 30 June 2018
DIRECTORS' REPORT

Remuneration Report (Audited) (cont'd)

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.

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 in place at the date of this report are as follows:

	Commencement Date	Notice Period Base Salary	Base Salary	Termination Payments Provided
Jiajun Hu – Executive Chairman	11/01/2017	One month	\$60,000 ¹	-

¹Entitled to statutory superannuation contributions

There are no other agreements with key management personnel.

Voting and comments made at the Company's 2017 Annual General Meeting ('AGM')

KalNorth Gold Mines Limited and Controlled Entities
For the year ended 30 June 2018
DIRECTORS' REPORT

Remuneration Report (Audited) (cont'd)

At the 2017 AGM, 81% of the votes received supported the adoption of the remuneration report for the year ended 30 June 2017. The Company did not receive any specific feedback at the AGM regarding its remuneration practices.

Remuneration Details

(a) Key management personnel compensation:

2018	Short-term benefits		Post-employment benefits		Total
	Salary and fees	Annual Leave Entitlements	Superannuation		
Name	\$	\$	\$	\$	\$
<i>Directors</i>					
Jiajun Hu	60,000	7,422	5,700		73,122
Yuanguang Yang	30,000	-	-		30,000
Xiaojing Wang	30,000	-	2,850		32,850
Total	120,000	7,422	8,550		135,972

2017	Short-term benefits		Post-employment benefits		Total
	Salary and fees	Annual Leave Entitlements	Super-annuation	Termination	
Name	\$	\$	\$	\$	\$
<i>Directors</i>					
Jiajun Hu	59,167	2,368	4,196	-	65,731
Yuanguang Yang	30,000	-	-	-	30,000
Xiaojing Wang (Appointed 11/01/2017)	14,137	-	-	-	14,137
Lijun Yang (Resigned 10/01/2017)	67,987	-	5,975	11,191	85,153
Total	171,291	2,368	10,171	11,191	195,021

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 2018 (2017: 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:

2018	Balance 1 July 2017	Granted as Remuneration	Net Change Other	Balance 30 June 2018
<i>Directors</i>				
Jiajun Hu	-	-	-	-
Yuanguang Yang	2,375,300	-	-	2,375,300
Xiaojing Wang	-	-	-	-
Total	2,375,300	-	-	2,375,300

KalNorth Gold Mines Limited and Controlled Entities
For the year ended 30 June 2018
DIRECTORS' REPORT

Remuneration Report (Audited) (cont'd)

2017	Balance 1 July 2016	Granted as Remuneration	Net Change Other	Balance 30 June 2017
<i>Directors</i>				
Jiajun Hu	-	-	-	-
Yuanguang Yang	2,375,300	-	-	2,375,300
Xiaojing Wang (Appointed 11/01/2017)	-	-	-	-
Lijun Yang (Resigned 10/01/2017)	47,100	-	(47,100)	-
Total	2,422,400	-	(47,100)	2,375,300

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 (30 June 2017: Nil) to key management personnel and their related parties.

Other transactions with KMPs

There were no other transactions with KMPs for the year ended 30 June 2018 and 2017.

Use of Remuneration Consultants

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

Additional information

The earnings of the consolidated entity for the five years to 30 June 2018 are summarised below:

	2018 \$	2017 \$	2016 \$	2015 \$	2014 \$
Sales revenue	-	13,422	1,565,081	9,295	5,211,564
EBITDA	(235,792)	66,419	(11,958,266)	(95,773)	(9,818,556)
EBIT	(251,999)	34,858	(12,018,044)	(210,686)	(10,037,470)
Loss after income tax	(357,446)	(95,951)	(12,330,518)	(774,451)	(10,763,483)

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

	2018	2017	2016	2015	2014
Share price at financial year end (\$)	0.006	0.009	0.023	0.008	0.009
Total dividends declared (cents per share)	-	-	-	-	-
Basic loss per share (cents per share)	(0.04)	(0.01)	(2.23)	(0.28)	(5.28)

[END OF AUDITED REMUNERATION REPORT]

KalNorth Gold Mines Limited and Controlled Entities
For the year ended 30 June 2018
DIRECTORS' 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 Company may decide to employ the auditors, BDO (Audit) WA Pty Ltd on assignments additional to their statutory audit duties where their expertise and experience with the Company is important and relevant.

Details of the amounts paid or payable for audit and non-audit services provided during the year are set out in Note 18 to the financial statements.

Auditor's Independence Declaration

The auditor, BDO Audit (WA) Pty Ltd, has provided the Board of Directors with an independence declaration in accordance with section 307C of the Corporations Act 2001 and this is set out on the following page.

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.



Jiajun Hu
Executive Chairman

Dated at Perth 28 September 2018

Review of Operations – Competent Persons Statement

The information within this Annual Report that relates to Exploration results is based on information compiled by Mr Lijun Yang who is an employee of Gold Geological Consulting Pty Ltd which provides technical consultancy services to KalNorth Gold Mines Limited. Mr Yang 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 this report of the matters based on his information in the form and context in which it appears in this report.

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

As lead auditor of KalNorth Gold Mines Limited for the year ended 30 June 2018, I declare that, to the best of my knowledge and belief, there have been:

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

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



Glyn O'Brien
Director

BDO Audit (WA) Pty Ltd
Perth, 28 September 2018

KalNorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2018

	Note	2018 \$	2017 \$
Revenue from gold sales		-	13,422
Other income	3	113,186	18,473
Gain on sale of tenements	3	110,000	1,277,850
Refundable R&D tax offset		340,327	-
Gain from reduction in rehabilitation obligation	12	215,574	-
Director and corporate employee costs		(287,177)	(359,752)
Professional fees and consultants		(136,409)	(156,685)
Depreciation expenses	7	(16,207)	(31,561)
Listing and registry fees		(37,985)	(45,668)
Exploration costs		(394,089)	(552,403)
Interest expense		(105,447)	(130,809)
Other expenses		(159,218)	(128,818)
		(357,446)	(95,951)
Loss before income tax		(357,446)	(95,951)
Income tax benefit	4	-	-
Loss after income tax for the year		(357,446)	(95,951)
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>		-	-
Other comprehensive income for the year, net of tax		-	-
Total comprehensive loss for the year		(357,446)	(95,951)
Loss per share for the year attributable to the members of KalNorth Gold Mines Ltd:			
Basic and diluted loss per share (cents)	17	(0.04)	(0.01)

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

KalNorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2018

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018

	Note	2018 \$	2017 \$
ASSETS			
Current Assets			
Cash and cash equivalents	19(b)	2,458,022	3,260,565
Trade and other receivables	5	21,643	2,834
Other assets	6	7,500	7,500
Total Current Assets		2,487,165	3,270,899
Non-Current Assets			
Property, plant and equipment	7	293,192	309,400
Exploration and evaluation expenditure	8	5,259,651	5,259,651
Total Non-Current Assets		5,552,843	5,569,051
TOTAL ASSETS		8,040,008	8,839,950
LIABILITIES			
Current Liabilities			
Trade and other payables	9	123,089	446,824
Interest bearing liabilities	10	-	1,372,791
Borrowings	11	1,469,604	-
Total Current Liabilities		1,592,693	1,819,615
Non-Current Liabilities			
Restoration provision	12	1,279,946	1,495,520
Total Non-Current Liabilities		1,279,946	1,495,520
TOTAL LIABILITIES		2,872,639	3,315,135
NET ASSETS		5,167,369	5,524,815
EQUITY			
Issued capital	13	92,438,807	92,438,807
Accumulated losses	14	(87,271,438)	(86,913,992)
TOTAL EQUITY		5,167,369	5,524,815

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

KalNorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2018

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2018

	Issued Capital \$	Accumulated Losses \$	Total Equity \$
2017			
As at 1 July 2016	92,388,017	(86,818,041)	5,569,976
Loss after income tax for the year	-	(95,951)	(95,951)
Total comprehensive loss for the year, net of tax	-	(95,951)	(95,951)
Transactions with owners in their capacity as owners:			
Equity portion on convertible note issued during year	50,790	-	50,790
As at 30 June 2017	92,438,807	(86,913,992)	5,524,815
2018			
As at 1 July 2017	92,438,807	(86,913,992)	5,524,815
Loss after income tax for the year	-	(357,446)	(357,446)
Total comprehensive loss for the year, net of tax	-	(357,446)	(357,446)
As at 30 June 2018	92,438,807	(87,271,438)	5,167,369

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

KalNorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2018

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2018

	Note	2018	2017
		\$	\$
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		59,688	151,154
Payments to suppliers and employees (inclusive of GST)		(931,152)	(788,495)
Research and development tax refund		340,327	157,912
Interest received		24,378	3,648
Interest paid		-	(71)
Net cash used in operating activities	19(a)	(506,759)	(475,852)
Cash flows from investing activities			
Proceeds from sale of tenements		110,000	3,200,000
GST collected on sale of tenements		-	320,000
Facilitation fee – sale of tenements		(34,033)	(190,000)
Payments for plant and equipment		-	(2,771)
Proceeds from sale of plant and equipment		60,000	12,500
Payment for mineral exploration activities		(431,751)	(620,417)
Net cash (used in)/provided by investing activities		(295,784)	2,719,312
Cash flows from financing activities			
Proceeds from borrowings – convertible loan		-	1,000,000
Repayment of borrowings - unsecured		-	(17,000)
Net cash provided by financing activities		-	983,000
Net (decrease) / increase in cash held		(802,543)	3,226,460
Cash and cash equivalents at the beginning of the financial year		3,260,565	34,105
Cash and cash equivalents at the end of the financial year	19(b)	2,458,022	3,260,565

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

KalNorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2018

Notes to the Consolidated Financial Statements

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 2018 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-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.

New, revised or amending Accounting Standards and Interpretations adopted

In the year ended 30 June 2018, the group has reviewed all of the new and revised Standards and interpretations issued by the AASB that are relevant to its operations and effective for annual reporting periods beginning 1 July 2017. It has been determined by the Directors that there is no impact material or otherwise, of any of the new and revised Standard and Interpretations on its business and, therefore, no change is necessary to Group accounting policies.

The Group has also reviewed all new Standards and Interpretations that have been issued but are not yet effective for the year ended 30 June 2018. As a result of this review the Directors have determined that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change necessary to Group accounting policies.

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 25.

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 2018 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.

KalNorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2018

Notes to the Consolidated Financial Statements

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

Principles of consolidation (cont'd)

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.

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.

Going Concern Basis

As at 30 June 2018, the Group has total liabilities of \$2,872,639 and has incurred total comprehensive loss of \$357,446, with cash and cash equivalents balance of \$2,458,022. In the absence of asset sales or future capital raising noted below, current cash resources are not expected to be sufficient to meet forecast outgoings for a period of at least 12 months from the date of this report.

The current liabilities also include a borrowing of \$1,469,604, which was subsequently repaid in full after year end. This brought the cash and cash equivalents balance down to \$988,418.

These conditions indicate a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern.

The financial statements have been prepared on the basis that the Group is a going concern, which contemplates the continuity of normal business activity, realisation of assets and settlement of liabilities in the normal course of business. The Directors believe the Company will be successful in raising the necessary funding through equity to fund its operational and exploration activities and meet the minimum expenditure requirements on mineral exploration assets in which it has an interest as disclosed within note 20. The rationale for this is as follows:

- On the 11 September 2018 the Group announced that it had fully repaid the convertible notes which were on issue;
- The Group has a recent proven history of successfully raising capital as a basis that future capital raising which is required will also be successful; and
- Cash spending can be reduced or slowed below its current rate if required.

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

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.

KalNorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2018

Notes to the Consolidated Financial Statements

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

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 of 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.

Mining tenements and exploration and evaluation expenditure

Mining tenements and exploration and evaluation expenditure 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.

KalNorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2018

Notes to the Consolidated Financial Statements

Note 1: Statement of Significant Accounting Policies (cont'd) Mining tenements and exploration and evaluation expenditure (cont'd)

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.

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.

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:

Class of fixed asset	Depreciation rate
Plant and equipment	10-33%

KalNorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2018

Notes to the Consolidated Financial Statements

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

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.

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

KalNorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2018

Notes to the Consolidated Financial Statements

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

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.

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.

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.

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

KalNorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2018

Notes to the Consolidated Financial Statements

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

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.

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.

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

Long term environmental obligations are based on the Group's environmental management plans in compliance with current environmental and regulatory requirements. Full provision is made based on the value of the estimated cost restoring the environmental disturbance that has occurred up to the reporting date. The restoration provision relates to exploration and evaluation expenditure and rehabilitation relating to the exploration and mining lease.

The estimated costs of rehabilitation are reviewed annually and adjusted as appropriate for changes in legislation, technology or other circumstances.

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

KalNorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2018

Notes to the Consolidated Financial Statements

Note 1: Statement of Significant Accounting Policies (cont'd) Goods and services tax (GST) (cont'd)

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.

Revenue Recognition

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.

Comparative figures

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

KalNorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2018

Notes to the Consolidated Financial Statements

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

Finance costs

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

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 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.

Note 3: Other income

	2018 \$	2017 \$
Interest received	24,378	3,648
Gain on sale of inventory	28,808	14,825
Gain on sale of PPE	60,000	-
	113,186	18,473
Gain on sale of tenements ⁽ⁱ⁾	110,000	1,277,850

(i) For the year ended 30 June 2018, the Company sold three non-core tenements within the larger Kurnalpi Gold Project to Carnavale Resources Limited for \$110,000.

For the year ended 30 June 2017, the Company completed the sale of its 100% interest in the Kalpini project as part of its divesture of non-core assets. All tenements were located within the Goldfields region of Western Australia.

The gain on sale consists of the following components;

	2018 \$	2017 \$
Proceeds from sale (exclusive of GST)	110,000	3,200,000
Facilitation fee	-	(190,000)
Exploration & evaluation expenditure carrying value (Note 8)	-	(1,759,450)
Rehabilitation provision write-back on disposal	-	27,300
Total gain on sale of tenements	110,000	1,277,850

KalNorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2018

Note 4: 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

	2018	2017
	\$	\$
Loss before income tax	(357,446)	(95,951)
Income tax benefit at 27.5%	(98,298)	(26,386)
Tax effect of permanent differences	107,234	-
Tax effect of temporary differences	(321)	460,849
Tax effect of deduction for tax losses not previously recognised	(8,615)	(434,463)
Income tax expense	<u>-</u>	<u>-</u>

(c) Unrecognised deferred tax balances

Tax losses attributable to members of the tax consolidated group		
– revenue	77,599,222	77,804,937
Potential tax benefit at 27.5%	21,339,786	21,396,358

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 subsidiaries 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.

KalNorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2018

Note 5: Trade and other receivables	2018	2017
	\$	\$
Current		
Trade receivables ⁽ⁱ⁾	2,562	2,834
GST receivable	19,080	-
	21,643	2,834

(i) Trade receivables are non-interest bearing and have payment terms between 30 – 90 days. No impairment has been provided for.

Note 6: Other assets	2018	2017
	\$	\$
Current		
Credit card facility - security deposit	7,500	7,500

Note 7: Property, plant and equipment	2018	2017
	\$	\$
Plant and equipment		
At cost	386,121	386,121
Accumulated depreciation	(385,317)	(372,340)
Transfer and movements	(66)	-
	738	13,781
Motor vehicles		
At cost	113,887	113,887
Accumulated depreciation	(54,600)	(113,887)
Transfer and movements	(59,287)	-
	-	-
IT Assets		
At cost	307,843	307,843
Accumulated depreciation	(296,092)	(304,308)
Transfer and movements	(10,163)	-
	1,588	3,535
Land and buildings		
At cost	380,866	380,866
Accumulated depreciation	(90,000)	(88,782)
	290,866	292,084
Total written down value	293,192	309,400

(a) Movements in carrying amounts

	Land & Buildings	Plant & Equipment	Motor Vehicles	IT Assets	Total
Balance at 1 July 2016	301,059	34,146	-	2,985	338,190
Additions	-	-	-	2,771	2,771
Depreciation expense	(8,975)	(20,365)	-	(2,221)	(31,561)
Balance at 30 June 2017	292,084	13,781	-	3,535	309,400
Balance at 1 July 2017	292,084	13,781	-	3,535	309,400
Depreciation expense	(1,218)	(12,977)	-	(1,945)	(16,140)
Transfer and movements	-	(66)	-	(2)	(68)
Balance at 30 June 2018	290,866	738	-	1,588	293,192

KalNorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2018

Note 8: Exploration and evaluation expenditure	2018	2017
	\$	\$
Cost	<u>5,259,651</u>	<u>5,259,651</u>
<i>Reconciliation</i>		
Balance at beginning of year	5,259,651	6,999,901
Exploration expenditure incurred	394,089	552,403
Exploration expenditure immediately expensed ⁽ⁱ⁾	(394,089)	(552,403)
Disposal of tenements ⁽ⁱⁱ⁾	-	(1,759,450)
Additional allowance for rehabilitation	-	19,200
Balance at end of year	<u>5,259,651</u>	<u>5,259,651</u>

(i) During the year the company incurred exploration expenditure costs which were immediately expensed as their recoverability was uncertain.

(ii) The Kalpini project was divested during the year ended 30 June 2017.

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.

Note 9: Trade and other payables	2018	2017
	\$	\$
Current		
Trade payables ⁽ⁱ⁾	61,948	73,809
GST and other taxes payable ⁽ⁱ⁾	18,845	279,640
Sundry payables and accrued expenses ⁽ⁱ⁾	40,296	93,375
Deposit received	2,000	-
	<u>123,089</u>	<u>446,824</u>

(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.

Note 10: Interest bearing liabilities	2018	2017
	\$	\$
Current		
Convertible notes – Cross Straits ⁽ⁱ⁾	1,300,000	1,280,887
Interest payable on Cross Straits convertible notes ^{(i) (ii)}	169,604	91,904
Transfer to borrowings	(1,469,604)	-
Total interest bearing liabilities	<u>-</u>	<u>1,372,791</u>

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

Balance at beginning of year	91,904	18,477
Interest expense	96,545	83,639
Interest 10% withholding on the convertible note	(18,845)	(10,212)
Balance at end of year	<u>169,604</u>	<u>91,904</u>

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

In September 2015, the Company entered into a convertible note facility agreement with Cross-Straits for an amount of up to \$2 million. The facility became effective following shareholder and other regulatory approvals in February 2016. The noteholder can, at its discretion, convert all or part of the amounts drawn down into shares in the Company at an issue price of \$0.01 per share. The Company’s right to drawdown under the facility to the full amount of \$2 million was extended during the year from an end date of 31 December 2016 to 28 February 2018. At the same time, the repayment date for amounts drawn down was extended from 30 April 2017 to 30 April 2018.

KalNorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2018

Note 10: Interest bearing liabilities (cont'd)

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

Summary of Cross Straits convertible note is as follows:

	2018	2017
	\$	\$
Carrying amount at the beginning of the year	1,280,887	284,577
Convertible notes drawn down in year – face value	-	1,000,000
Amount classified as equity from drawdowns in year (Note 13)	-	(50,790)
Unwinding of interest	19,113	47,100
	1,300,000	1,280,887

Note 11: Borrowings

	2018	2017
	\$	\$
Loan – Cross Straits	1,469,604	-

This loan is the result of the convertible note (refer to note 10) with Cross Straits that expired on 30 April 2018 and is reclassified as a current liability. This loan is unsecured, interest-free and repayable upon demand. Subsequent to year end, the full loan amount was repaid.

Note 12: Restoration provision

	2018	2017
	\$	\$
Non-current		
Restoration provision ⁽ⁱ⁾	1,279,946	1,495,520

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

	2018	2017
	\$	\$
Carrying amount at the start of the year	1,495,520	1,503,620
Reduction arising from sale of tenements	-	(27,300)
Movement during the year	(215,574)	19,200
	1,279,946	1,495,520

The reduction in restoration provision during the year was a result of reduced tenement holdings from sale of tenements.

Note 13: Contributed equity

	2018	2017
	\$	\$
894,240,060 fully paid ordinary shares (2017: 894,240,060)	92,438,807	92,438,807
Movements in ordinary shares on issue for the year:	No. of	Paid up
	shares	capital
		\$
Balance 1 July 2016	894,240,060	92,388,017
Equity portion on convertible note issued during year ⁽ⁱ⁾	-	50,790
	894,240,060	92,438,807
Balance 30 June 2017	894,240,060	92,438,807
Balance 30 June 2018	894,240,060	92,438,807

(i) This balance represents the equity component of convertible notes (Note 10 (iii)) issued by the Company during the year ended 30 June 2017.

KalNorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2018

Note 13: Contributed Equity (cont'd)

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.

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: Accumulated Losses

	2018 \$	2017 \$
Accumulated losses at the beginning of the year	(86,913,992)	(86,818,041)
Loss for the year	(357,446)	(95,951)
Accumulated losses at the end of the year	<u>(87,271,438)</u>	<u>(86,913,992)</u>

Note 15: 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 2018.

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

	2018 \$	2017 \$
Short-term employee benefits	127,422	173,659
Termination benefits	-	11,191
Post-employment benefits	8,550	10,171
	<u>135,972</u>	<u>195,021</u>

KaliNorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2018

Note 16: 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 (2017: no related party transactions).

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

	2018	2017
	\$	\$
Accrued Directors' fees	-	29,137

Loans to/from related parties

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

Note 17: Loss per share

	2018	2017
	\$	\$
a) Basic loss per share		
Loss after income tax	(357,446)	(95,951)

Weighted average number of ordinary shares on issue during the year used as the denominator in calculating basic loss per share

	894,240,060	894,240,060
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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.

Note 18: Auditors' remuneration

	2018	2017
	\$	\$
Remuneration of the auditor for:		
- audit and review of financial reports - BDO Audit (WA) Pty Ltd	43,779	28,200
- other services- BDO Audit (WA) Pty Ltd	1,275	-
- audit and review of financial reports – RSM Australia Pty Ltd	-	11,142
- taxation services – RSM Australia Pty Ltd	-	7,500
	45,054	46,842

The Company appointed BDO Audit (WA) Pty Ltd as auditor following the resignation of RSM Australia Pty Ltd after the conclusion of the 2016 Annual General Meeting.

Note 19: Cash flow information

	2018	2017
	\$	\$
a) Reconciliation of the net loss after income tax to the net cash flows from operating activities:		
Net loss for the year	(357,446)	(95,951)
<i>Non-cash items included in net loss:</i>		
Depreciation expense	16,207	31,561
Exploration expenses expensed	394,089	552,403
Rehabilitation provision	(215,574)	-
Others	(1,491)	-
(Gain)/loss on sale of tenements	-	(1,277,850)
(Gain)/loss on sale of plant & equipment	-	(12,500)
Share based settled interest expense	-	130,737
<i>Changes in assets and liabilities:</i>		
Decrease in trade and other receivables	(18,809)	299,459
Decrease in trade and other creditors	(323,735)	(103,711)
Net cash outflow from operating activities	(506,759)	(475,852)

KalNorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2018

Note 19: Cash flow information (cont'd)

b) Reconciliation of cash

Cash balance comprises:

- Cash at bank and on hand	2,458,022	3,260,565
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c) Non-Cash Financing and Investing Activities

There were no non-cash financing and investing activities for the year ended 30 June 2018 and 2017.

Note 20: 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 commitment on these tenements which covers the Lindsays and Kurnalpi projects is \$603,140 (2017: \$654,620).

If the consolidated entity decides to relinquish certain leases and/or does not meet these obligations, assets recognised in the Consolidated Statement of Financial Position 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.

(ii) Non-cancellable operating lease commitments

During the year ended 30 June 2018 the Company had not entered into any non-cancellable operating lease commitments (30 June 2017: \$nil).

Note 21: Controlled entities

	Country of Incorporation	Percentage Owned (%)	
		2018	2017
Subsidiaries of KalNorth Gold Mines Limited:			
Shannon Resources Pty Ltd	Australia	100	100
Lusitan Prospecting Pty Ltd	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 2018 (2017: nil).

Note 22: Segment information

Identification of reportable operating segments

The consolidated entity is organised into two operating segments: mine development and mineral exploration, both within Australia.

<u>30 June 2018</u>	Mine development	Mineral Exploration	Admin	Total consolidated group
Revenue	\$	\$	\$	\$
Interest revenue	-	-	24,378	24,378
Gain on sale of tenements	-	110,000	-	110,000
Other income	-	555,901	88,808	644,709
Total income	-	665,901	113,186	779,087
EBITDA	-	271,813	(507,605)	(235,792)
Depreciation and amortisation	-	-	(16,207)	(16,207)
Finance costs	-	-	(105,447)	(105,447)
Profit/(Loss) before income tax	-	271,813	(629,259)	(357,446)
Income tax benefit	-	-	-	-

KalNorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2018

Note 22: Segment information (cont'd)

Profit/(Loss) after income tax	-	271,813	(629,259)	(357,446)
	Mine Development \$	Mineral Exploration \$	Admin \$	Total consolidated group \$
30 June 2018				
Assets				
<i>Segment assets</i>				
Exploration assets	-	5,259,651	-	5,259,651
Property, plant and equipment	-	-	293,191	293,191
<i>Unallocated assets:</i>				
Cash and cash equivalents	-	-	2,458,022	2,458,022
Trade and other receivables	-	-	21,643	21,643
Other current assets	-	-	7,500	7,500
Total assets	-	5,259,651	2,780,356	8,040,008
Liabilities				
<i>Segment liabilities</i>				
Trade and other payables	-	(58,782)	(64,307)	(123,089)
Restoration provision	(1,279,946)	-	-	(1,279,946)
<i>Unallocated liabilities:</i>				
Borrowings	-	-	(1,469,604)	(1,469,604)
Total liabilities	(1,279,946)	(58,782)	(1,533,911)	(2,872,639)
	Mine development \$	Mineral Exploration \$	Admin \$	Total consolidated group \$
30 June 2017				
Revenue				
Sales to external customers	13,422	-	-	13,422
Interest revenue	-	-	3,648	3,648
Gain on sale of tenements	-	1,277,850	-	1,277,850
Other income	-	-	14,825	14,825
Total income	13,422	1,277,850	18,473	1,309,745
EBITDA	13,422	725,447	(672,450)	66,419
Depreciation and amortisation	-	-	(31,561)	(31,561)
Finance costs	-	-	(130,809)	(130,809)
Profit/(Loss) before income tax	13,422	725,447	(834,820)	(95,951)
Income tax benefit	-	-	-	-
Profit/(Loss) after income tax	13,422	725,447	(834,820)	(95,951)

KalNorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2018

Note 22: Segment information (cont'd)

<u>30 June 2017</u> Assets	Mine development	Mineral Exploration	Admin	Total consolidated group
<i>Segment assets</i>				
Exploration assets	-	5,259,651	-	5,259,651
Property, plant and equipment	-	-	309,400	309,400
<i>Unallocated assets:</i>				
Cash and cash equivalents	-	-	3,260,565	3,260,565
Other current assets	-	-	10,334	10,334
Total assets	-	5,259,651	3,580,299	8,839,950
Liabilities				
<i>Segment liabilities</i>				
Trade and other payables	-	(58,782)	(388,042)	(446,824)
Restoration provision	(1,495,520)	-	-	(1,495,520)
<i>Unallocated liabilities:</i>				
Interest-bearing liabilities	-	-	(1,372,791)	(1,372,791)
Total liabilities	(1,495,520)	(58,782)	(1,760,833)	(3,315,135)

Note 23: 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

30 June 2018	Weighted average interest Rate %	Floating interest rate \$	Fixed interest maturing 1 year or less \$
Cash at bank	0.91%	2,458,022	-
Total assets		2,458,022	-

KalNorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2018

Note 23: Financial risk management objectives and policies (cont'd)

	Weighted average interest Rate %	Floating interest rate \$	Fixed interest maturing 1 year or less \$
30 June 2017			
Cash at bank	0.44%	2,260,565	1,000,000
Total assets		2,260,565	1,000,000
Interest bearing liabilities	8%	-	(1,300,000)
Total liabilities		-	(1,300,000)

Interest rate sensitivity analysis – cash at bank

At 30 June 2018, 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 \$26,692 higher/lower (2017: \$8,355), 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.

(c) Liquidity risk

The consolidated entity manages liquidity risk by monitoring forecast and actual cash flows and ensuring that adequate reserves and borrowing facilities are available to meet its financial obligations as they fall due.

The table below details the Group's expected maturity for its financial liabilities. These have been drawn based on undiscounted contractual maturities of the financial liabilities based on the earliest date on which the Group can be required to pay.

	Less than 6 months \$	6 months to 1 year \$	Total \$
30 June 2018			
Financial liabilities due for payment			
Trade and other payables	(123,089)	-	(123,089)
Interest bearing liabilities	-	-	-
Borrowings	(1,469,604)	-	(1,469,604)
	(1,592,693)	-	(1,592,693)
30 June 2017			
Financial liabilities due for payment			
Trade and other payables	(446,824)	-	(446,824)
Interest bearing liabilities	-	(1,372,791)	(1,372,791)
	(446,824)	(1,372,791)	(1,819,615)

(d) Foreign exchange risk

There were no financial instruments with a foreign currency exposure at the reporting date or at the end of the preceding financial year.

KalNorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2018

Note 23: 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 24: Contingent liabilities and contingent assets

There are no contingent liabilities or assets at reporting date.

Note 25: Parent Information

As referred to in Note 21, 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 26: Events subsequent to reporting date

On 11 September 2018, the loan amounting to \$1,469,604 owing to Cross-Straits Common Development Fund Co., Limited was fully repaid.

Other than the above, no matter or circumstance has arisen which has significantly affected, or may significantly affect, the operations of the consolidated entity.

KalNorth Gold Mines Limited and Controlled Entities

For the year ended 30 June 2018

DIRECTORS' DECLARATION

In the opinion of the Directors of KalNorth Gold Mines Limited (the 'Company'):

- a. the accompanying financial statements and notes 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 2018 and of its performance for the year then ended; and
 - ii. complying with Australian Accounting Standards, the Corporations Regulations 2001, professional reporting requirements and other mandatory requirements;
- b. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
- c. the financial statements and notes thereto are in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board.

This declaration has been made after receiving the declarations required to be made to the Directors in accordance with Section 295A of the Corporations Act 2001 for the financial year ended 30 June 2018.

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

On behalf of the Directors:



Jianjun Hu
Executive Chairman

Dated at Perth 28 September 2018

INDEPENDENT AUDITOR'S REPORT

To the members of KalNorth Gold Mines Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of KalNorth Gold Mines Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2018, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial report, including a summary of significant accounting policies and the directors' declaration.

In our opinion the accompanying financial report of the Group, is in accordance with the *Corporations Act 2001*, including:

- (i) Giving a true and fair view of the Group's financial position as at 30 June 2018 and of its financial performance for the year ended on that date; and
- (ii) Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report. We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

Material uncertainty related to going concern

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Material uncertainty related to going concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Carrying Value of Exploration and Evaluation Assets

<i>Key audit matter</i>	<i>How the matter was addressed in our audit</i>
<p>As disclosed in note 8, the carrying value of the exploration and evaluation asset represents a significant asset of the group.</p> <p>The group's policy for accounting for exploration and evaluation asset is disclosed in note 1 of the financial report.</p> <p>The carrying value of the exploration and evaluation asset is a key audit matter due to the level of procedures undertaken to evaluate managements application of the requirements of AASB 6 <i>Exploration for and Evaluation of mineral Resources</i> ('AASB 6') in light of any Indicators of impairment that may be present.</p>	<p>Our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> • Obtaining from management a schedule of areas of interest held by the Group and assessing whether the rights to tenure of those areas of interest remained current at balance date; • Making enquiries of management with respect to the status of ongoing exploration programs in the respective areas of interest and assessing the Group's cashflow budget for the level of budgeted spend on exploration projects; • Considering whether any areas of interest had reached a stage where a reasonable assessment of economically recoverable reserves existed; • Considering whether there are any other facts or circumstances that existed to indicate impairment testing was required; and • Assessing the adequacy of the related disclosures in Note 8 of the financial report.



Other information

The directors are responsible for the other information. The other information comprises the information in the Group's annual report for the year ended 30 June 2018, but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors 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 gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at:

http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf

This description forms part of our auditor's report.



Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 5 to 8 of the directors' report for the year ended 30 June 2018.

In our opinion, the Remuneration Report of KalNorth Gold Mines Limited, for the year ended 30 June 2018, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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.

BDO Audit (WA) Pty Ltd

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

Glyn O'Brien

Director

Perth, 28 September 2018

KalNorth Gold Mines Limited and Controlled Entities
For the year ended 30 June 2018
Statement of Corporate Governance

Statement of Corporate Governance Practices

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 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 2018, 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 (Third 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 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.

KalNorth Gold Mines Limited and Controlled Entities
For the year ended 30 June 2018
Statement of Corporate Governance

Statement of Corporate Governance Practices (cont'd)

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 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 Chairman 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.

Given the present size and scale of operations, the Executive Chairman also serves as the Company Secretary. In any case the Company Secretary has a direct reporting line to the Board.

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 8 staffs (three directors including one female director, contracted exploration manager, project geologist, project engineer, contracted corporate accountant and bookkeeper) as at 30 June 2018.

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.

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.

KalNorth Gold Mines Limited and Controlled Entities
For the year ended 30 June 2018
Statement of Corporate Governance

Statement of Corporate Governance Practices (cont'd)

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	√	√	√	√	
Yuanguang Yang	Male	Accounting CPA	√	√	√	√	
Xiaojing Wang	Female	Bachelor of Applied Finance	√	√	√	√	

The Board recognises that since January 2017, there are no directors with technical skills in geology and mining. Given the present size and scale of activities, the Board believes that the risks of not having those skills at a Board level is manageable. The Company sources such skills on a consulting basis and Mr Lijun

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Yang has continued to provide geological services to the Company since his resignation as an Executive Director in January 2017.

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	Executive Chairman	Appointed as a non-executive director on 13 December 2013, then appointed as Non-Executive Chairman on 14 April 2015, and subsequently appointed Executive Chairman on 11 January 2017	No
Xiaojing Wang	Non-executive Director	11 January 2017	Yes
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 only Mrs Wang can be considered independent. Mr Jiajun Hu and Mr Yuanguang Yang have been nominated to the Board by major shareholders of the Company.

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 had a non-executive role until January 2017, however since then he acts in an executive capacity. In the absence of a separate CEO, Mr Hu also effectively fulfils that role since January 2017. For the further 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 an independent Chairman.

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.

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Statement of Corporate Governance Practices (cont'd)

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.

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 (www.kalnorthgoldmines.com/irm/content/corporate-governance.aspx).

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.

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.

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.

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Statement of Corporate Governance Practices (cont'd)

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 Share Trading policy is available on the Company's website (www.kalnorthgoldmines.com/irm/content/corporate-governance.aspx).

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.

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.

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Statement of Corporate Governance Practices (cont'd)

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 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.

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 separate 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.

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Statement of Corporate Governance Practices (cont'd)

The Company's policies and practices regarding the remuneration of Executive and Non-Executive Directors is set out in its Remuneration committee charter which is available on the website (www.kalnorthgoldmines.com/irm/content/corporate-governance.aspx).

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
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Annual Mineral Resources and Ore Reserves Statement

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

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 2017.

The Lindsays project consists of a contiguous package of tenements centred around the Lindsays Mine site which remains under care and maintenance. 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 2017.

Table 1: Ore Resources
Summary of Mineral Resource Estimates (at 30 June 2018)
Reported according to JORC Category and Deposit (JORC 2004 & 2012 Compliant)

Deposit	Indicated			Inferred			Total		
	Tonnes (t)	Grade (g/t)	Ounces (oz.)	Tonnes (t)	Grade (g/t)	Ounces (oz.)	Tonnes (t)	Grade (g/t)	Ounces (oz.)
Kurnalpi Project									
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 ¹	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
Total ²	2,908,900	1.3	117,800	2,345,700	0.9	71,600	5,244,600	1.1	189,400
Lindsays Project									
Eastern Structure	1,479,000	1.6	76,000	203,000	1.6	10,500	1,682,000	1.6	86,500
Parrot Feathers ¹	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
Total	3,425,000	1.5	165,400	549,600	2.8	49,700	3,974,600	1.7	215,100

KalNorth Gold Mines Total									
	Indicated			Inferred			Total		
	Tonnes (t)	Grade (g/t)	Ounces (oz.)	Tonnes (t)	Grade (g/t)	Ounces (oz.)	Tonnes (t)	Grade (g/t)	Ounces (oz.)
Total	6,333,900	1.4	283,200	2,895,300	1.3	121,300	9,219,200	1.4	404,500

1. Brilliant and Parrot Feathers reported under JORC 2012, all others under JORC 2004.

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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 engaged professional 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 Project were undertaken independently by Snowden Mining Industry Consultants.

Competent Person Statement

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

The Annual Mineral Resources and Ore Reserves statement as a whole has been approved by Mr Lijun Yang who is an employee of Gold Geological Consulting Pty Ltd which providing technical consultancy services to KalNorth Gold Mines Limited. Mr Yang 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 this report of the matters based on his information in the form and context in which it appears in the report.

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Mining Interests

Mining Tenements held at 8 September 2018

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

Tenement	Holder	Status	Project	Interest %
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
P28/1154	KalNorth Gold Mines Ltd	Live (Conversion)	Kurnalpi	100
P28/1180	KalNorth Gold Mines Ltd	Live (Conversion)	Kurnalpi	100
P28/1191	KalNorth Gold Mines Ltd	Live (Conversion)	Kurnalpi	100
P28/1184	KalNorth Gold Mines Ltd	Live (Conversion)	Kurnalpi	100
P28/1186	KalNorth Gold Mines Ltd	Live (Conversion)	Kurnalpi	100
P28/1187	KalNorth Gold Mines Ltd	Live (Conversion)	Kurnalpi	100
P28/1190	KalNorth Gold Mines Ltd	Live (Conversion)	Kurnalpi	100
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
P28/1282	Shannon Resources Pty Ltd	Live	Kurnalpi	100
M28/0377	Shannon Resources Pty Ltd	Live	Kurnalpi	100
M28/0379	Shannon Resources Pty Ltd	Live	Kurnalpi	100
M28/0380	Shannon Resources Pty Ltd	Live	Kurnalpi	100
M28/0381	Shannon Resources Pty Ltd	Live	Kurnalpi	100
M28/0382	Shannon Resources Pty Ltd	Live	Kurnalpi	100
M28/0383	Shannon Resources Pty Ltd	Live	Kurnalpi	100
M28/0384	Shannon Resources Pty Ltd	Live	Kurnalpi	100
M28/0386	KalNorth Gold Mines Ltd	Pending	Kurnalpi	100
M28/0390	KalNorth Gold Mines Ltd	Pending	Kurnalpi	100
M28/0391	KalNorth Gold Mines Ltd	Pending	Kurnalpi	100
M28/0391	KalNorth Gold Mines Ltd	Pending	Kurnalpi	100
M28/0391	KalNorth Gold Mines Ltd	Pending	Kurnalpi	100
M28/0391	KalNorth Gold Mines Ltd	Pending	Kurnalpi	100
E27/0517	KalNorth Gold Mines Ltd	Live	Lindsays Find	100
L27/0082	KalNorth Gold Mines Ltd	Live	Lindsays Find	100
L27/0084	KalNorth Gold Mines Ltd	Live	Lindsays Find	100
M27/0034	KalNorth Gold Mines Ltd	Live	Lindsays Find	100
M27/0169	KalNorth Gold Mines Ltd	Live	Lindsays Find	100
M27/0486	KalNorth Gold Mines Ltd	Live	Lindsays Find	100
P28/1335	KalNorth Gold Mines Ltd	Pending	Kurnalpi	100
E27/0524	Heron Resources Ltd	Live	Binti Binti	100% Au rights

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Shareholder Information

Shareholder Information

The shareholder information set out below was applicable as at 10 September 2018.

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	131	50,375	0.006%
1,001 to 5,000	177	561,501	0.063%
5,001 to 10,000	139	1,139,212	0.127%
10,001 to 100,000	308	11,256,680	1.259%
100,001 and over	125	881,232,292	98.545%
Total	880	894,240,060	100%

The number of shareholders holding less than a marketable parcel is 733.

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	REENERGY PTY LTD	188,594,646	21.09
3	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	108,301,639	12.11
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	51,914,142	5.81
7	LINK GROUP	31,891,113	3.57
8	REGALWEST PTY LTD	14,603,632	1.63
9	MR JOHN MCKINSTRY	5,793,155	0.65
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	MR JUSTIN JOHN WOOD & MRS CAROLYN WOOD	2,316,839	0.26
15	MR ANDREW GUTWIRTH	2,200,000	0.25
16	CITICORP NOMINEES PTY LIMITED	2,110,071	0.24
17	MR ILIAS LEE RISKAS	2,000,000	0.22
18	MR EDWIN PAUL CAYZER & MRS LORAIN HELEN CAYZER	1,860,000	0.21
19	MR GREGORY GERARD RYAN	1,800,000	0.20
20	MR BEVAN ALFRED JAGGARD & MRS SHEILA JAGGARD	1,734,100	0.19
Totals		845,568,523	94.56

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Shareholder Information

D. Substantial Shareholders

Holdings of substantial shareholders as advised to the Company are set out below:

Rank	Shareholder	Total Units
1.	SOUTH VICTORY GLOBAL LIMITED	260,688,116
2.	REENERGY PTY LTD	188,594,646
3.	CROSS-STRAIT COMMON DEVELOPMENT FUND CO., LIMITED	88,703,335
4.	GOLD FRESH LIMITED	86,615,562