



**KalNorth Gold Mines Limited and Controlled
Entities**

ACN 100 405 954

Financial Report
For the year ended 30 June 2013

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CORPORATE PARTICULARS

Directors	Mr Laurence Freedman Mr Robert Schuitema Mr Henry Jian Yu	<i>Non Executive Chairman</i> <i>Executive Director</i> <i>Non Executive Director</i>
Company Secretary	Mr Robert Schuitema	
Registered Office	Ground Floor 12 St George's Terrace Perth WA 6000	
Corporate Office	Ground Floor 12 St George's Terrace Perth WA 6000	
Mailing Address	GPO Box 2567 Perth WA 6001	
Share Registry	Advanced Share Registry Services 150 Stirling Highway Perth WA 6009	
Auditor	RSM Bird Cameron Partners 8 St Georges Terrace Perth WA 6000	
Solicitor	Jackson McDonald Level 25 140 St George's Terrace Perth WA 6000	

DIRECTORS' REPORT

The Directors of KalNorth Gold Mines Limited (formerly known as Carrick Gold 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 2013.

Directors

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

- Laurence Freedman
- Robert Schuitema
- Henry Jian Yu (appointed 26 November 2012)
- Ross Gillon (resigned 12 March 2013)
- John McKinstry (resigned 2 August 2013)

Information on Directors

LAURENCE FREEDMAN AM

Non-Executive Chairman (appointed 18 August 2010)

Mr Freedman has a long history of involvement and expertise in resource companies having begun his career with the Gold Fields Group, initially as an analyst, rising to director of group companies, including Commonwealth Mining Investments. He later spent time at BT Australia as Manager of Investments. In 1980, he resigned from BT to found the Equitilink Group which he grew to a global company with operations around the world. He held chairman and/or director roles at a number of Australian and international companies. In 2000, he sold the Equitilink Group and has managed his private investment portfolio in shares, property and fixed income. He is a mentor to a number of resource, biotech and technology companies.

Mr Freedman has held the following directorships of other public companies within the last three years:

- Inca Minerals Limited (formerly Condor Metals Limited)
- Phoslock Water Solutions Limited

ROBERT SCHUIITEMA

Executive Director (appointed 9 September 2010) and Company Secretary

Mr Schuitema has extensive Australian public company experience, currently being a Director of Phoslock Water Solutions Ltd and previously a Director of Electro Optical Systems Ltd. Mr Schuitema is a chartered accountant and member of the NZ Institute of Investment Analysts.

Mr Schuitema has a long history of involvement and expertise in resource companies having worked 14 years with Chase Manhattan Bank & latterly JP MorganChase as Head of Mining & Metals for Asia Pacific. As an investment banker Mr Schuitema was actively involved in raising both debt (project finance, bank loans and long term bonds) and equity (including hybrids) and providing M&A advise for resource companies both in Australia and internationally. Mr Schuitema worked with resource companies ranging from the major resource houses to junior resource companies financing there first project.

Mr Schuitema has held the following directorships of other public companies within the last three years:

- Inca Minerals Limited (formerly Condor Metals Limited)
- Phoslock Water Solutions Limited
- Electro Optical Systems Limited

DIRECTORS' REPORT (Cont'd)

Information on Directors (cont'd)

HENRY JIAN YU

Non-Executive Director (appointed 26 November 2012)

Mr Yu joined the Company in November 2012 in the position of Non Executive Director. Mr Yu is a regional executive of the Hong Kong-based Cross-Strait Common Development Fund Co. Limited, at present the largest shareholder in KalNorth Gold Mines Limited. Mr Yu has extensive background in international business. He resides in Sydney.

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

ROSS GILLON

Non-Executive Director (appointed 12 May 2010; resigned 12 March 2013)

Mr Gillon, principal of the legal firm of Lawton Gillon, has been in legal practice for 30 years and has been legal advisor for KalNorth Gold Mines Limited since its inception in 2002. He has been a director of a number of public companies.

Mr Gillon has held the following directorships of other public companies within the last three years:

- Inca Minerals Limited (formerly Condor Metals Limited)
- Millennium Minerals Limited
- Red River Resources Limited
- Telezon Limited

JOHN MCKINSTRY BE(Min), MAusIMM, MAICD

Managing Director (appointed 1 September 2011; resigned 2 August 2013)

Mr McKinstry joined the Company in January 2011 in the position of Chief Executive Officer. Mr McKinstry is a mining engineer with over 20 years' experience in operations with international mining companies, specialising in small mines. He has held general management positions in MIM, Normandy and Newmont and most recently was Chief Executive Officer of North Queensland Metals Limited. Mr McKinstry was the Chief Operating Officer of Inca Minerals Limited (formerly Condor Metals Limited) until March 2012.

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

Principal Activities

The Consolidated entity's principal activities during the year were divided between exploration on the Lindsays, Kalpini and Kurnalpi and Mt Jewell projects (KalNorth Gold Field Project) near Kalgoorlie, and commencing production at the Parrot Feathers deposit at the Lindsay's Field.

Operating results

The operating loss after income tax of the consolidated entity for the year ended 30 June 2013 was \$56,492,958 (2012: loss \$2,639,507).

Review of Operations

During the year, the Consolidated entity focused on the transition from being a gold explorer to a gold producer. The company achieved this milestone when mining commenced in January 2013. A mining lease for Parrot Feathers was granted in January 2013.

DIRECTORS' REPORT (Cont'd)

Review of Operations (Cont'd)

Initial mining focussed on pre-stripping the ore body. The first ore was hauled to Saracen Mineral Holdings Limited's Carosue Dam processing facility, which is situated 72km by road from the Lindsay's field, in mid-March 2013. Coincident with the Company accessing the higher grade zone from the Parrot Feather's ore body in April 2013, there was a major decline in the gold price. This required a significant change to the mining plan, which was subsequently modified in late May 2013. The board decided in July 2013 to suspend mining at the completion of Parrot Feathers Stage 2 (Lindsay's), in mid-August 2013, leaving approx. 75% of the planned production intact.

During the year material progress was made on advancing the Mt Jewell Project. An initial Reserve of 2.74Mt at 1.36 g/t for 119,800 oz of gold was established. In April 2013 the company announced a significant southerly extension of the Mt Jewell mineralisation, south of the Tregurtha ore body.

The company entered a Joint Venture with Mithrill Resources Ltd, for further exploration, on the Spargoville Project located 50km south of Kalgoorlie. This area holds significant exploration potential.

The Consolidated entity's resource base grew from 1.1 million oz to approx. 1.2 million ounces during the year, including an enlarged Reserve of 272,000 oz of gold.

In the 2012/2013 year exploration expenditure was \$5.2 million. A total of \$2.3 million was spent at Mt Jewell, \$1.3 million at Kalpini, \$1.2 million at Kurnalpi and \$0.4 million spent on exploration activity at other areas/projects.

KalNorth Gold Mines spent \$1.9 million on development and \$4.6 million on pre-stripping of the Parrot Feather's deposit in the year under review. As at 30 June 2013 the Consolidated entity had \$2.4 million in cash and cash-backed bonds at 30 June 2013 and \$4.2 million of debt.

Financial Position

The net assets of the Consolidated entity are \$11,645,799 as at 30 June 2013 (2012: \$60,021,191)

Significant Changes in the State of Affairs

Except for the matters mentioned in the Review of Operations, there have been no significant changes in the state of affairs of the Group during the current year.

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

- i) Lindsays mining suspension
On 10 July 2013 the Company announced that it would suspend mining, due to lower gold prices at the completion of Parrot Feathers Stage 2 (Lindsay's), leaving approx. 75% of the planned production intact.
- ii) Resignation of Managing Director
On 11 July 2013 the Company announced the Managing Directors' intention to resign. The resignation was effective 2 August 2013.
- iii) Redundancy costs and forfeited share loans
Due to the cessation of mining activities, several employees of the Company were made redundant after balance date. The total cost of redundancies paid was \$127,176. As a result, employee share loans valued at \$287,976 were forfeited, and this amount has been transferred from the share option reserve to retained losses after balance date.

DIRECTORS' REPORT (Cont'd)

Significant Events After the Reporting Date (Cont'd)

iv) Return of performance bonds

Subsequent to year end, the Company applied to the state Department for Mines, WA for replacement of the current cash-backed performance bonds (totalling \$720,000 at 30 June 2013) under the *Mining Rehabilitation Fund Act 2012 (WA)*. The application was accepted and an annual levy amount of \$14,500 was assessed for the 2014 financial year. This has been paid and subsequently, the term deposits upon which the performance bonds were secured were released on 2 August 2013.

Likely Developments and Expected Results

Mining at Lindsay's was suspended in mid-August upon the completion of Parrot Feathers Stage 2 due to lower gold prices. Should there be an improvement in the gold market, mining at Lindsay's can recommence. The company will continue to work on its other projects at Kurnalpi, Kalpini and Mt Jewell.

Environmental Issues

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

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

Indemnification of Officers and Insurance Premiums

The consolidated entity has paid premiums to insure the directors against liabilities for costs and expenses incurred by them in defending legal proceedings arising from their conduct while acting in the capacity of director of the consolidated entity, other than conduct involving a wilful breach of duty in relation to the consolidated entity.

Options

At the date of this report, the unissued ordinary shares of KalNorth Gold Mines Limited under option are as follows:

Grant Date	Date of Expiry	Exercise Price	Number under Option
27 November 2008	31 December 2013	\$1.00	1,500,000
2 December 2008	31 December 2013	\$1.00	1,500,000
15 April 2010	31 December 2013	\$1.00	2,000,000
28 May 2013	28 November 2014	\$0.08	25,000,000
			30,000,000

Option holders do not have any rights to participate in any issues of shares or other interests in the Consolidated entity or any other entity.

For details of options issued to directors and executives as remuneration, refer to the Remuneration Report.

During the year 2,500,000 options expiring 31 December 2012 lapsed without being exercised and were subsequently cancelled. During or since the year ended 30 June 2013, no shares have been issued on the exercise of options.

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.

DIRECTORS' REPORT (Cont'd)

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.

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

Remuneration Report (Audited)

This report outlines the remuneration arrangements in place for directors and executives of the Consolidated entity.

Remuneration Policy

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

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

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

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

The executive directors and senior executives receive a superannuation guarantee contribution required by the government which is currently 9% and do not receive any other retirement benefits. Some individuals, however, may choose to sacrifice part of their salary to increase payments towards superannuation.

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.

The board policy is to remunerate non-executive directors at market rates for comparable companies for time, commitment and responsibilities. The Board determines payments to the non-executive directors and reviews their remuneration annually based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders in general meeting (currently \$240,000). Fees for non-executive directors are not linked to the performance of the Consolidated entity. However, to align directors' interests with shareholders interests, the directors are encouraged to hold shares in the Consolidated entity and are able to participate in employee option plans.

DIRECTORS' REPORT (Cont'd)
Remuneration Report (Cont'd)
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 awarded.

Relationship between Remuneration Policy and Consolidated entity Performance

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

Key management personnel service agreements

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

	Commencement Date	Notice Period Base Salary	Base Salary	Termination Payments Provided *
Robert Schuitema	09/09/2010	1 month	\$98,000	none
Wade Johnson	04/04/2011	1 month	\$280,000	none

*other than statutory entitlements

There are no other agreements with key management personnel.

Remuneration Details for the Year Ended 30 June 2013

(a) Key management personnel compensation:

2013 Name	Short-term benefits			Post-employment benefits		Share-based payment Options	Others (**)	Total
	Salary, fees and leave	Non-Cash bonus	Non-monetary benefits (*)	Super-annuation	Retirement benefits			
	\$	\$	\$	\$	\$	\$	\$	\$
<i>Directors</i>								
Laurence Freedman	50,000	-	-	4,500	-	-	-	54,500
Robert Schuitema	98,000	-	60,240	8,820	-	-	65,400	232,460
Henry Jian Yu	29,932	-	-	2,694	-	-	-	32,626
Ross Gillon	37,500	-	-	3,375	-	-	-	40,875
John McKinstry	396,594	-	60,240	36,000	-	-	-	492,834
<i>Other key management personnel</i>								
Wade Johnson	280,000	-	-	25,200	-	-	-	305,200
Total	892,026	-	120,480	80,589	-	-	65,400	1,158,495

(*) relates to the provision of non-recourse share loans, the cost of which are treated as share based payments in the financial statements.

(**) \$65,400 was paid in consulting fees to Mr Schuitema during the year.

DIRECTORS' REPORT (Cont'd)
Remuneration Report (Cont'd)

2012 Name	Short-term benefits			Post-employment benefits		Share-based payment Options	Others	Total
	Salary, fees and leave \$	Non-Cash bonus \$	Non-monetary benefits (*) \$	Super-annuation \$	Retirement benefits \$			
<i>Directors</i>								
Laurence Freedman	50,000	-	-	4,500	-	-	-	54,500
Ross Gillon	50,000	-	-	4,500	-	-	-	54,500
Robert Schuitema	124,000	-	-	11,160	-	-	-	135,160
John McKinstry	400,000	50,000	127,850	36,540	-	-	-	614,390
<i>Other key management personnel</i>								
Wade Johnson	265,385	20,000	37,384	23,885	-	-	-	346,654
Total	889,385	70,000	165,234	80,585				1,205,204

(*) relates to the provision of non-recourse share loans, the cost of which are treated as share based payments in the financial statements.

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 executives during the year ended 30 June 2013 or 30 June 2012.

END OF REMUNERATION REPORT
Directors' relevant interests

The relevant interest of each director in the capital of the Consolidated entity at the date of this report is as follows:

<i>Director</i>	<i>No of Ordinary Shares</i>	<i>No of Options over Ordinary Shares</i>
Laurence Freedman	26,225,262	-
Robert Schuitema	846,900	-
Henry Jian Yu	10,000	-

DIRECTORS' REPORT (Cont'd)

Meetings of Directors

During the financial year, 13 meetings of directors were held. Attendances by each director during the year were as follows:

	Directors' Meetings		Audit Committee		Remuneration Committee	
	Number of meetings eligible to attend	Number attended	Number of meetings eligible to attend	Number attended	Number of meetings eligible to attend	Number attended
Laurence Freedman	13	13	-	-	-	-
Robert Schuitema	13	13	2	2	1	1
Henry Jian Yu	10	10	-	-	-	-
Ross Gillon	5	5	2	2	1	1
John McKinstry	13	13	2	2	-	-

Non-Audit Services

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

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

The following fees were paid or payable to RSM Bird Cameron for non-audit services.

	2013	2012
	\$	\$
Taxation services	6,350	4,500
Accounting advice on return of capital to shareholders	1,900	-
	8,250	4,500

Auditor's Independence Declaration

We have obtained an Auditor's Independence Declaration. Please refer to "Auditor's Independence Declaration" included on page 50 of the financial statements.

The Report of Directors, incorporating the Remuneration Report, is signed in accordance with a resolution of the Board of Directors.



Robert Schuitema
Executive Director

Dated at Sydney this 11th day of September 2013

Corporate Governance Statement

The Board of Directors of KalNorth Gold Mines Limited is responsible for the corporate governance of the Consolidated Entity. 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 following formalises the main corporate governance practices established and in force throughout the financial year to ensure the Board is well equipped to discharge its responsibilities.

Composition of the Board

The composition of the Board shall be determined in accordance with the following principles and guidelines:

Í The Board should consist of at least 3 Directors, increasing where additional expertise is considered desirable in certain areas.

Í At least 50% of the Board members should be Non-Executive Directors.

Í The Chairman of the Board should be an Non-Executive Director.

Í Directors should bring characteristics which allow a mix of qualifications, skills and experience.

Í All available information in connection with items to be discussed at a meeting of the Board shall be provided to each Director prior to that meeting.

The Board will review its composition on an annual basis to ensure that the Board has the appropriate mix of expertise and experience. When a vacancy exists, for whatever reason, or where it is considered that the Board would benefit from the services of a new Director with particular skills, the Board will select appropriate candidates with relevant qualifications, skills and experience. External advisers may be used to assist in such a process. The Board will then appoint the most suitable candidate, who must stand for election at the next general meeting of shareholders.

The primary responsibilities of the Board include:

Í The establishment of the long term goals of the Consolidated entity and strategic plans to achieve those goals;

Í The review and adoption of annual budgets for the financial performance of the Consolidated entity and monitoring those results on quarterly basis. This includes the establishment and monitoring of key performance indicators (both financial and non-financial) for all significant business processes;

Í Ensuring the Consolidated Entity has implemented adequate systems of internal control together with appropriate monitoring of compliance activities; and

Í The approval of the annual and half-year financial reports.

The terms and conditions of the appointment and retirement of Directors will be set out in a letter of appointment which covers remuneration, expectations, terms, the procedures for dealing with conflicts of interest and the availability of independent professional advice.

The performance of all Directors will be reviewed by the Chairman each year.

Independent professional advice

Each Director will have the right to seek independent professional advice at the Consolidated entity's expense.

The prior approval of the Chairman will be required, which will not be unreasonably withheld.

Remuneration

The Board will review the remuneration packages and policies applicable to the Directors and Senior Executives on an annual basis. Remuneration levels will be competitively set to attract the most qualified and experienced Directors and Senior Executives.

Where necessary the Board will obtain independent advice on the appropriateness of remuneration packages.

Audit Committee

The Board shall maintain an Audit Committee of at least two Directors. Audit Committee meetings may also be attended, by invitation, by the external auditors. The role of the Committee will be to provide a direct link between the Board and the external auditors.

It will also give the Board additional assurance regarding the quality and reliability of financial information prepared for use by the Board in determining the matters for inclusion in the financial statements.

The responsibilities of the Audit Committee include:

Í Monitoring compliance with regulatory requirements;

Í Improving the quality of the accounting function;

Í Reviewing external audit reports to ensure that where major deficiencies or breakdowns in controls or procedures have been identified appropriate and prompt remedial action is taken by management; and

Í Liaising with the external auditors and ensuring that the annual audit and half-year review are conducted in an effective manner.

The Audit Committee will review the performance of the external auditors on an annual basis. Nomination of auditors will be at the discretion of the Audit Committee.

Corporate Governance Statement (Cont'd)

Business risk

The Board will monitor and receive advice on areas of operational and financial risk, and consider strategies for appropriate risk management arrangements.

Specific areas of risk identified initially and regularly considered at Board Meetings include risks associated with business and investment, new and rapidly evolving markets, technological change, competition and business and strategic alliances, the environment and continuous disclosure obligations.

Ethical standards

The Board's policy is for the Directors and Senior Management to conduct themselves with the highest ethical standards. All Directors and employees will be expected to act with integrity and objectivity, striving at all times to enhance the reputation and performance of the Consolidated Entity.

Trading in KalNorth Gold Mines Limited Securities

The Board's policy with regard to trading in the Consolidated entity's securities is that prior to any transaction, Directors and officers must obtain clearance from the Chairman to ensure that no transactions are made where the Director or officer is in possession of price sensitive information.

Authority limits

The Board shall annually review the level of authority limits for the Managing Director and Senior Management. That review shall coincide with the approval of the annual budgets.

Confidentiality

The Board members are required to ensure that all Consolidated entity business is kept confidential by each Director and staff in his control.

Dealing with conflicts of interest

A potential conflict of interest may arise from time to time. If a conflict or potential conflict of interest arises, full disclosure should be made to the Board as soon as the Director becomes aware of the conflict or potential conflict. The Board shall manage the conflict in such a way that the interests of the Consolidated entity as a whole are safeguarded.

A conflict will arise:

- Í When the private or other business interests of Directors and officers conflict directly or indirectly with their obligations to the Consolidated entity; and
- Í When benefits (including gifts or entertainment) are received from a person doing business which could be seen by others as creating an obligation to someone other than the Consolidated entity.

Directors and officers shall not act in a way which may cause others to question their loyalty to the Consolidated entity.

Corporate Governance Statement (Cont'd)

ASX PRINCIPLE

STATUS REFERENCE/COMMENT

Principle 1: Lay solid foundations for management and oversight.

1.1 Formalise and disclose the functions reserved to the board and those delegated to management.

A The Consolidated entity has formalised and disclosed the functions reserved to the Board and those delegated to management. The Consolidated entity has a small Board consisting of three Directors; two are Non- Executive.

The full Board currently meets every 4-6 weeks. In addition, strategy meetings and any extraordinary meetings are held at such other times as may be necessary to address any specific significant matters that may arise.

Principle 2: Structure the board to add value

2.1 A majority of board members should be independent directors.

A At least 50% or greater of the Board are Non-Executive Directors.

2.2 The chairperson should be an independent director.

A The Consolidated entity has an Non-Executive Chairman.

2.3 The roles of chair person and chief executive officer should not be exercised by the same individual.

A The positions of Chairman and Managing Director are not held by the same person.

2.4 The board should establish a nomination committee.

A The board has a Nomination Committee. For the time being, all Directors are members of the Committee.

2.5 The consolidated entity should disclose the process for evaluating the performance of the board.

A The performance of all Directors will be reviewed by the Chairman each year.

2.6 Provide the information indicated in Guide to reporting on Principle 2.

A The skills and experience of directors are set out in the Consolidated entity's Annual Report and on its website

Legend: A = Adopted

Corporate Governance Statement (Cont'd)

ASX PRINCIPLE

STATUS REFERENCE/COMMENT

Principle 3: Promote ethical and responsible decision making

3.1 Establish a code of conduct to guide the directors, the chief executive officer (or equivalent), the chief financial officer (or equivalent) and any other key executives as to:

3.1.1 the practices necessary to maintain confidence in the consolidated entity's integrity.

3.1.2 the responsibility and accountability of individuals for reporting or investigating reports of unethical practices.

3.2 Establish a diversity policy with measurable objectives and monitor through an annual assessment process.

3.3 Disclose the policy and measurable objectives concerning gender diversity.

3.4 The Consolidated entity should disclose in the annual report the proportion of women employed in the organisation, in senior roles and on the Board.

3.5 Provide the information indicated in guide to reporting on Principle 3.

A The Consolidated entity has formulated a Code of Conduct which can be viewed on the Consolidated entity's website.

The board continues to review existing procedures over time to ensure adequate processes are in place.

All directors, employees and contractors are expected to act with the utmost integrity and objectivity in their dealings with other parties, striving at all times to enhance the reputation and performance of the consolidated entity.

A The Consolidated entity had 5 employees (3 male, 2 females) as at the date of this report. The Board is committed to diversity of its employees as the consolidated entity grows in size and has a larger employment base.

A The Consolidated entity will take gender diversity into consideration as it grows in size and has a larger employment base.

A Approximately 40% of employees are female (2012: 29%). At this stage the Consolidated entity has no females directors.

A Website and annual report.

Legend: A = Adopted

Corporate Governance Statement (Cont'd)

ASX PRINCIPLE

STATUS REFERENCE/COMMENT

Principle 4: Safeguard integrity in financial reporting

- 4.1 The board should establish an audit committee
- 4.2 Structure the audit committee so that it consist of:
 - í Only Non-Executive Directors
 - í A majority of independent directors
 - í An independent chairperson who is not the chairperson of the board
 - í At least three members.
- 4.3 The audit committee should have a formal charter
- 4.4 Provide the information indicated in Guide to reporting on Principle 4.

- A The Consolidated entity has established an Audit Committee.
- A Given the composition of the Board, The Audit Committee currently consists of two Directors; one Non-Executive and one Executive director, who is not the Managing Director. The chair of the Audit Committee is not the Chairman of the Board. All Audit Committee members are financially literate, and the chair is a qualified accountant.
- A The Audit Committee has a formal charter. A copy of the charter is on the Consolidated entity's website.
- A Website and annual report

Principle 5: Make timely and balanced disclosure

- 5.1 Establish written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance.
- 5.2 Provide the information indicated in Guide to reporting on Principle 5.

- A The Consolidated entity has instigated internal procedures designed to provide reasonable assurance as to the effectiveness and efficiency of operations, the reliability of financial reporting and compliance with relevant laws and regulations. The Board is acutely aware of the continuous disclosure regime, and there are strong informal systems in place to ensure compliance, underpinned by experience.
- A The Consolidated entity publishes and releases the ASX quarterly reports on cash flow as well as annual and half-yearly results.

Principle 6: Respect the rights of shareholders

- 6.1 Design and disclose a communications strategy to promote effectiveness communication with shareholders and encourage effective participation at general meetings.
- 6.2 Provide the information indicated in Guide to reporting on Principle 6.

- A In line with adherence to continuous disclosure requirements of ASX, all shareholders are kept informed of material developments affecting the Consolidated entity. Shareholders are encouraged to exercise their right to vote, either by attending meetings, or by lodging a proxy. The Consolidated entity's auditors attend all shareholders' meetings.
- A This disclosure is through regular shareholder communications including the Annual Report, Quarterly Reports, the Consolidated entity website and this distribution of specific releases covering major transactions or events, as they arise.

Legend: A = Adopted

Corporate Governance Statement (Cont'd)

ASX PRINCIPLE

STATUS REFERENCE/COMMENT

Principle 7: Recognise and manage risk

7.1 The board or appropriate board committee should establish policies on risk oversight and management.

A The Board recognises its responsibility for identifying areas of significant business risk and for ensuring that arrangements are in place for adequately managing these risks. This issue is regularly reviewed at board meetings and risk management culture is encouraged amongst employees and contractors.

7.2 The Board should require management to design and implement the risk management and internal control system

A Determined areas of risk which are regularly considered include:
 í Performance and funding of commercial activities
 í Budget control and asset protection
 í Compliance with government laws and regulations
 í Safety and the environment
 í Continuous disclosure obligations.

7.3 The board should disclose that it has received assurance from the CEO/CFO in accordance with section 295A of the Corporations Act 2001.

A Disclosure in directors' report.

7.4 Provide information indicated in Guide to reporting on Principle 7.

A Website and reports from management.

Principle 8: Remunerate fairly and responsibly

8.1 The board should establish a Remuneration Committee.

A The Board has established a Remuneration Committee

8.2 The Remuneration Committee should be structured such that it:-
 i) Contains majority of independent directors
 ii) Is chaired by an independent director
 iii) Has at least three members

A The Remuneration Committee consists of 2 members, has majority Non-Executive directors and is chaired by an Non-Executive director.

8.3 Clearly distinguish the structure of non executives directors' remuneration from that of executives.

A The consolidated entity discloses remuneration related information in its Annual Report to shareholders in accordance with the Corporations Act 2001.

Remuneration levels are determined by the board on an individual basis, the size of the consolidated entity making individual assessment more appropriate than formal remuneration policies.

The policy disclosed in the remuneration report distinguishes between Non-Executive Directors and Senior Managers.

8.4 Provide information indicated in Guide to reporting on Principle 8.

A Website and annual report

Legend: A = Adopted

Corporate Governance Statement (Cont'd)

Community Standards

KalNorth Gold Mines Limited understands that the development of successful resource projects demands a proactive recognition of the breadth of stakeholder interest in these projects.

The Consolidated entity is committed to the protection of the environment and to ensure the health and safety of its employees, customers, contractors and communities where it operates and in all its business activities.

The Consolidated entity is dedicated to comply with all applicable laws and regulations and to work with government and other stakeholders in policy development and implementation.

Traditional Owners

The Company has engaged the assistance of Aboriginal parties representing the traditional owners of the land on which it operates.

An extensive Cultural Heritage Management Plan will be developed in consultation with the traditional owners as the Consolidated entity's various projects are developed toward production.

The Company commits to ongoing communication and consultation with traditional owners in all areas where it operates.

Landholders

The Company has a commitment to work constructively and proactively with landholders. The Landholders in our operational areas typically have a long history of involvement with their properties with agricultural operations generally being sheep and cattle.

The Consolidated entity's aim is to minimise the impact on their livelihood and lifestyle.

The Company will continue to conduct its operations with the intention of developing long and collaborative relationships with landholders.

Health and Safety

The Company undertakes its operations with the philosophy that occupational health and safety is paramount. The Consolidated entity aims to continually improve its processes and performances.

Promoting and ensuring a culture in which all employees and contractors fulfil their individual responsibilities in implementing the Health and Safety policy and meeting the regulatory standards remains a key focus.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 30 June 2013

	Note	2013 \$	2012 \$
Revenue from gold sales		3,629,630	-
Cost of sales		(8,144,071)	-
Gross Loss		<u>(4,514,441)</u>	-
Other income	2	176,527	962,355
Employment costs		(825,906)	(2,047,026)
Share based payment expense	26	(1,698,598)	-
Management and directors' fees		(196,585)	(244,160)
Professional fees and consultants		(210,936)	(256,068)
Occupancy costs		(150,807)	(135,811)
Advertising and promotion cost		(239,676)	(215,278)
Depreciation expenses	8	(235,285)	(228,993)
Amortisation expenses	9	(314,833)	-
Listing and registry fees		(44,056)	(46,933)
Impairment expense	3	(47,852,280)	(145,528)
Interest expense		(128,167)	(406)
Other expenses	3	<u>(257,915)</u>	<u>(281,659)</u>
Loss before income tax		(56,492,958)	(2,639,507)
Income tax benefit	4	-	-
Loss after income tax		<u>(56,492,958)</u>	<u>(2,639,507)</u>
Other comprehensive income			
Movement in fair value of available for sale investments		<u>(8,076)</u>	<u>(663,605)</u>
Other comprehensive income for the year		<u>(8,076)</u>	<u>(663,605)</u>
Total comprehensive loss		<u>(56,501,034)</u>	<u>(3,303,112)</u>
Loss per share			
Basic and diluted loss per share (cents)	19	(35.09)	(1.89)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2013

	Note	2013 \$	2012 \$
ASSETS			
Current Assets			
Cash and cash equivalents	21 (b)	2,427,292	3,230,395
Trade and other receivables	5	484,907	1,011,270
Inventories		1,038,501	-
Held for sale assets	6	-	706,000
Other assets	7	52,625	58,665
Total Current Assets		4,003,325	5,006,330
Non-Current Assets			
Trade and other receivables	5	-	602,034
Other assets	7	75,690	180,210
Property, plant and equipment	8	850,324	784,539
Mine development	9	-	-
Exploration and evaluation expenditure	10	17,547,128	58,515,374
Available-for-sale investments	11	4,739	151,201
Total Non-Current Assets		18,477,881	60,233,358
TOTAL ASSETS		22,481,206	65,239,688
LIABILITIES			
Current Liabilities			
Trade and other payables	12	5,010,068	2,918,497
Interest bearing liabilities	13	739,139	-
Total Current Liabilities		5,749,207	2,918,497
Non-Current Liabilities			
Trade and other payables	12	1,100,000	2,300,000
Interest bearing liabilities	13	3,500,000	-
Restoration provision	14	486,200	-
Total Non-Current Liabilities		5,086,200	2,300,000
TOTAL LIABILITIES		10,835,407	5,218,497
NET ASSETS		11,645,799	60,021,191
EQUITY			
Issued capital	15	74,603,464	68,289,298
Reserves	16	2,856,715	2,878,781
Accumulated losses		(65,814,380)	(11,146,888)
TOTAL EQUITY		11,645,799	60,021,191

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 30 June 2013

	Issued capital	Accumulated losses	Financial assets reserve	Share payment reserve	Total equity
	\$	\$	\$	\$	\$
2012					
As at 1 July 2011	67,880,798	(8,507,381)	663,605	2,878,781	62,915,803
Loss for the year	-	(2,639,507)	-	-	(2,639,507)
Movement in fair value of available for sale investments	-	-	(663,605)	-	(663,605)
Total comprehensive income for the year	-	(2,639,507)	(663,605)	-	(3,303,112)
Share issued during the year	408,500	-	-	-	408,500
As at 30 June 2012	68,289,298	(11,146,888)	-	2,878,781	60,021,191
2013					
As at 1 July 2012	68,289,298	(11,146,888)	-	2,878,781	60,021,191
Loss for the year	-	(56,492,958)	-	-	(56,492,958)
Movement in fair value of available for sale investments	-	-	(8,076)	-	(8,076)
Total comprehensive income for the year	-	(56,492,958)	(8,076)	-	(56,501,034)
Cost of share options granted during the year (Note 26)	-	-	-	1,811,476	1,811,476
Transfer of expired share option costs	-	1,825,466	-	(1,825,466)	-
Employee share loans	(817,500)	-	-	-	(817,500)
Share issued during the year, net of costs	7,131,666	-	-	-	7,131,666
As at 30 June 2013	74,603,464	(65,814,380)	(8,076)	2,864,791	11,645,799

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

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 30 June 2013

	Note	2013 \$	2012 \$
Cash flows from operating activities			
Receipts from customers		3,903,681	139,749
Payments to suppliers and employees		(8,014,253)	(3,426,866)
Interest received		163,678	946,457
Interest paid		(89,028)	-
Net cash used in operating activities	21(a)	<u>(4,035,922)</u>	<u>(2,340,660)</u>
Cash flows from investing activities			
Proceeds from sale of investments		525,542	-
Proceeds from sale of tenements		350,000	-
Proceeds from sale of plant and equipment		-	5,534
Payment for mine development		(1,417,452)	-
Payment for mine tenement		(1,200,000)	-
Payments for plant and equipment		(301,070)	(177,082)
Payment for mineral exploration activities	21(c)	<u>(5,839,759)</u>	<u>(13,432,088)</u>
Net cash used in investing activities		<u>(7,882,739)</u>	<u>(13,603,636)</u>
Cash flows from financing activities			
Proceeds from issue of shares		7,131,666	-
Proceeds from borrowings		4,200,000	-
Payment of bank borrowings		(216,108)	-
Net cash provided by financing activities		<u>11,115,558</u>	<u>-</u>
Net decrease in cash held		(803,103)	(15,944,296)
Cash and cash equivalents at the beginning of the financial year		<u>3,230,395</u>	<u>19,174,691</u>
Cash and cash equivalents at the end of the financial year	21(b)	<u>2,427,292</u>	<u>3,230,395</u>

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

**NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2013**

Note 1: Statement of Significant Accounting Policies

The financial report covers the consolidated entity of KalNorth Gold Mines Limited and Controlled Entities. KalNorth Gold Mines Limited is a listed public company incorporated and domiciled in Australia. The separate financial statement for parent entity, KalNorth Gold Mines Limited has not been prepared within this financial report as permitted by the Corporations Act 2001.

The financial report was authorised for issue on 11 September 2013 by the Board of Directors.

Basis of preparation

The financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in financial statements containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards as issued by the IASB. Material accounting policies adopted in the preparation of these financial statements are presented below and have been consistently applied unless otherwise stated.

The financial statements have been prepared on an accruals basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

Going Concern

The financial statements have been prepared on the going concern basis, which contemplates continuity of normal business activities and the realisation of assets and discharge of liabilities in the normal course of business.

As disclosed in the financial statements, the company and consolidated entity incurred losses of \$56,492,958 each and the consolidated entity had net cash outflows of \$803,103 for the year ended 30 June 2013. As at that date the company and consolidated entity had net current liabilities of \$1,754,757 and \$1,745,882 respectively.

These factors indicate significant uncertainty as to whether the company and consolidated entity will continue as going concerns and therefore whether they will realise their assets and extinguish their liabilities in the normal course of business and at the amounts stated in the financial report.

The Directors believe that there are reasonable grounds to believe that the company and consolidated entity will continue as going concerns and that it is appropriate to adopt the going concern basis in the preparation of the financial report after consideration of the following factors:

- The ability of the company to raise capital by the issue additional shares under the *Corporation Act 2001*;
- The potential to sell interest in exploration and evaluation assets for cash or for assets readily convertible into cash; and
- The ability to curtail administration and operational cash out flows as required

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

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

**NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2013**

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

a) Principles of consolidation

The consolidated financial statements incorporate the assets, liabilities and results of entities controlled by KalNorth Gold Mines Limited at the end of the reporting period. A controlled entity is any entity over which KalNorth Gold Mines Limited has the ability and right to govern the financial and operating policies so as to obtain benefits from the entity's activities.

Where controlled entities have entered or left the Group during the year, the financial performance of those entities is included only for the period of the year that they were controlled. A list of controlled entities is contained in Note 23 to the financial statements.

In preparing the consolidated financial statements, all inter-group balances and transactions between entities in the consolidated group have been eliminated in full on consolidation.

Non-controlling interests, being the equity in a subsidiary not attributable, directly or indirectly, to a parent, are reported separately within the equity section of the consolidated statement of financial position and statement of comprehensive income. The non-controlling interests in the net assets comprise their interests at the date of the original business combination and their share of changes in equity since that date.

Business combinations

Business combinations occur where an acquirer obtains control over one or more businesses.

A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control. The business combination will be accounted for from the date that control is attained, whereby the fair value of the identifiable assets acquired and liabilities (including contingent liabilities) assumed is recognised (subject to certain limited exemptions).

When measuring the consideration transferred in the business combination, any asset or liability resulting from a contingent consideration arrangement is also included. Subsequent to initial recognition, contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability is remeasured each reporting period to fair value, recognising any change to fair value in profit or loss, unless the change in value can be identified as existing at acquisition date.

All transaction costs incurred in relation to the business combination are expensed to the statement of comprehensive income.

The acquisition of a business may result in the recognition of goodwill or a gain from a bargain purchase.

Goodwill

Goodwill is carried at cost less accumulated impairment losses. Goodwill is calculated as the excess of the sum of:

- (i) the consideration transferred;
- (ii) any non-controlling interest; and
- (iii) the acquisition date fair value of any previously held equity interest;

over the acquisition date fair value of net identifiable assets acquired.

The acquisition date fair value of the consideration transferred for a business combination plus the acquisition date fair value of any previously held equity interest shall form the cost of the investment in the separate financial statements.

Fair value uplifts in the value of pre-existing equity holdings are taken to the statement of comprehensive income. Where changes in the value of such equity holdings had previously been recognised in other comprehensive income, such amounts are recycled to profit or loss.

The amount of goodwill recognised on acquisition of each subsidiary in which the Group holds less than a 100% interest will depend on the method adopted in measuring the non-controlling interest. The Group can elect in most circumstances to measure the non-controlling interest in the acquiree either at fair value (*full goodwill method*) or at the non-controlling interest's proportionate share of the subsidiary's identifiable net assets (*proportionate interest method*).

**NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2013**

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

a) Principles of consolidation (cont'd)

Goodwill (cont'd)

In such circumstances, the Group determines which method to adopt for each acquisition and this is stated in the respective notes to these financial statements disclosing the business combination.

Under the full goodwill method, the fair value of the non-controlling interest is determined using valuation techniques which make the maximum use of market information where available. Under this method, goodwill attributable to the non-controlling interests is recognised in the consolidated financial statements.

Goodwill is tested for impairment annually and is allocated to the Group's cash-generating units or groups of cash-generating units, representing the lowest level at which goodwill is monitored not larger than an operating segment. Gains and losses on the disposal of an entity include the carrying amount of goodwill related to the entity disposed of.

Changes in the ownership interests in a subsidiary are accounted for as equity transactions and do not affect the carrying values of goodwill.

b) 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.

**NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2013**

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

b) Income tax (cont'd)

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.

c) Mine development

Mine development represents the expenditure incurred in preparing mines for production and includes mine design, grade control drilling, contract documentation and purchase of minor capital items. Such expenditure comprises net direct costs and an appropriate allocation of directly related overhead costs.

All expenditure incurred prior to commencement of production from the development property is carried forward to the extent to which recoupment out of future revenue from the sale of production is reasonably assured.

When further development expenditure is incurred in respect of the mine property after commencement of production, such expenditure is carried forward as part of the cost of the mine property only when future economic benefits are reasonably assured, otherwise the expenditure is classified as an operating cost and expensed as incurred. Such capital development expenditure is added to the total carrying value of mine development being amortised.

The net carrying value of mine development expenditure carried forward is reviewed at least annually by directors to determine whether there is any indication of impairment. The carrying value of mine development will be amortised in full by the completion of the mine

d) Mining tenements and exploration and evaluation expenditure

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

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

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

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

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

**NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2013**

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

d) Mining tenements and exploration and evaluation expenditure

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.

e) Leases

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

Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over the shorter of their estimated useful lives or the lease term. Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

f) 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%
Buildings	10%
Motor vehicles	25%
IT assets	33%

**NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2013**

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

f) Property, plant and equipment (cont'd)

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. When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

g) 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

i. *Financial assets at fair value through profit or loss*

Financial assets are classified at fair value through profit or loss when they are held for trading for the purpose of short term profit taking, where they are derivatives not held for hedging purposes, or designed as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Realised and unrealised gains and losses arising from changes in fair value are included in profit or loss in the period in which they arise.

ii. *Loans and receivables*

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

iii. *Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the group's intention to hold these investments to maturity. They are subsequently measured at amortised cost using the effective interest rate method.

iv. *Available-for-sale financial assets*

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

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2013

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

g) Financial instruments (cont'd)

v. Financial liabilities

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

Fair value

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

Impairment of 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 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 statement of comprehensive income.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

h) Impairment of assets

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

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

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

i) 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.

**NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2013****Note 1: Statement of Significant Accounting Policies (Cont'd)****j) Inventories**

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

k) Provision for restoration

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

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

l) 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.

m) Employee benefits

Provision is made for the consolidated entity's liability for employee benefits arising from services rendered by employees to reporting date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

n) Goods and services tax

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

o) Revenue*(i) Sale of Ore*

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

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2013

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

o) Revenue (cont'd)

(ii) Interest income

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

p) 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).

q) 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.

r) Earnings per share

(i) 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.

(ii) 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.

s) Comparative figures

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

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2013

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

t) 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.

Key judgments

i) Restoration provision

The Company is required to ensure that appropriate rehabilitation is carried out on tenements that are mined. The amount of rehabilitation cost is an estimate based upon the estimated life of each mined tenement, as well as the future timing and cost of such rehabilitation. The provision is constantly revised as information about the life of mine, type of mining and cost estimates are updated.

ii) Mine development

All expenditure incurred prior to commencement of production from the development property is carried forward to the extent to which recoupment out of future revenue from the sale of production is reasonably assured. The net carrying value of mine development expenditure carried forward is reviewed at least annually by directors to determine whether there is any indication of impairment. The carrying value of mine development will be amortised in full by the completion of the mine, refer to the accounting policy stated in Note 1(c).

iii) 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(d).

u) 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.

v) 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.

**NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2013**

Note 2 Other Income	2013	2012
	\$	\$
Interest received on cash deposits	115,599	779,315
Profit on sale of investments	31,156	-
Refundable R&D tax offset	29,772	-
Administration fee income	-	121,941
Interest on unwinding of employee share loans	-	40,328
Hire of plant and equipment	-	17,100
Profit on sale of property, plant and equipment	-	3,671
	<hr/>	<hr/>
Total revenue	176,527	962,355

Note 3 Impairment and other expenses

Impairment of available for sale investments	15,281	81,200
Impairment of mine development assets	3,977,381	-
Impairment of exploration and evaluation assets	43,859,618	64,328
	<hr/>	<hr/>
Total impairment expenses	47,852,280	145,528
Travel expense	33,222	42,184
Computer software maintenance	55,418	-
Repairs and maintenance expense	-	41,687
Insurance	64,507	54,014
Postage, printing and stationary costs	-	22,658
Other administrative expenses	104,768	121,118
	<hr/>	<hr/>
Total other expenses	257,915	281,661

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

	2013	2012
	\$	\$
Loss before income tax	(56,492,958)	(2,639,507)
Income tax benefit at 30% (2012: 30%)	16,947,888	791,852
Tax effect of permanent differences – Impairment	(14,351,100)	-
Tax effect of temporary differences	1,545,573	-
Tax effect of deferred tax asset not recognised	(4,142,361)	(791,852)
Income tax expense	<hr/>	<hr/>
	-	-

(c) Unrecognised deferred tax balances

Tax losses attributable to members of the tax consolidated group – revenue	<hr/>	<hr/>
	81,991,284	68,162,149
Potential tax benefit at 30%	<hr/>	<hr/>
	24,597,385	20,448,645

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

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2013
Note 4 Income tax (cont'd)

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

Note 5 Trade and other receivables
Current

	2013	2012
	\$	\$
Interest receivable	15,198	63,277
GST receivable	460,835	933,335
Other receivables	8,874	14,658
	<u>484,907</u>	<u>1,011,270</u>
Non-current		
Employee share loans receivable	-	602,034
	<u>484,907</u>	<u>1,613,304</u>

In the prior year, employee share loans receivable were interest-free non-recourse loans given to senior executives in order to purchase shares in the Consolidated entity. The loans have been measured at discounted fair value according to the loan term. For more information on the terms & conditions of the employee share loans refer to Note 17.

Note 6 Held for sale assets
Current

	2013	2012
	\$	\$
Kalgoorlie West tenements	-	706,000

Note 7 Other assets
Current

Prepayments	52,625	58,665
	<u>52,625</u>	<u>58,665</u>

Non-current

Performance bonds	-	103,000
Deposits held as security	75,690	77,210
	<u>75,690</u>	<u>180,210</u>

Total other assets	<u>128,315</u>	<u>238,875</u>
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Note 8 Property, plant and equipment

Plant and equipment		
At cost	389,927	277,092
Accumulated depreciation	(242,643)	(185,214)
	<u>147,284</u>	<u>91,878</u>
Motor vehicles		
At cost	363,835	324,034
Accumulated depreciation	(166,712)	(85,008)
	<u>197,123</u>	<u>239,026</u>

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2013
Note 8 Property, plant, and equipment (cont'd)

	2013	2012
	\$	\$
At cost	312,212	163,778
Accumulated depreciation	(134,354)	(47,202)
	<u>177,858</u>	<u>116,576</u>
Land and buildings		
At cost	380,866	380,866
Accumulated depreciation	(52,807)	(43,807)
	<u>328,059</u>	<u>337,059</u>
Total written down value	<u>850,324</u>	<u>784,539</u>

(a) Movements in carrying amounts

	Land and buildings	Plant and equipment	Motor vehicles	IT Assets	Total
	\$	\$	\$	\$	\$
Balance at 1 July 2011	346,059	156,967	274,743	60,544	838,313
Additions	-	37,206	41,255	98,621	177,082
	-	(459)	(1,404)	-	(1,863)
Depreciation expense	(9,000)	(101,836)	(75,568)	(42,589)	(228,993)
Balance at 30 June 2012	<u>337,059</u>	<u>91,878</u>	<u>239,026</u>	<u>116,576</u>	<u>784,539</u>
Balance at 1 July 2012	337,059	91,878	239,026	116,576	784,539
Additions	-	112,835	39,802	148,433	301,070
Depreciation expense	(9,000)	(57,429)	(81,705)	(87,151)	(235,285)
Balance at 30 June 2013	<u>328,059</u>	<u>147,284</u>	<u>197,123</u>	<u>177,858</u>	<u>850,324</u>

Note 9 Mine development asset

	2013	2012
	\$	\$
Cost	-	-
<i>Reconciliation</i>		
Balance at beginning of year	-	-
Mine development expenditure incurred	1,903,652	-
Transfers from exploration	2,388,562	-
Amortisation	(314,833)	-
Impairment	(3,977,381)	-
Balance at end of year	<u>-</u>	<u>-</u>

During the year, the Company commenced mining at the Parrot Feathers deposit at the Lindsays exploration area. An amount of \$2,388,562 was transferred from exploration assets to mine development assets which directly related to exploration expenditure incurred on those tenements to be mined. Amortisation of the asset was based on ounces produced over the JORC reserves of the deposit. Mining operations were suspended on 6 August 2013 due to the fall in the gold price in April 2013, which failed to significantly recover, and a shortfall of working capital. The site is currently on care and maintenance. As a result of the suspension, the directors have impaired the carrying value of the mine development asset at 30 June 2013 to \$nil.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2013
Note 10 Exploration and evaluation expenditure

	2013 \$	2012 \$
Cost	17,547,128	58,515,374
<i>Reconciliation</i>		
Balance at beginning of year	58,515,374	41,620,781
Exploration expenditure incurred	5,279,934	9,001,316
Tenements acquired	-	8,663,605
Transfers to mine development	(2,388,562)	-
Transfers to available for sale assets	-	(706,000)
Impairment	(43,859,618)	(64,328)
Balance at end of year	17,547,128	58,515,374

During the year, the directors undertook an impairment assessment of the current carrying values of the exploration and evaluation assets. As a result, the carrying value of the exploration and evaluation asset was deemed to be impaired by \$43,859,619. For further information on the impairment assessment refer to Note 1 (t).

The ultimate recoupment of costs carried forward for exploration and evaluation phases is dependent on the successful development and commercial exploitation or sale of the respective mining areas. Amortisation of the costs carried forward for the development phase is not being charged pending the commencement of production.

Note 11 Available-for-sale investments

Shares in listed corporation at fair value	4,739	151,201
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Note 12 Trade and other payables

	2013 \$	2012 \$
Current		
Trade payables	3,311,019	836,755
Deferred consideration(*)	1,200,000	1,200,000
Sundry payables and accrued expenses	499,049	665,634
Bank overdraft	-	216,108
	<u>5,010,068</u>	<u>2,918,497</u>
Non-current		
Deferred consideration (*)	<u>1,100,000</u>	<u>2,300,000</u>
	<u>6,110,068</u>	<u>5,218,497</u>

(*) The deferred consideration relates to the acquisition of the Mt Jewell tenements in the year ended 30 June 2012. A cash payment of \$1,200,000 is due in March 2014 and a further \$1,100,000 in March 2015 to complete this transaction.

In the prior year, the bank overdraft was a short term facility expiring on 31 July 2012. There is no bank overdraft facility at 30 June 2013.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2013
Note 13 Interest bearing liabilities

	2013	2012
	\$	\$
Current		
Director loans	204,044	-
Director-related loans	501,479	-
Interest payable on secured loans	33,616	-
	739,139	-
Non-current		
Secured loans	3,500,000	-
	3,500,000	-
	4,239,139	-

Secured Loans

On 27 May 2013, the Company entered into a \$2 million secured financing arrangement with South Victory Global Limited. Interest is payable 6 monthly at a rate of 15% per annum. The facility expires on 28 November 2014 but may be repaid at an earlier date with the agreement of both parties. The loan is secured with a fixed and floating charge over the Company's assets. This facility is fully drawn down at 30 June 2013.

On 27 May 2013, the Company entered into a \$1.5 million secured financing arrangement with Renergy Pty Limited. Interest is payable 6 monthly at a rate of 15% per annum. The facility expires on 28 November 2014 but may be repaid at an earlier date with the agreement of both parties. The loan is secured with a fixed and floating charge over the Company's assets. This secured facility replaced the unsecured \$1.5 million facility with Renergy Pty Limited dated 27 March 2013. This facility is fully drawn down at 30 June 2013.

Director loans

On 20 May 2013, as a condition of the granting of the secured loans above, the Directors loaned the Company a total of \$200,000. The loans are unsecured and are due to be repaid by 31 December 2013 or what date the parties agree to. The secured lenders must agree to any repayments. Interest is payable monthly at a rate of 18% per annum.

Director-related loans

On 25 March 2013, Link Enterprises Pty Ltd, a director related entity, loaned the Company \$500,000. The loan is unsecured and is due to be repaid by 30 September 2013 or what date the parties agree to. Interest is payable monthly at a rate of 18% per annum.

Note 14 Restoration Provision

	2013	2012
	\$	\$
Non-current		
Restoration provision	486,200	-

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

Note 15 Contributed equity

	2013	2012
	\$	\$
169,910,000 fully paid ordinary shares (2012: 140,775,000)	74,603,464	68,289,298

**NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2013**
Note 15 Contributed equity (cont'd)

a) Movements in ordinary shares on issue	No of shares	Paid up capital \$
Balance 1 July 2012	140,775,000	68,289,298
Share loans issued to executives (Note 18)	1,000,000	-
Rights issue 18 October 2012 (26 cents per share)	28,135,000	7,315,100
Less Share issue costs	-	(183,434)
Shares issued to executives and employees	-	(817,500)
	<hr/>	<hr/>
Balance 30 June 2013	169,910,000	74,603,464

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.

b) Movements in options on issue	No of Options	Paid up Capital \$
Balance at 1 July 2012	7,500,000	-
Share options expired (2,500,000, \$2 options, 31 Dec 2012)	(2,500,000)	-
Share options granted (25,000,000, \$0.08 options, 28 May 2013)	25,000,000	-
Balance at 30 June 2013	30,000,000	-

Note 16 Reserves

 a) *Options reserve*

The option reserve records items recognised as expenses on valuation of share options

 b) *Financial assets reserve*

The financial assets reserve records revaluation of financial assets

Note 17 Interests of key management personnel

a) Key management personnel compensation

Refer to the Remuneration Report contained in the Director's Report for details of the remuneration paid to each member of the Consolidated entity's key management personnel for the year ended 30 June 2013.

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

	2013 \$	2012 \$
Short-term employee benefits	1,077,904	1,124,619
Post-employment benefits	80,589	80,585
Termination benefits	-	-
	<hr/>	<hr/>
	1,158,493	1,205,204

**NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2013**
Note 17 Interests of key management personnel (cont'd)

a) 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:

2013	Balance 1 July 2012	Granted as Remuneration	Options Exercised	Net Change Other	Balance 30 June 2013
<i>Directors</i>					
Laurence Freedman	21,274,681	-	-	4,950,581	26,225,262
Robert Schuitema	287,000	500,000	-	59,900	846,900
Ross Gillon (*)	575,000	-	-	(575,000)	-
Henry Jian Yu (**)	-	-	-	10,000	10,000
John McKinstry	626,600	500,000	-	125,320	1,251,920
<i>Other</i>					
Wade Johnson	500,000	-	-	-	500,000
Total	23,263,281	1,000,000	-	4,570,801	28,834,082

(*) ceased to be key management personnel during the year

(**) appointed 26 November 2012

2012	Balance 1 July 2011	Granted as Remuneration	Options Exercised	Net Change Other	Balance 30 June 2012
<i>Directors</i>					
Laurence Freedman	20,847,855	-	-	426,826	21,274,681
Ross Gillon	575,000	-	-	-	575,000
Robert Schuitema	177,000	-	-	110,000	287,000
John McKinstry	500,000	-	-	126,600	626,600
<i>Other</i>					
Wade Johnson	200,000	-	-	300,000	500,000
Total	22,299,855	-	-	963,426	23,263,281

c) Key management personnel option holdings

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

Note 18 Related party transactions

Other transactions with key management personnel

i) The Consolidated entity has engaged Mercury Consulting Pty Ltd and IRM Pty Ltd, both director-related entities, to perform investor relations activities on behalf of the Consolidated entity. The agreement is renewable by negotiation and mutual consent. The total value of services provided in the current year was \$104,704 (2012: \$114,157). The services were provided on an arms length basis.

ii) On 26 November 2012, the Company issued 500,000 Shares to Mr John McKinstry, the Managing Director and Chief Executive Officer of the Company, and 500,000 Shares to Mr Robert Schuitema, an executive Director and the Chief Financial Officer and Company Secretary of the Company (together, the Director Shares)

**NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2013**

Note 18 Related party transactions (cont'd)

ii) (cont'd) The Company provided Mr McKinstry and Mr Schuitema with a 3 year non-recourse interest free loan to purchase the Director Shares (together, the Director Loans), Each Director Loan must be repaid by Mr McKinstry and Mr Schuitema (as applicable) within 30 days after termination of their employment with the Company. As each Director Loan is non-recourse, if there is any shortfall in repaying that Director Loan on the sale of the applicable Director Shares, neither Mr McKinstry nor Mr Schuitema will be required to pay that shortfall.

The Director Shares were issued at \$0.38 per share being the 90 day VWAP for Shares on the ASX immediately before announcement of the proposed issue of the Director Shares on 5 April 2012. The issue price at the annual general meeting date 26 November 2012 was \$0.31 per share.

This arrangement has been recognised as a share based payment and valued by application of the Black-Scholes Option Pricing Valuation Methodology. Accordingly, a share based payment expense of \$120,479 has been recognised in relation in the financial report for the year.

iii) During the current and prior year, the Consolidated entity has issued several unsecured interest-free loans to employees in order to fund a purchase of the Consolidated entity's shares on behalf of these employees. The loan term is for three years and 50% of the shares held must be kept in escrow for a minimum of two years; the other 50% for a minimum of three years. The loans are repayable in full should the employee cease employment with the Consolidated entity.

iv) On 20 May 2013, as a condition of the granting of the secured loans disclosed in Note 13, the Directors loaned the Company a total of \$200,000. The loans are unsecured and are due to be repaid by 31 December 2013 or what date the parties agree to. The secured lenders must agree to any repayments. Interest is payable monthly at a rate of 18% per annum.

v) On 25 March 2013, Link Enterprises Pty Ltd, a director-related entity, loaned the Company \$500,000. The loan is unsecured and is due to be repaid by 30 September 2013 or what date the parties agree to. Interest is payable monthly at a rate of 18% per annum.

Note 19 Loss per share	2013	2012
	\$	\$
a) Basic loss per share		
Loss after income tax	(56,492,958)	(2,639,507)
Weighted average number of ordinary shares on issue during the year used as the denominator in calculating basic loss per share	161,003,562	139,953,288

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 20 Auditor's remuneration

Remuneration of the auditor for:		
- auditing and reviewing financial reports	41,350	33,000
- taxation services	6,350	4,500
- accounting advice on return of capital to shareholders	1,900	-
	<u>49,600</u>	<u>37,500</u>

**NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2013**
Note 21 Cash flow information

	2013	2012
	\$	\$
a) Reconciliation of the net loss after income tax to the net cash flows from operating activities		
Net loss for the year	(56,492,958)	(2,639,507)
<i>Non-cash items:</i>		
Depreciation on non-current assets	235,285	228,993
Amortisation on non-current assets	314,833	-
Fair value adjustment to employee share loans	(215,466)	119,911
Share based payment expenses	1,811,476	-
Tenement impairment expense	47,836,999	145,528
Profit on sale of plant and equipment	-	(3,671)
Profit on sale of investments	(31,156)	-
<i>Changes in assets and liabilities:</i>		
Increase in inventories	(1,038,501)	-
(Increase)/Decrease in trade and other receivables	526,363	(658,802)
Decrease/(Increase) in other assets	7,561	(61,441)
Increase in trade and other creditors	3,009,642	528,329
	<hr/>	<hr/>
Net cash outflow from operating activities	(4,035,922)	(2,340,660)
b) Reconciliation of cash		
Cash balance comprises:		
- cash assets	2,427,292	3,230,395

Note 22 Commitments

(a) Exploration commitments		
- Not later than 12 months	1,485,881	1,502,183
- Between 12 months and 5 years	3,241,574	2,636,364
- Greater than 5 years	4,579,458	820,318
	<hr/>	<hr/>
	9,306,913	4,958,865

The Consolidated entity has certain commitments to meet minimum expenditure requirements on the mineral exploration assets in which it has an interest. These leases have terms lasting between 1 month and 20 years with annual rentals between \$23 to \$17,249 per annum.

(b) Non-cancellable operating lease commitments		
- Not later than 12 months	292,783	244,610
- Between 12 months and 5 years	456,545	377,663
- Greater than 5 years	657,649	46,904
	<hr/>	<hr/>
	1,406,977	669,177

The Consolidated entity has certain operating lease commitments for annual rentals for mineral exploration assets in which it has an interest. The Consolidated entity also has three property leases which are non-cancellable leases with terms ranging from 4 months to 3 years, with rent payable monthly in advance. Additionally, the Consolidated entity has an operating lease for a hand held data analyser with a term of 48 months at a rental of \$1,334 per month.

**NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2013**

Note 23 Controlled entities

	Country of Incorporation	Percentage Owned (%)	
		2013	2012
Subsidiaries of KalNorth Gold Mines Limited:			
Shannon Resources Pty Ltd	Australia	100	100
Lusitan Prospecting Pty Limited	Australia	100	100

Shannon Resources Pty Ltd is the registered owner of various tenements. The parent entity owns 100% of Shannon Resources Pty Ltd and is entitled to all profits earned and losses incurred from the tenements. There was no income earned and no expenses incurred in Shannon Resources Pty Ltd from 1 July 2012 to 30 June 2013.

Lusitan Prospecting Pty Limited was acquired by the Company on 12 July 2011 for consideration of \$1. Lusitan Prospecting Pty Limited is the registered owner of various tenements. The parent entity owns 100% of Lusitan Prospecting Pty Limited and is entitled to all profits earned and losses incurred from the tenements. There was no income earned and no expenses incurred in Lusitan Prospecting Pty Limited since acquisition on 12 July 2011.

Note 24 Segment information

Identification of reportable operating segments

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

These operating segments are based on the internal reports that are reviewed and used by the Board of Directors (who are identified as the Chief Operating Decision Makers ('CODM')) in assessing performance and in determining the allocation of resources. There is no aggregation of operating segments.

The CODM reviews EBITDA (earnings before interest, tax, depreciation and amortisation). The accounting policies adopted for internal reporting to the CODM are consistent with those adopted in the financial statements.

The information reported to the CODM is on at least a monthly basis.

Types of products and services

The principal products and services of each of these operating segments are as follows:

Mine Development	Development and extraction of mineral reserves and resources at Lindsays' deposit, Kalgoorlie region, Western Australia
Mineral Exploration	Exploration and evaluation of mineral reserves and resources around the Kalgoorlie region, Western Australia

Intersegment transactions

There were no intersegment transactions

Intersegment receivables, payables and loans

There are no intersegment receivables, payables or loans.

Major customers

During the year ended 30 June 2013 100% (2012: 0%) of the consolidated entity's external revenue was derived from sales to Saracen Mineral Holdings Limited (an Australian Listed gold miner) through the mine development segment.

**NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2013**
Note 24 Segment information (cont'd)

30 June 2013	Mine Development	Mineral Exploration	Unallocated	Total Consolidated Group
	\$	\$	\$	\$
Revenue				
Sales to external customers	3,629,630	-	-	3,629,630
Other revenue	-	29,772	31,156	60,928
Total revenue	3,629,630	29,772	31,156	3,690,558
EBITDA	(4,514,441)	-	(3,593,323)	(8,107,764)
Depreciation and amortisation	(388,090)	(84,860)	(77,168)	(550,118)
Impairment expense	(3,977,380)	(43,874,900)	-	(47,852,280)
Interest revenue	-	-	115,599	115,599
Finance costs	(128,167)	-	-	(128,167)
Loss before income tax	(9,008,078)	(43,929,988)	(3,554,892)	(56,492,958)
Income tax benefit	-	-	-	-
Loss after income tax	(9,008,078)	(43,929,988)	(3,554,892)	(56,492,958)
30 June 2013	Mine	Mineral	Unallocated	Total
Assets	Development	Exploration	Unallocated	Consolidated
	\$	\$	\$	Group
<i>Segment assets</i>				\$
Inventories	1,038,501	-	-	1,038,501
Exploration assets	-	17,547,128	-	17,547,128
Property, plant and equipment	312,305	131,272	406,747	850,324
<i>Unallocated assets:</i>				
Cash and cash equivalents	-	-	2,427,292	2,427,292
Other current and non-current assets	-	-	617,961	617,961
Total assets	1,350,806	17,678,400	3,452,000	22,481,206
Liabilities				
<i>Segment liabilities</i>				
Trade and other payables	(3,421,869)	(2,375,540)	(312,659)	(6,110,068)
Restoration provision	(486,200)	-	-	(486,200)
<i>Unallocated liabilities:</i>				
Interest-bearing liabilities	-	-	(4,239,139)	(4,239,139)
Total liabilities	(3,908,069)	(2,375,540)	(4,551,798)	(10,835,407)
Net assets/(liabilities)	(2,557,263)	15,302,860	(1,099,798)	11,645,799

In the prior year, the Company operated in one segment (mineral exploration) in one geographical location, Australia.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2013
Note 25 Financial risk management objectives and policies

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

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

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

(a) Interest rate risk

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

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

	Weighted average interest rate %	Floating interest rate \$	Fixed interest maturing 1 year or less \$	Fixed interest maturing 1 to 5 years \$
30 June 2013				
Cash at bank	2.84%	1,627,292	800,000	-
Total assets		1,627,292	800,000	-
Interest bearing liabilities	(18%)	-	(739,139)	(3,500,000)
Total liabilities		-	(739,139)	(3,500,000)
30 June 2012				
Cash at bank	6.00%	5,014	3,225,381	-
Total assets		5,014	3,225,381	-
Interest bearing liabilities	(8.71%)	(216,108)	-	-
Total liabilities		(216,108)	-	-

Interest rate sensitivity analysis

At 30 June 2013, if interest rates had changed by 50 basis points during the entire year with all other variables held constant, profit for the year and equity would have been \$11,885 higher/lower (2012: \$60,119), mainly as a result of higher/lower interest income from cash and cash equivalents.

A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the possible change in interest rates.

(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.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2013
Note 25 Financial risk management objectives and policies (cont'd)

(c) Liquidity risk

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

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

	Less than 6 months \$	6 months to 1 year \$	1 to 5 years \$	Total \$
30 June 2013				
Financial liabilities due for payment				
Trade and other payables	(3,810,068)	(1,200,000)	(1,100,000)	(6,110,068)
Interest bearing liabilities	(739,139)	-	(3,500,000)	(4,239,139)
	(4,549,207)	(1,200,000)	(4,600,000)	(10,349,207)
Financial assets – cash flows realisable				
Cash assets	2,427,292	-	-	2,427,292
Trade and other receivables	484,907	-	-	484,907
Inventories	1,038,501	-	-	1,038,501
	3,950,700	-	-	3,950,700
Net (outflow)/inflow on financial instruments	(598,507)	(1,200,000)	(4,600,000)	(6,398,507)
	Less than 6 months \$	6 months to 1 year \$	1 to 5 years \$	Total \$
30 June 2012				
Financial liabilities due for payment				
Bank overdraft	(216,108)	-	-	(216,108)
Trade and other payables	(1,502,389)	(1,200,000)	(2,300,000)	(5,002,389)
	(1,718,497)	(1,200,000)	(2,300,000)	(5,218,497)
Financial assets – cash flows realisable				
Cash assets	3,230,395	-	-	3,230,395
Trade and other receivables	1,011,270	-	602,034	1,613,304
Other assets	58,665	-	180,210	238,875
	4,300,330	-	782,244	5,082,574
Net (outflow)/inflow on financial instruments	2,581,833	(1,200,000)	(1,517,756)	(135,923)

(d) Commodity price risk

The Consolidated entity is exposed to gold price risk. The Consolidated entity's current policy is for the all of gold production to be exposed to gold price risk. No put options or forward selling was conducted during the year or prior year.

**NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2013**
Note 25 Financial risk management objectives and policies (cont'd)

(e) Foreign exchange risk

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

(f) 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 26 Share based payments

 (a) *Options issued*

The Consolidated entity issued options to its directors and employees and third party lenders as part of its policy to continue to attract and retain the directors and employees of high calibre and maintain on-going commercial relationships with lenders.

Set out below is a summary of options on issue as at 30 June 2013 for the Consolidated entity:

Issue date	Expiry date	Balance at start of year	Number issued during year	Number expired during year	Balance at end of year	Number exercisable at end of year
6/12/2007	31/12/2012	2,500,000	-	2,500,000	-	-
27/11/2008	31/12/2013	1,500,000	-	-	1,500,000	1,500,000
2/12/2008	31/12/2013	1,500,000	-	-	1,500,000	1,500,000
8/4/2010	31/12/2013	2,000,000	-	-	2,000,000	2,000,000
28/5/2013	28/11/2014	-	25,000,000	-	25,000,000	25,000,000
		7,500,000	25,000,000	2,500,000	30,000,000	30,000,000

The details of the options issued to directors and other key management personnel are as per disclosures in the Directors' Report.

 (b) *Fair value of options granted*

The fair value at issue date is determined using a Black-Scholes option pricing model that takes into account the exercise price, the share price at issue date and expected price volatility of the underlying share, and the risk free interest rate for the term of the loan.

The model inputs for options granted during the year ended 30 June 2013 were calculated using the following variables:

	Secured lender options
Volatility	50%
Spot price at date of valuation:	\$0.12
Date of valuation:	28 May 2013
Date of expiry:	28 November 2013
Time till maturity	1.5 years
Exercise Price	\$0.08
Interest Rate	2.75%
Fair value of option	\$0.051

**NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2013**

Note 26 Share based payments (cont'd)

(c) *Expenses arising from share-based payment transactions*

Total expenses arising from share-based payment transactions recognised during the year as part of share based payment expense were as follows:

	2013	2012
	\$	\$
Expenses related to options issued to secured lenders	1,274,848	-
Expenses related to share loans issued to directors and other key management personnel(*)	120,479	-
Expenses related to non-recourse share loans to employees (*)	416,149	-
Total share based payment expense	<u>1,811,476</u>	<u>-</u>
Transfer of options expense to exploration costs capitalised	<u>(112,878)</u>	<u>-</u>
	<u>1,698,598</u>	<u>-</u>

(*) relates to non-recourse interest free share loans, the costs of which are treated as share based payments in the financial statements

Note 27 Events subsequent to reporting date

i) *Lindsays mining suspension*

On 10 July 2013 the Company announced that it would suspend mining, due to lower gold prices at the completion of Parrot Feathers Stage 2 (Lindsay's), leaving approx. 75% of the planned production intact. Mining operations were suspended on 6 August 2013.

ii) *Resignation of Managing Director*

On 11 July 2013 the Company announced of the Managing Directors' intention to resign. The resignation was effective 2 August 2013.

iii) *Redundancy costs and forfeited share loans*

Due to the cessation of mining activities, several employees of the Company were made redundant after balance date. The total cost of redundancies paid was \$127,176. As a result, employee share loans valued at \$287,976 were forfeited, and this amount has been transferred from the share option reserve to retained losses after balance date.

iv) *Return of performance bonds*

Subsequent to year end, the Company applied to the state Department for Mines, WA for replacement of the current cash-backed performance bonds (totalling \$720,000 at 30 June 2013) under the *Mining Rehabilitation Fund Act 2012 (WA)*. The application was accepted and an annual levy amount of \$14,500 was assessed for the 2014 financial year. This has been paid and subsequently, the term deposits upon which the performance bonds were secured were released on 2 August 2013.

There were no other events of significance subsequent to 30 June 2013.

Note 28 Contingent liabilities and contingent assets

There are no contingent liabilities or assets at reporting date.

**NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2013**
Note 29 Parent Information

	2013	2012
	\$	\$
<i>Financial position</i>		
Assets		
Current assets	3,994,450	4,782,046
Non current assets	18,486,756	60,242,232
Total assets	22,481,206	65,024,278
Liabilities		
Current liabilities	5,749,207	2,702,391
Non-current liabilities	5,086,200	2,300,000
Total liabilities	10,835,407	5,002,391
Net Assets	11,645,799	60,021,887
Equity		
Issued capital	74,603,464	68,289,298
Accumulated Losses	(65,814,380)	(11,064,992)
Reserves	2,856,715	2,797,581
Total equity	11,645,799	60,021,887
<i>Financial performance</i>		
Loss for the year	(56,492,958)	(2,557,610)
Other comprehensive income	(8,076)	(744,805)
Total comprehensive income	(56,501,034)	(3,302,415)

There are no guarantees entered into by the parent entity in relation to the debts of its subsidiaries.

There are no contingent liabilities of the parent entity as at the reporting date.

There are no contractual commitments by the parent entity for the acquisition of property, plant and equipment as at the reporting date.

Note 30 New accounting standards and interpretations issued but not yet effective

In the current year, the consolidated entity has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current annual reporting period. The adoption of these new and revised Standards and Interpretations has not resulted in a significant or material change to the consolidated entity's accounting policies.

**NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2013**

Note 30 New accounting standards and interpretations issued but not yet effective (cont'd)

New standards issued but not yet effective

At the date of this financial report the following standards, which may impact the entity in the period of initial application, have been issued but are not yet effective:

AASB 9 Financial Instruments, 2009-11 Amendments to Australian Accounting Standards arising from AASB 9, 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 and 2012-6 Amendments to Australian Accounting Standards arising from AASB 9

This standard and its consequential amendments are applicable to annual reporting periods beginning on or after 1 January 2015 and completes phase I of the IASB's project to replace IAS 39 (being the international equivalent to AASB 139 'Financial Instruments: Recognition and Measurement'). This standard introduces new classification and measurement models for financial assets, using a single approach to determine whether a financial asset is measured at amortised cost or fair value. The accounting for financial liabilities continues to be classified and measured in accordance with AASB 139, with one exception, being that the portion of a change of fair value relating to the entity's own credit risk is to be presented in other comprehensive income unless it would create an accounting mismatch. The [company/consolidated entity] will adopt this standard from 1 July 2015 but the impact of its adoption is yet to be assessed by the consolidated entity.

AASB 10 Consolidated Financial Statements

This standard is applicable to annual reporting periods beginning on or after 1 January 2013. The standard has a new definition of 'control'. Control exists when the reporting entity is exposed, or has the rights, to variable returns from its involvement with another entity and has the ability to affect those returns through its 'power' over that other entity. A reporting entity has power when it has rights that give it the current ability to direct the activities that significantly affect the investee's returns. The consolidated entity will not only have to consider its holdings and rights but also the holdings and rights of other shareholders in order to determine whether it has the necessary power for consolidation purposes. The adoption of this standard from 1 July 2013 may have an impact where the consolidated entity has a holding of less than 50% in an entity, has de facto control, and is not currently consolidating that entity

The consolidated entity has decided against early adoption of these standards.

Note 31 Company details

The principal place of business of the Company is:

KalNorth Gold Mines Limited
Ground Floor
12 St George's Terrace
Perth WA 6000
Australia

DIRECTORS' DECLARATION

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

- (a) the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2013 and its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards, which, as stated in accounting policy Note 1 to the financial statements, constitutes compliance with International Financial Reporting Standards (IFRS);
- (b) the directors have been given the declarations required by s.295A of the Corporations Act 2001
- (c) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable;

Signed in accordance with a resolution of the directors made pursuant to s.295(5) of the Corporations Act 2001.

On behalf of the Directors:



Robert Schuitema
Executive Director

Dated at Sydney this 11 September 2013

RSM Bird Cameron Partners
8 St George's Terrace Perth WA 6000
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T +61 8 9261 9100 F +61 8 9261 9101
www.rsmi.com.au

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the financial report of KalNorth Gold Mines Limited for the year ended 30 June 2013, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.



RSM BIRD CAMERON PARTNERS



D J WALL
Partner

Perth, WA
Dated: 11 September 2013

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

Report on the Financial Report

We have audited the accompanying financial report of KalNorth Gold Mines Limited, which comprises the consolidated statement of financial position as at 30 June 2013, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's Responsibility

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

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

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of KalNorth Gold Mines Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

In our opinion:

- (a) the financial report of KalNorth Gold Mines Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2013 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the financial report, which indicates that the company and consolidated entity incurred net losses of \$56,492,958 and the consolidated entity had cash outflows of \$803,103 during the year ended 30 June 2013. As at that date, the company's and consolidated entity's current liabilities exceeded current assets by \$1,754,757 and \$1,745,882 respectively. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty which may cast significant doubt about the company's and consolidated entity's ability to continue as going concerns and therefore, the company and consolidated entity may be unable to realise their assets and discharge their liabilities in the normal course of business.


Report on the Remuneration Report

We have audited the Remuneration Report contained within the directors' report for the year ended 30 June 2013. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion the Remuneration Report of KalNorth Gold Mines Limited for the year ended 30 June 2013 complies with section 300A of the *Corporations Act 2001*.


RSM BIRD CAMERON PARTNERS


D J WALL
Partner