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Kaili Resources Limited
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QUARTERLY ACTIVITIES REPORT – 31st December 2018

CORPORATE

- Board composition changed on 9 November 2018 with the appointment of 3 new directors, Mr Donghai Zhang, Mr Chunlin Liu and Miss Jing Li, and the resignation of 2 directors, Mr Yutian Bai and Ms Kaiyuan Yang. Mr Donghai Zhang was appointed Chairman of the Board replacing Mr Jianzhong Yang who remains as a non-executive director.

- The Company raised a total of $1,768,804.13 under a 1 for 2 underwritten non-renounceable pro-rata entitlement offer at $0.036 per share that was announced on 27 November 2018 and closed on 17 December 2018. 49,133,448 new fully paid ordinary shares were issued.

- Treasure Unicorn Limited, who was underwriter to the entitlement offer, remains the largest shareholder with 75,734,441 shares being 51.38% of the Company's issued capital. Inner Mongolia Yitai Investment Co., Limited is the ultimate holding company of Treasure Unicorn Limited.

EXPLORATION HIGHLIGHTS

- All granted tenements are up to date regarding statutory requirements.

Kookynie and Jungle Hill Gold Projects in Western Australia

- Program of Work ("POW") approved for Canegrass and Holey Dam drilling, heritage survey planned for first week of March 2019.

Significant results from the Jungle Hill drilling include:
3m @ 0.16% Cu from 128 m to 130 m and 1m@ 0.58% Zn from 110 m in JHRC07
1m @ 0.91% As in JHRC09
5m @18.0% Fe in JHRC07
5m @19.8% Fe in JHRC08

Halls Creek Projects Cobalt/Gold in Western Australia

- Lithostructural targeting to be completed by end January 2019

Figure 1: *Kaili Resources project locations*

PROJECT LOCATION	TENEMENT AREA IN SUB BLOCKS	TENEMENT AREA IN KM^2
Queensland	27	86.4
Western Australia	296	956.84
Total Area	**323**	**1,043.24**

Table 1: *Kaili Resources granted tenement areas, all held 100%.*
km^2 has been calculated at approximately 3.2 km^2 per block

WESTERN AUSTRALIA.

PILBARA CRATON (DARNELL HILL, BUSTLERS' BORE AND BEA BEA CREEK) IRON PROJECTS

*E08/2770-I(Darnell Hill), E46/1084-I(Bustler Bore), E45/4619-I(Bea Bea Creek)) are held 100% by wholly owned subsidiary Kaili Iron Pty Ltd. All tenements are granted (**Figure 2**).*

Figure 2: *Kaili Resources iron projects showing iron ore mines as brown diamond*

The Mugarinya Community are yet to provide a budget for our proposed Work Program within the Bea Bea Creek tenement. As the work programs for Bea Bea Creek and Bustler Bore will be carried out in the same time period no field work for either project was completed in the September Quarter. As the wet season will impact on field-based exploration the next phase of field work is planned for the June Quarter 2019.

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YILGARN CRATON (GINDALBIE AND KOOKYNIE) GOLD AND IRON PROJECTS

*E40/354(8 Mile Dam), E31/1114-I (Jungle Hill), E31/1113(Canegrass), E27/550(Holey Dam) and E27/549(Gindalbie dam) are held 100% by wholly owned subsidiary Kaili Gold Pty Ltd. All tenements are granted (**Figure 3**).*

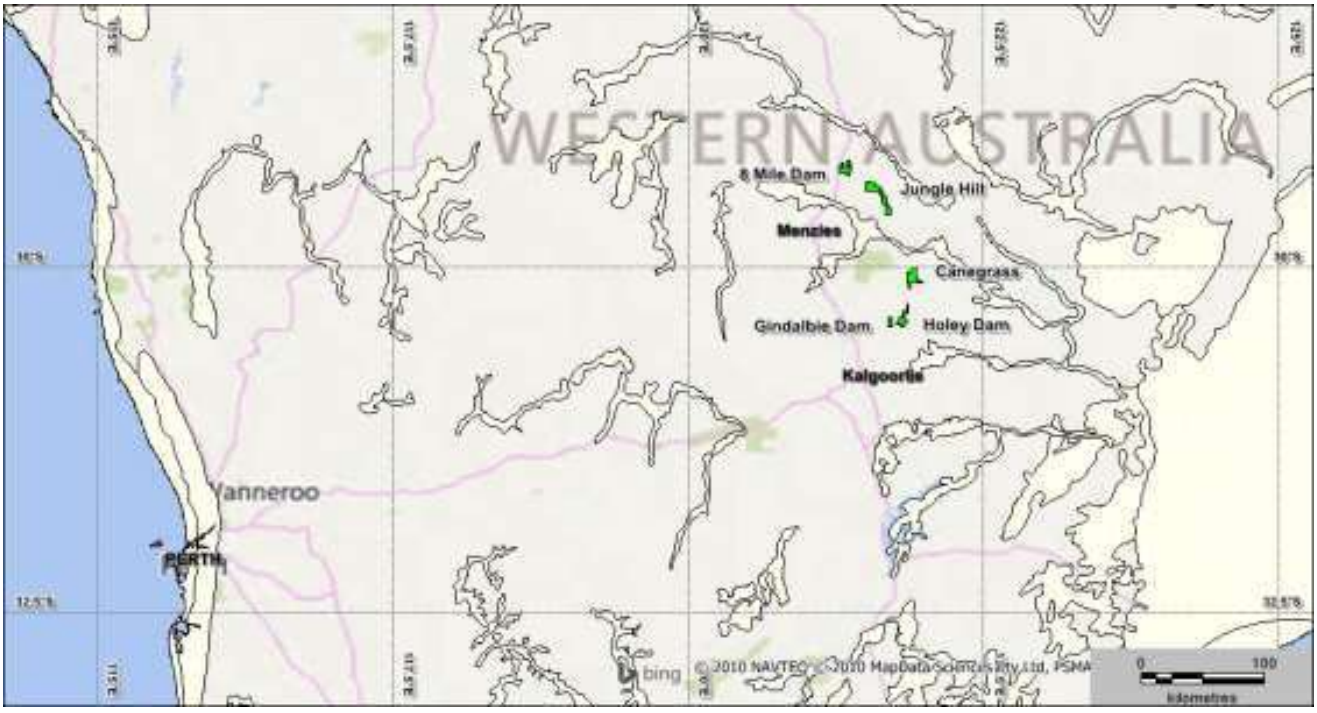

Figure 3: *Kaili Resources WA Gold Projects*

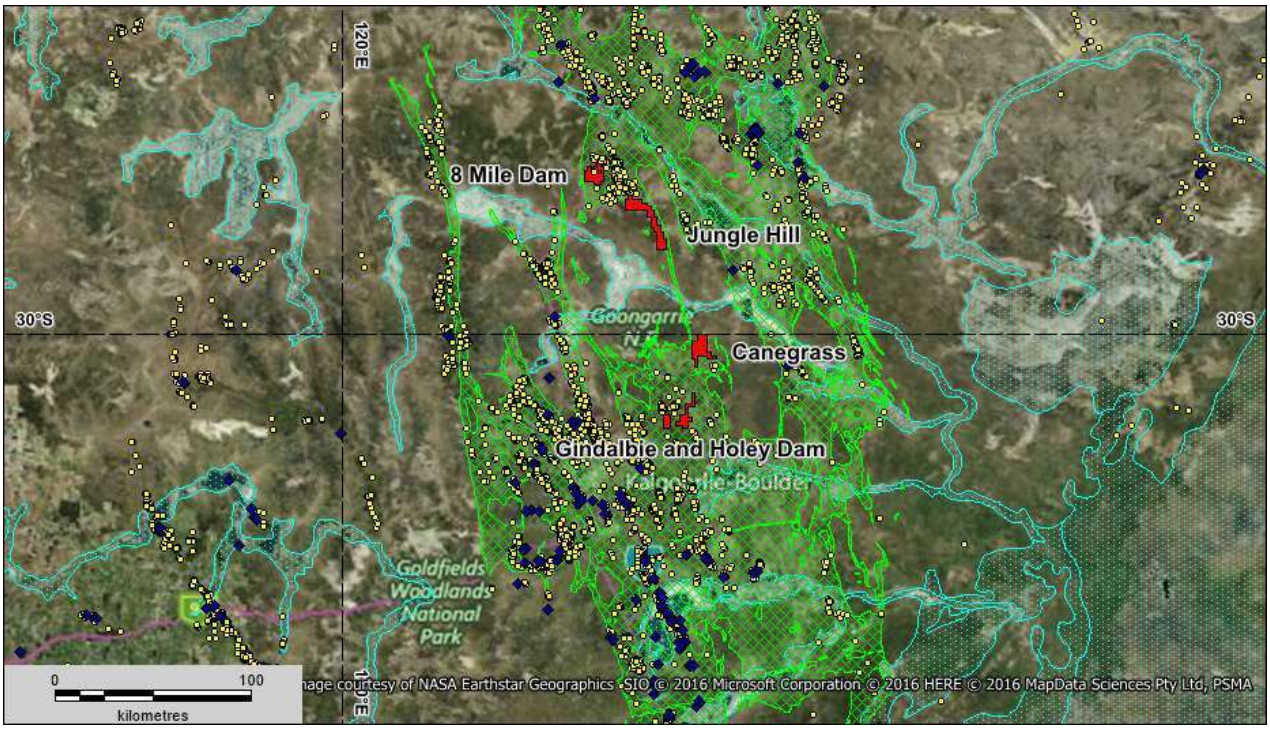

Figure 4: *Satellite Image with Eastern Goldfields Superterrane (green hatching) and Kaili Gold tenements in red. Blue diamonds are operating mines and yellow dots are gold occurrences*

JUNGLE HILL DRILLING

Results have been received for wholly owned subsidiary company Kaili Gold Pty Ltd's drilling on its Jungle Hill exploration licence (E31/1114) south east of Kookynie in Western Australia (**Figures 5 and 6**). The Company's Delta Premium portable XRF unit was used to collect multi element readings from every meter of the drilling program and 4m composite samples were sent to the ALS geochemical laboratory for gold (Au) only analysis. Kaili Gold was successful in obtaining a WA Government grant of $47K from the Collaborative Drilling Program to partially pay for the direct drilling costs at Jungle Hill. Table 2 shows all drilling information.

Significant results include:

3m @ 0.16% Cu from 128 m to 130 m and 1m@ 0.58% Zn from 110 m in JHRC07
1m @ 0.91% As in JHRC09
4m @ 0.729ppm Au in JHRC01

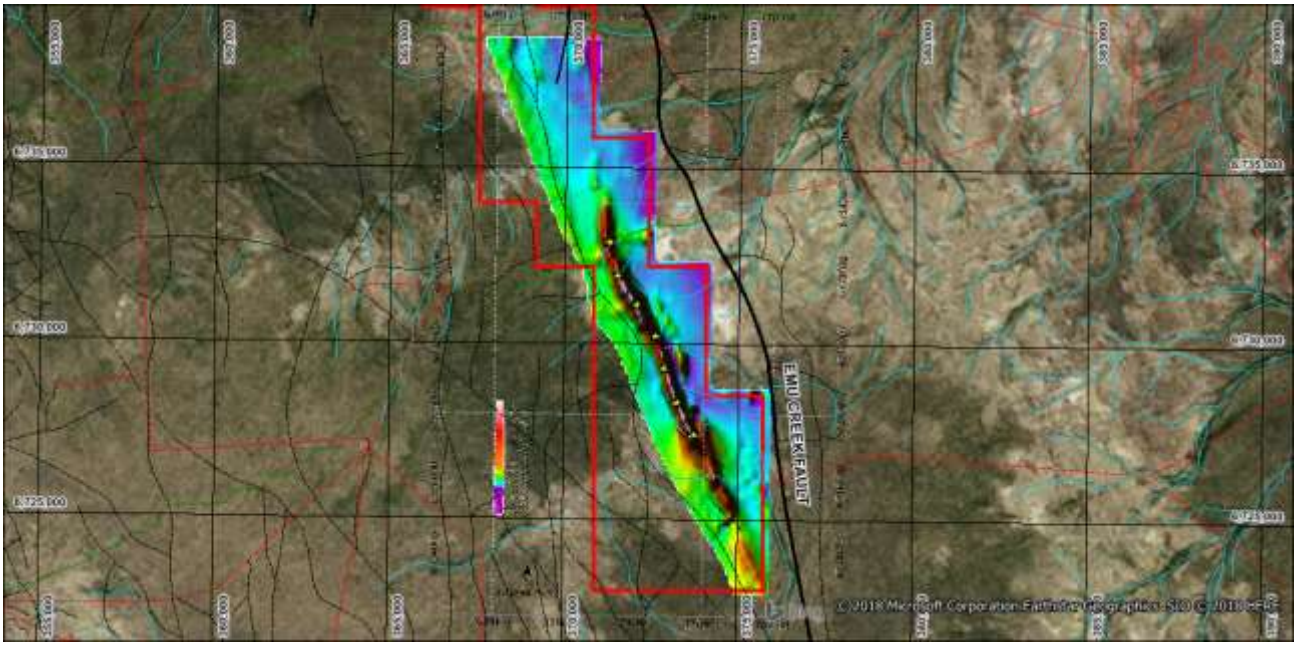

Figure 5: *Ground magnetic image (warm colours-high magnetics) showing the 7 drill traverses located along the 7 km high magnetic zone*

The drilling was targeting a distinctive NNW magnetic linear feature associated with a "BIF" zone that at the northern end of the 7 km trend was 80 m wide and devoid of significant tree cover (**Figure 7**), so in essence was a geobotanical anomaly and observable on aerial photographs (**Figure 8**). As reported in previous announcements surface rock sampling of the "BIF" zone returned several iron (Fe) analyses >35%.

The drilling was designed to test the "BIF" Zone at 50 m and 100 m below the surface, one above the level of oxidation and one below. (**Figures 9 and 10**) to test for both the occurrence of magnetite and hematite. At depths the "BIF" zone comprised primarily magnetite as shown by the elevated magnetic susceptibility readings.

In relation to the "BIF" zones they were significantly narrower at depth and lower in grade:

Hole JHRC07 – 5m @18.0% Fe
Hole JHRC08 – 5m @19.8% Fe
Hole JHRC03 – 15m @ 18.5% Fe

In addition, a 3 m zone of elevated Cu (3 m @ 0.17%) occurs below the footwall of the “BIF” zone in JHRC07.

Hole_ID	GDA94mE_UTM Zone51	GDA9AmN_UTM Zone51	Elevation (mASL)	Dip	Azimuth	Actual Depth(m)
JHRCD001	371233	6732906	452	-50	250	78
JHRCD002	371295	6732920	449	-50	250	132
JHRCD003	371520	6731958	464	-50	250	132
JHRCD004	371583	6731988	461	-50	250	202
JHRCD005	372043	6731100	466	-50	240	167
JHRCD006	372081	6731122	461	-50	240	180
JHRCD007	372551	6730221	459	-50	240	138
JHRCD008	372605	6730248	456	-50	240	209
JHRCD009	372862	6729324	463	-50	250	78
JHRCD010	372915	6729343	461	-50	250	132
JHRCD011	373185	6728325	455	-50	250	72
JHRCD012	373249	6728355	450	-50	250	137
JHRCD013	373680	6727390	437	-50	240	60
JHRCD014	373731	6727424	440	-50	240	132
						1849
Precollar						**Actual Depth(m)**
JCRCDD1	372550	6730227	459	-50	240	84
JCRCDD2	372041	6731102	466	-50	240	24
JCRCDD3	371520	6731963	464	-50	250	66
						174

Table 2*: Jungle Hill drilling collar data*

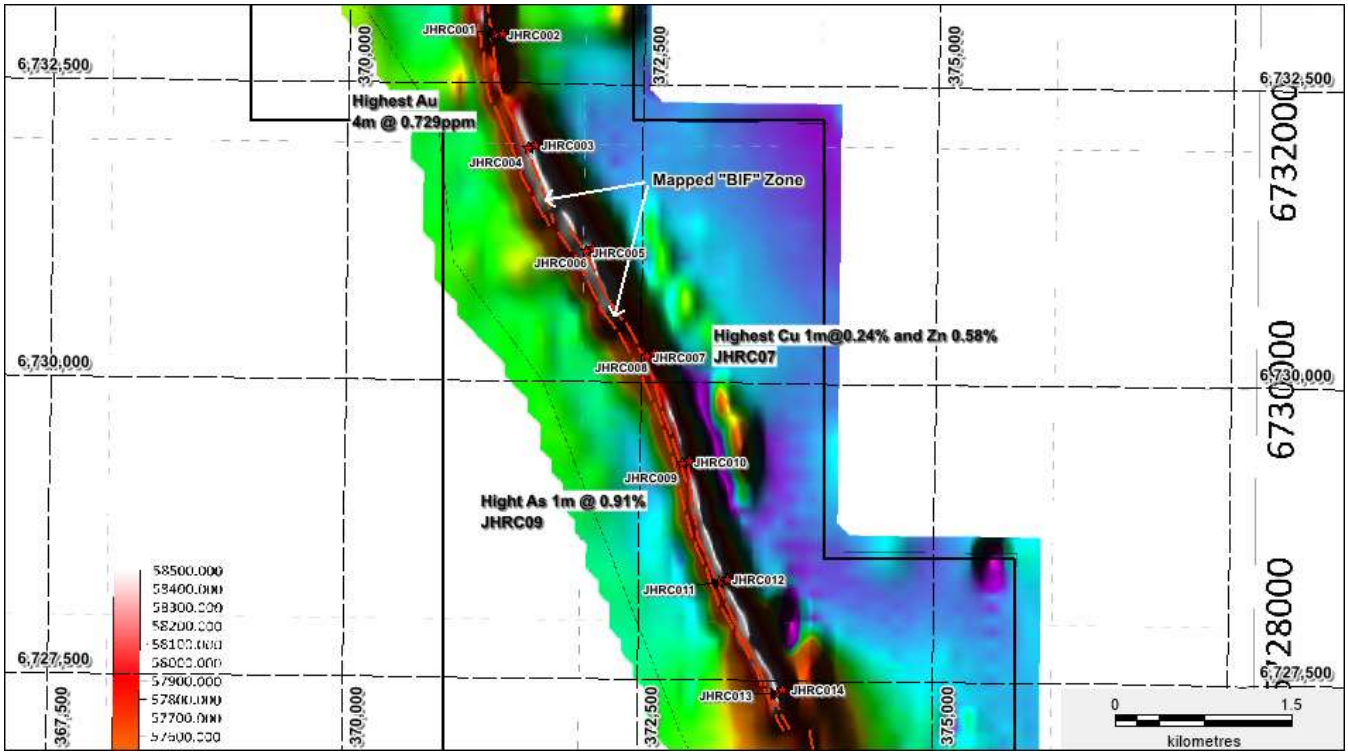

Figure 6 *Ground magnetic image showing significant drill analyses*

Figure 7 *Photo of the "BIF" zone showing an area devoid of significant vegetation*

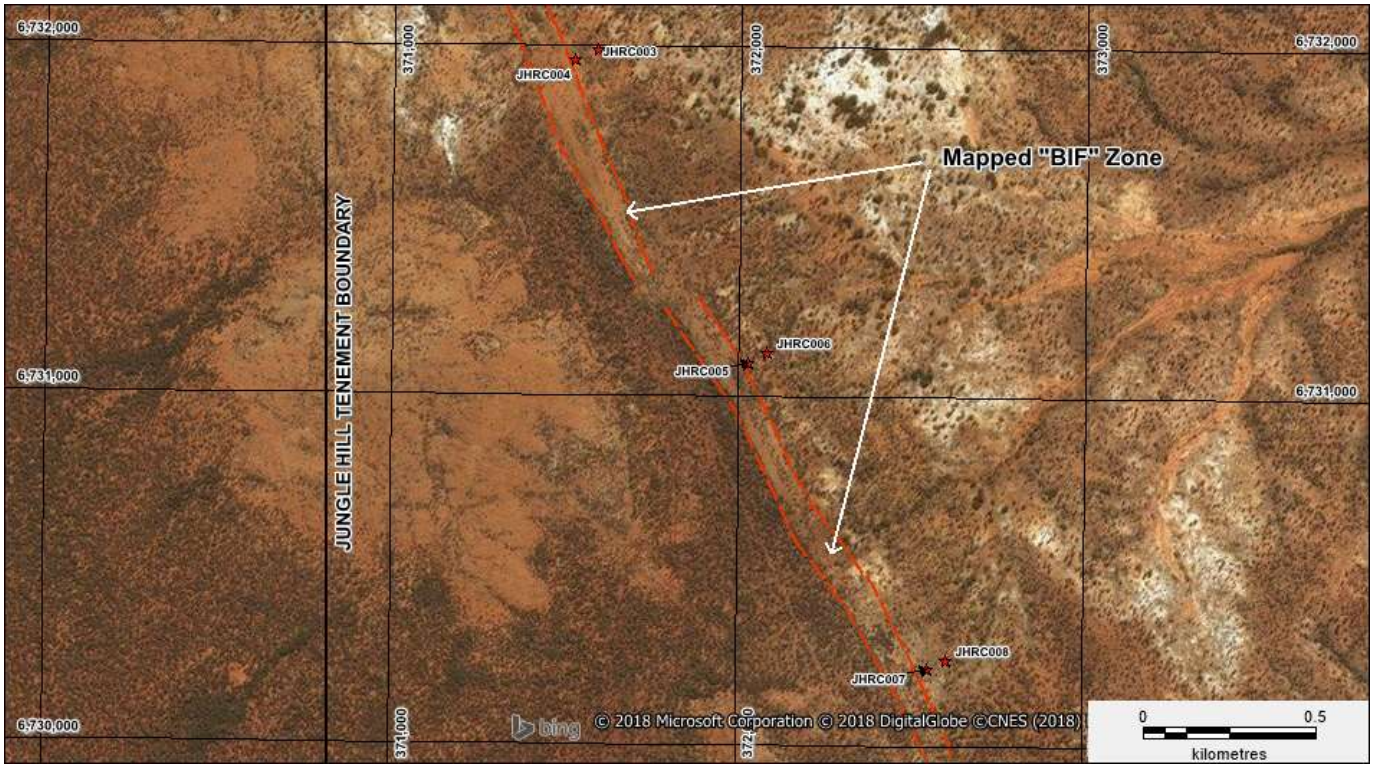

Figure 8 *Aerial photograph of the "BIF" zone showing the distinctive linear geomorphological feature*

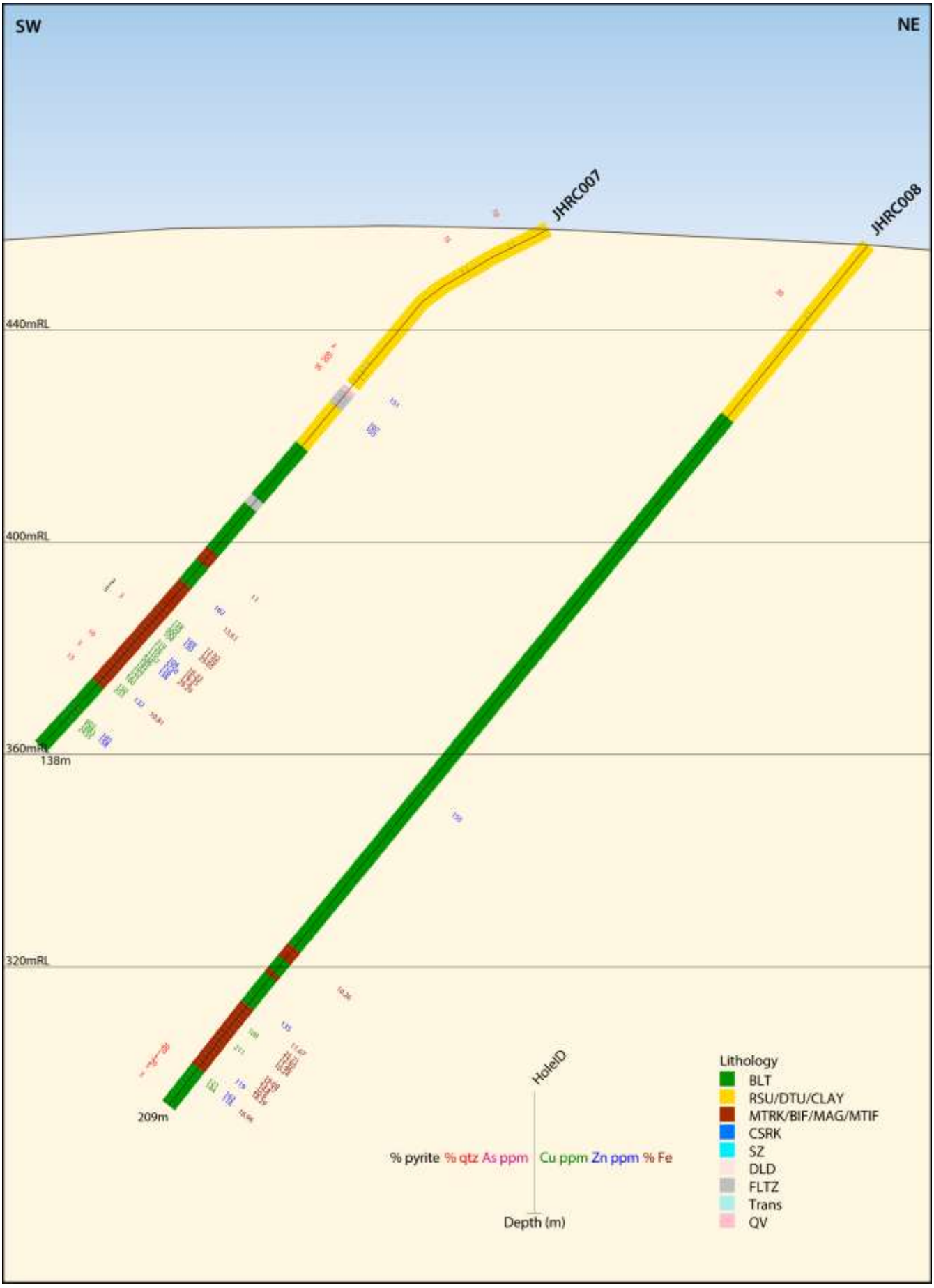

Figure 9 *Drill section JHRC007 and 008 showing down hole geochemistry and geology*

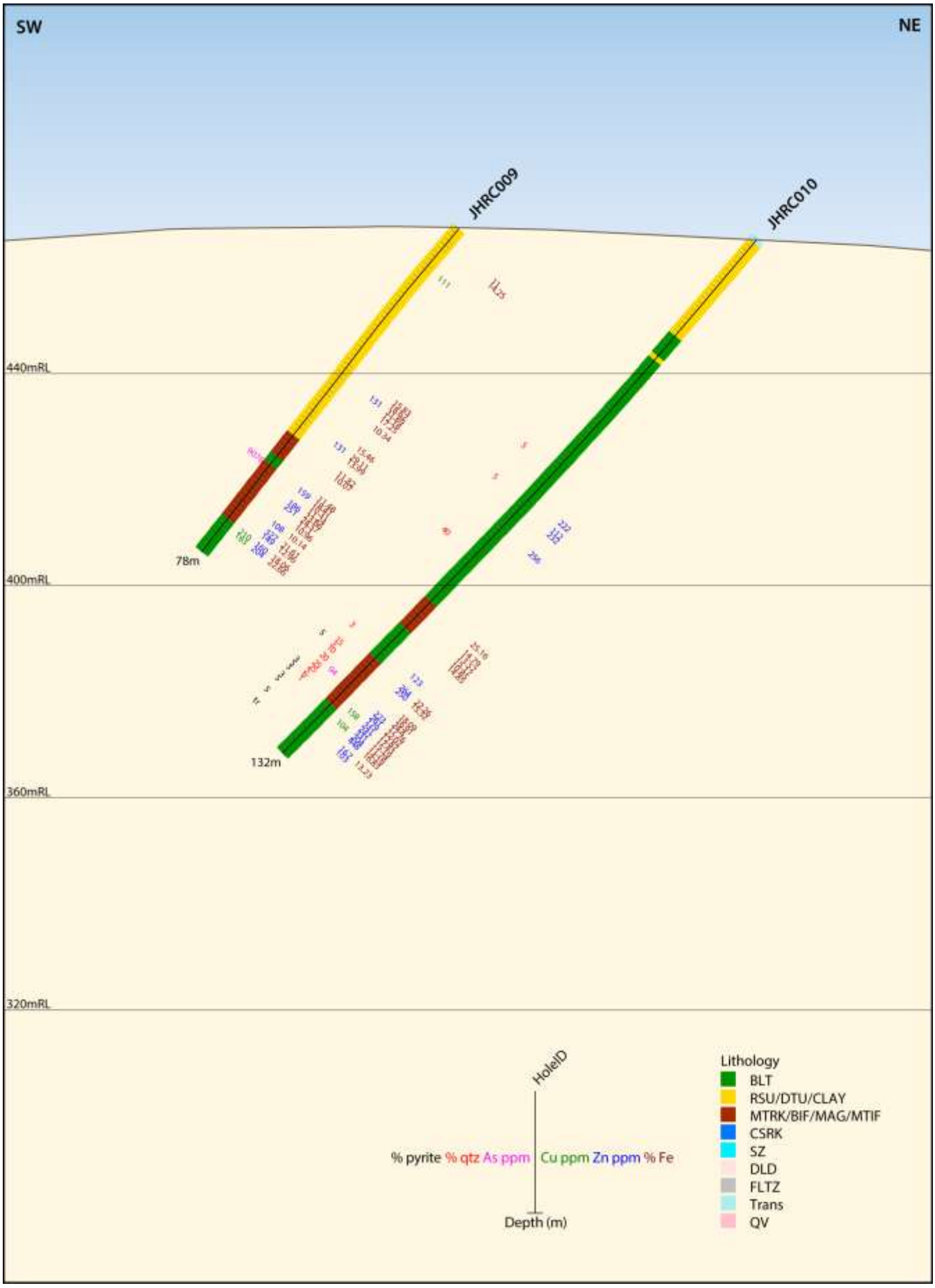

Figure 10 *Drill section JHRC009 and 010 showing down hole geochemistry and geology*

The main results from the Jungle Hill drilling program are:

- The depth of oxidation is between 40 m and 50 m
- The footwall and hanging wall to the BIF is basalt rather than felsic volcanics as observed below the zone of oxidation. This is counter to mapping by the Government and field observations.
- The %Fe below the zone of oxidation is appreciably less than recorded at surface from previous geochemical analyses.
- There is no significant gold or base metal mineralisation in the system

CANEGRASS AND HOLEY DAM PLANNED DRILLING

Planning for drill testing of several gold structural/geochemical targets in the Canegrass and Holey Dam tenements has been completed. Shallow grid based Vacuum drilling is now planned along E-W lines with vertical hole depths anticipated in the range of 5-15m (**Figures 11 and 12**). Drilling in tentatively planned for the June Quarter 2019. Approval for the drilling has been received from the WA Mines Department and a heritage survey is planned for the first week of March.

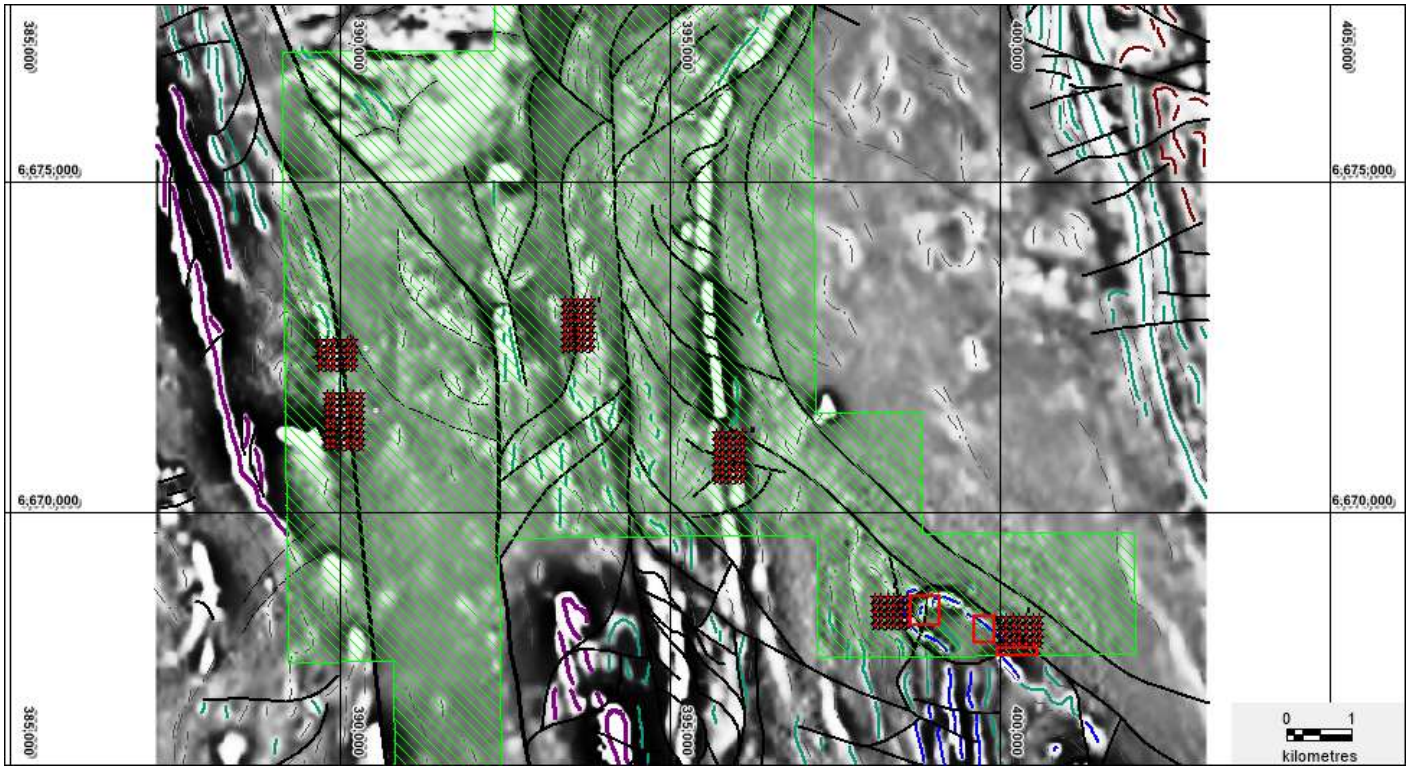

Figure 11 *Canegrass Tenement – Aeromagnetic image showing structure and proposed vacuum drill traverses. The red boxes are drill areas recently added to the POW*

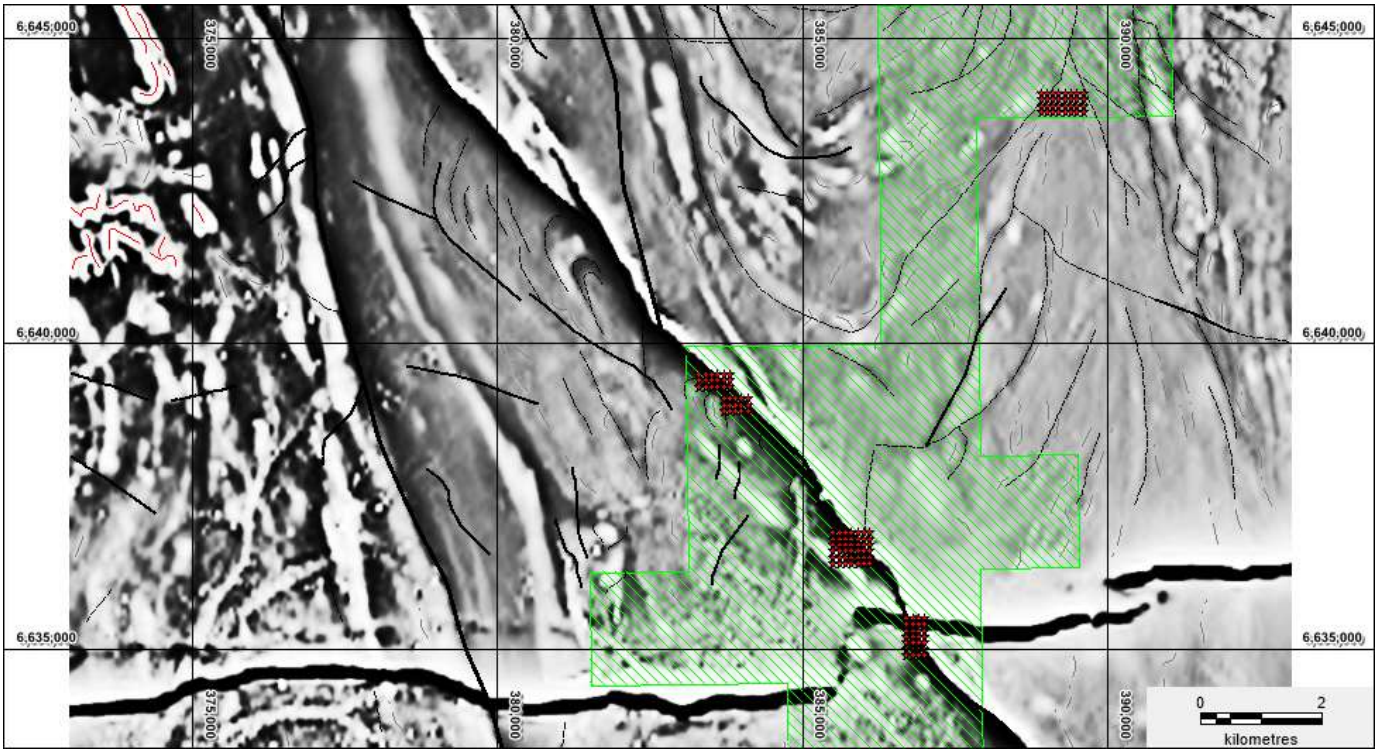

Figure 12 *Holey Dam Tenement – Aerial image structure and proposed aircore drill traverses.*

HALLS CREEK – (BLACK AND GLIDDEN, CARRINGTON, SANDY CREEK AND WILD DOG) COBALT/GOLD PROJECTS
E 08/5112, 5113, 5114 and 5115

The Halls Creek Project comprises 4 granted tenements (**Figure 13**) situated within the NE-SW trending Lamboo Province comprising 4 tectonostratigraphic terranes – Western, Central and Eastern. The western terrane is postulated to be an exotic crustal fragment that was accreted to the Kimberley Craton before 1900 Ma via north-westerly directed subduction. Easterly directed subduction led to the development of an oceanic arc at c. 1865 Ma, outboard of the Kimberley Craton; this initiated the formation of the Central Zone. Eastern Zone rocks are associated with a passive continental margin linked to the North Australian Craton. The Central Terrane comprises a broad suite of felsic to lesser mafic rocks, the Sally Downs Supersuite within which occurs a subsuite of gabbro to norite dominated rocks known as the Sally Malay and McIntosh Suites. The Sally Malay nickel-copper sulphide deposit lies at the base of a small layered intrusion enclosed within granulite facies garnet-cordierite paramigmatites and mafic granulates norite which host most of the mineralization are interpreted as a chilled border zone to the intrusion, into which settled an early separated sulphide liquid. The Hall Creek Project is situated primarily within gabbro to norite rocks of the McIntosh Suite.

Highly regarded WA based geophysical consultancy Southern Geoscience Consultants have been tasked to process and merge all available airborne magnetic, radiometric, gravity and electromagnetic data covering the 4 tenements and produce a lithostructural interpretation. In addition, targets will be generated for field follow up. Sydney company Earth-AI has used an Artificial Intelligence approach to merge all publicly available geochemical, geological and geophysical data to generate targets for fields follow up.

Field-based exploration is planned to commence in the June Quarter 2019.

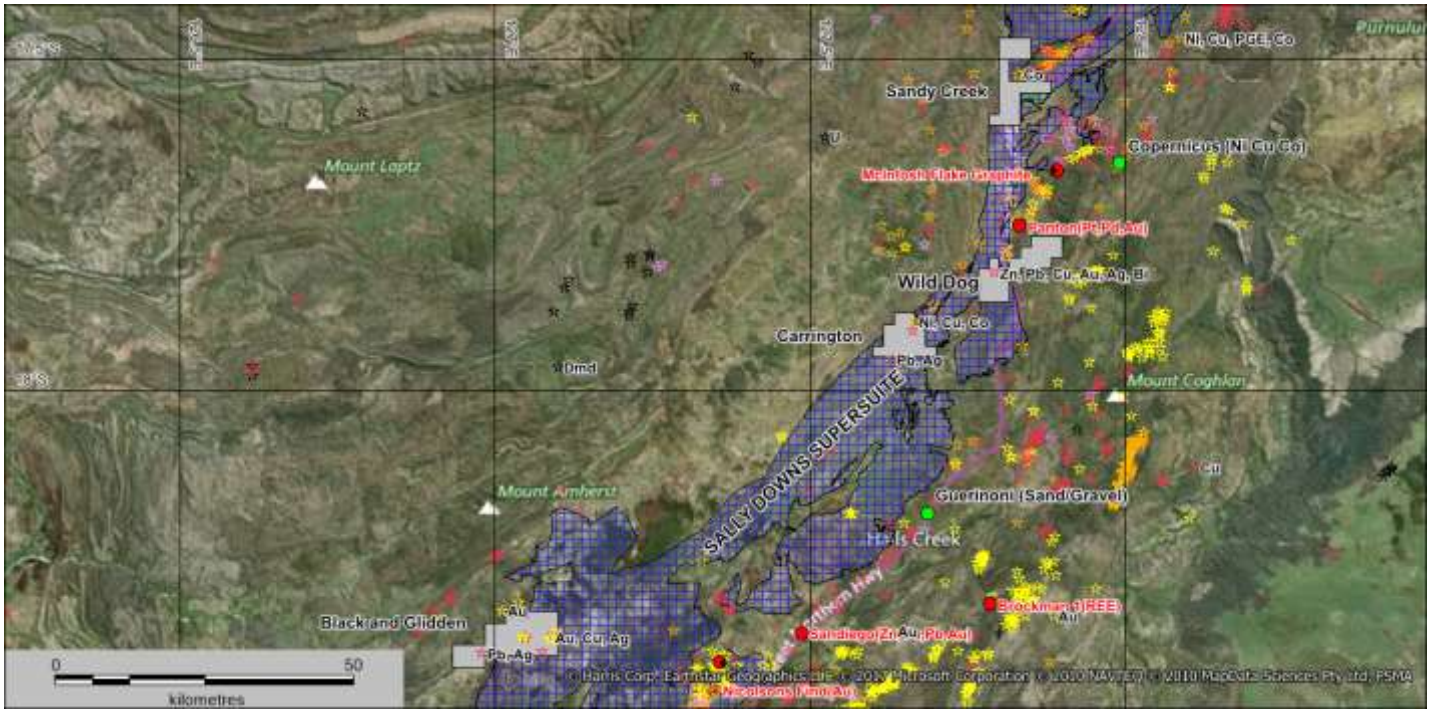

Figure 13 *Halls Creek Project showing the 4 granted tenements located in the vicinity of Hall Creek*

QUEENSLAND

CLARENCE MORETON BASIN (MARYVALE) COAL PROJECT

EPC1506 is held 100% by wholly owned subsidiary APEC Coal Pty Ltd

The Project is strategically located in the Clarence Moreton Basin, 222 km from the Port of Brisbane. The Project is adjacent to the New England Highway which connects the project area with Toowoomba for a distance of 77 km, from there coal may be transported for 145 km by the heavy haulage rail system for export through the Port of Brisbane (**Figure 14**).

TABLE 2: INFERRED (ISG) RESOURCE ESTIMATE

Resource Polygon	Working Section	Thickness (m)	Inherent Moisture (ad%)	Ash (ad%)	Volatiles (ad%)	Density (RD)	Tonnage (Mt)
Maryvale ISG Total	**BU31-35**	**2.85**	**7.2**	**47.2**	**25.6**	**1.68**	**97**

TABLE 3: EXPLORATION TARGET OPEN-CUT AND ISG ESTIMATES

Resource Polygon	Working Section	Thickness (m)	Tonnage (Mt)
Open-Cut Total	BU31-BU35	3.3	80-105
ISG Total	BU31-BU35	2.5	90-125

Table 3 and 4 *ISG Resource and Exploration Target Estimates – Maryvale Project*

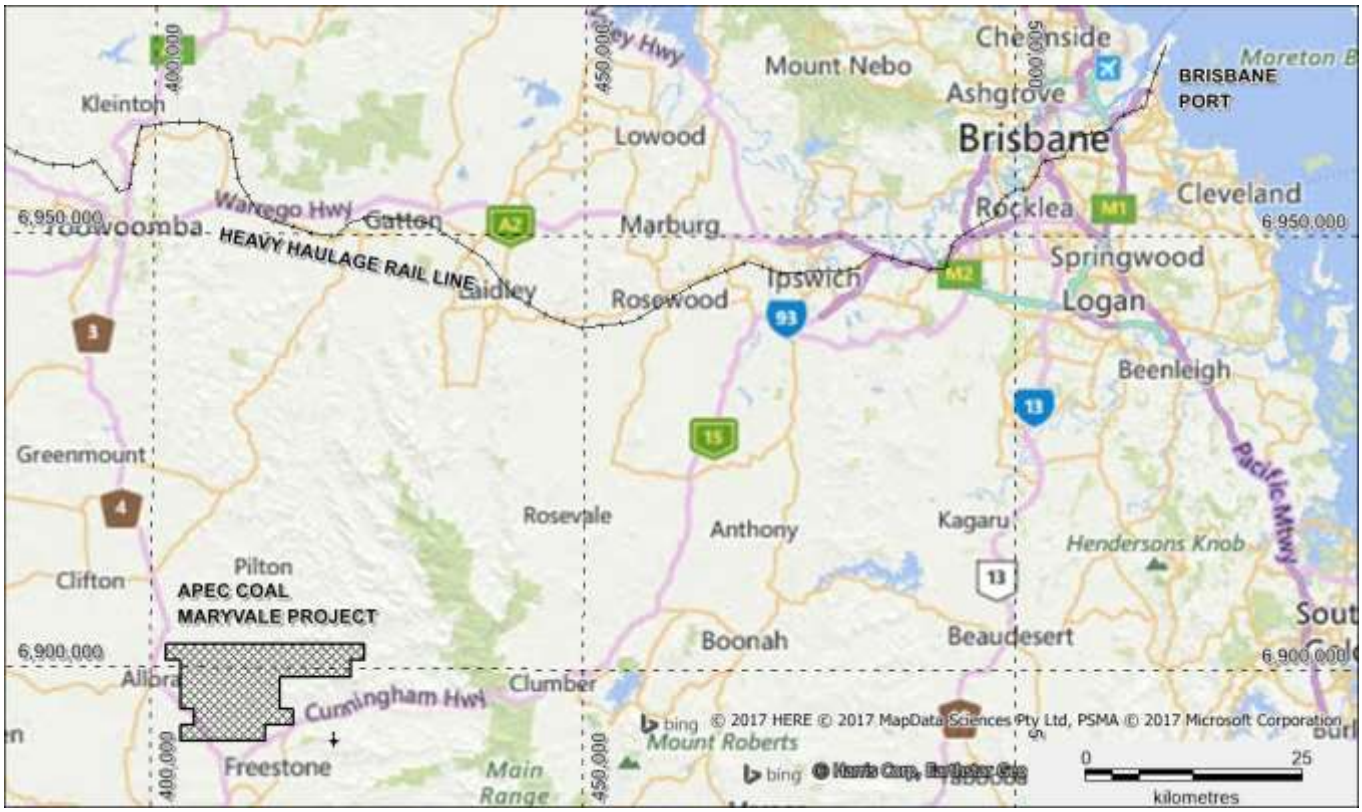

Figure 14 *Maryvale Project Location Map*

The maiden JORC 2012 compliant resource is managed by APEC Coal Pty Ltd, a 100% subsidiary of Kaili Resources Limited . The JORC Resource work was managed by Brisbane consultancy Geoconsult Pty Ltd ("Geoconsult"), primarily incorporating data acquired from the 2010 and 2016 drilling programs. Geoconsult staff has the relevant experience to be the competent person for the preparation of the Resource and Exploration Targets (**Figure 15**). **Tables 3** and **4** summarise the Resource and Exploration Target Estimates.

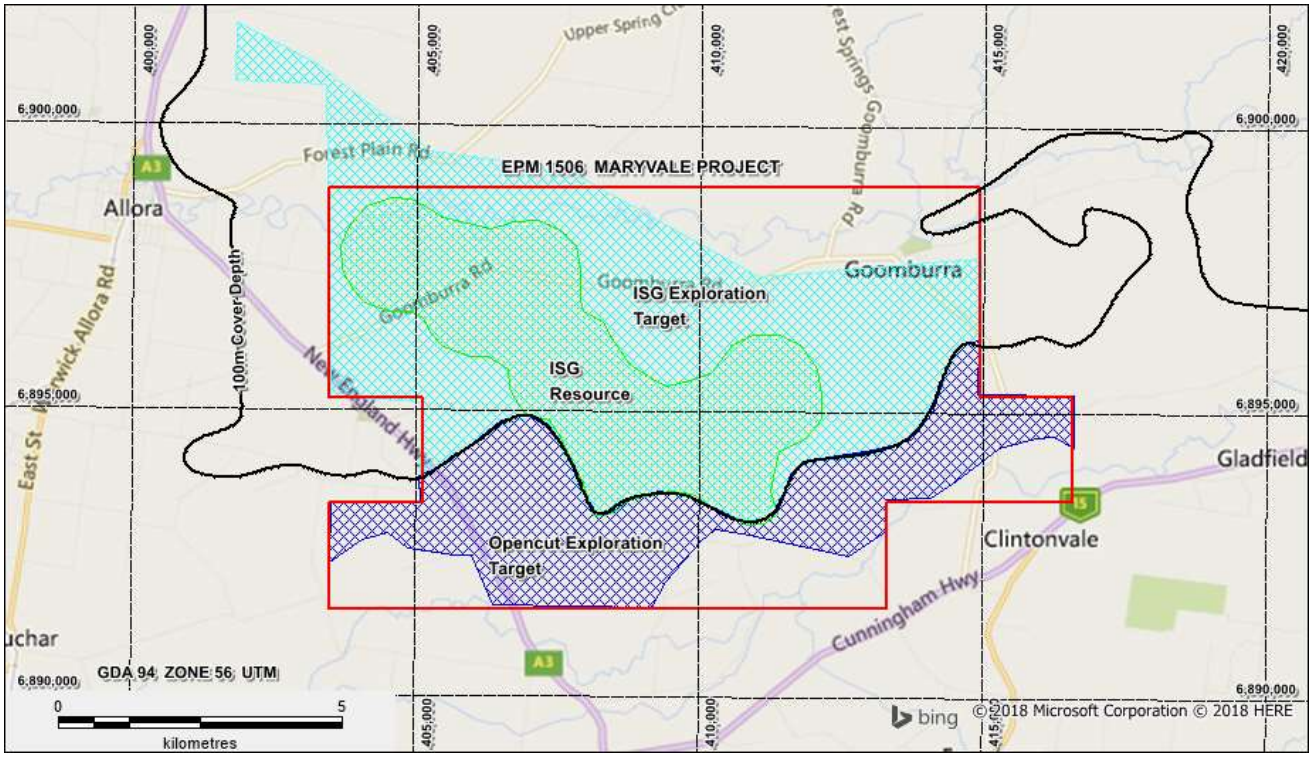

Figure 15 *Maryvale Project showing the ISG Resource and Exploration Targets*

During the Quarter Kaili reviewed exploration to date with a view to expanding the current resource base into the exploration target areas. There was no field based exploration in the Quarter.

LICENCES STATUS

Pursuant to ASX Listing Rule 5.4.3 the Company reports as follows in relation to minerals tenements (**Table 5**) held at the end of the December 2018 quarter and acquired or disposed of during that quarter and their locations. There was no change in beneficial interests under farm-in or farm-out agreements.

Granted	Tenement	Name	Commodity	Region	Registered Holder	Beneficial Interest	Area km2	Expiry
9/03/2017	E08/2770-I	Darnell Hill	Iron	WA - Pilbara Craton	Kaili Iron Pty Ltd	100%	67.2	8/03/2022
28/07/2016	E45/4619-I	Bea Bea Creek	Iron	WA - Pilbara Craton	Kaili Iron Pty Ltd	100%	105.6	27/07/2021
21/11/2016	E46/1084-I	Bustler's Bore	Iron	WA - Pilbara Craton	Kaili Iron Pty Ltd	100%	64.0	20/11/2021
8/07/2016	E40/354	8 Mile Dam	Gold	WA - Yilgarn Craton	Kaili Gold Pty Ltd	100%	70.4	7/07/2021
30/05/2016	E31/1114	Jungle Hill	Gold	WA - Yilgarn Craton	Kaili Gold Pty Ltd	100%	150.4	29/05/2021
30/05/2016	E31/1113	Canegrass	Gold	WA - Yilgarn Craton	Kaili Gold Pty Ltd	100%	108.8	29/05/2021
1/07/2016	E27/550	Holey Dam	Gold	WA - Yilgarn Craton	Kaili Gold Pty Ltd	100%	67.2	31/06/2021
1/07/2016	E27/549	Gindalbie Dam	Gold	WA - Yilgarn Craton	Kaili Gold Pty Ltd	100%	25.6	31/06/2021
13/05/2009	EPC 1506	Maryvale 1	Coal	QLD - Surat Basin	APEC Coal Pty Ltd	100%	86.4	13/05/2020
31/08/2018	E80/5112	Black and Glidden	Cobalt/Gold	WA - Lamboo Province	Kaili Iron Pty Ltd	100%	102.4	31/08/2023
31/08/2018	E80/5113	Carrington	Cobalt/Gold	WA - Lamboo Province	Kaili Iron Pty Ltd	100%	51.2	31/08/2023
31/08/2018	E80/5114	Sandy Creek	Cobalt/Gold	WA - Lamboo Province	Kaili Iron Pty Ltd	100%	64	31/08/2023
31/08/2018	E80/5115	Wild Dog	Cobalt/Gold	WA - Lamboo Province	Kaili Iron Pty Ltd	100%	70.4	31/08/2023
							1033.6	

Table 5: *Tenement schedule*

(The information in the report above that relates to Exploration Results is based on information compiled by Mr Mark Derriman, who is the Company's Consultant Geologist and a member of The Australian Institute of Geoscientists (1566).

Mr Mark Derriman has sufficient experience that is relevant to the style of mineralization and type of deposit under consideration and to the activities which he is undertaking to qualify as a Competent Person as defined in the 2012 Edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves. Mr Mark Derriman consents to the inclusion in this report of matters based on his information in the form and context in which it appears.)

Donghai Zhang
Chairman
31st January 2019