

KAILI RESOURCES LIMITED

(Incorporated in Bermuda with limited liability)

ARBN 077 559 525

Annual Report – 2018

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CORPORATE DIRECTORY

Board of Directors

Donghai Zhang – Chairman
Chunlin Liu
Jing Li
Jianzhong Yang

Company Secretary

Long Zhao

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Chartered Accountant
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CHAIRMAN'S REPORT

Dear Shareholders,

I am pleased to present you the 2018 Annual Report.

During the year there have been some significant events on the corporate aspects of the Company as follows:

- Inner Mongolia Yitai Investment Co., Limited ("Yitai") has become the ultimate holding company controlling 51.38 % of the Company after it acquired the largest shareholder Treasure Unicorn Limited in May 2018 and Treasure Unicorn Limited subscribed for all the shortfall shares in December 2018 as underwriter to a pro-rata non-renounceable offer of shares by the Company. Yitai is a corporation with substantial investment in the mining industry in China and with a subsidiary listed on the Hong Kong Stock Exchange and Shanghai Stock Exchange.
- The Company raised a total of \$1.769 million in December 2018 under a pro-rata non-renounceable offer of shares providing funds for exploration expenditure and working capital.
- The Board's composition changed in November 2018 with my appointment as Chairman, appointment of Mr Chunlin Liu and Ms Jing Li and retirement of Kaiyuan Yang and Yutian Bai.

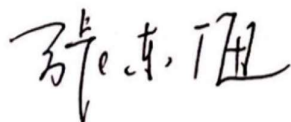
I would like to express my appreciation of the achievement of my predecessor Mr Jianzhong Yang in building the Company from one that was suspended from trading on ASX when he joined in 2014 to one that today is listed and has a portfolio of 13 mineral tenements in Western Australia and Queensland focusing on gold, iron ore, cobalt and gold exploration covering a total area of 947 square kilometres.

A drilling program in Queensland at the Maryvale Coal Project attained in February 2017 a maiden In Situ Gasification JORC 2012 compliant resource of 97 million tonnes inferred.

In August 2018 we were granted 4 tenements at Halls Creek in Lamboo Province. These are of particular interest with their potential for cobalt and gold. Cobalt is a component in the manufacture of batteries for use in electric vehicles. The market of electric vehicles is expected to expand substantially worldwide over the next five years and therefore demand for cobalt can be expected to rise significantly, especially those produced in countries like Australia adopting ethical methods of exploitation.

Significant investment and exploration work have been achieved to date and much further work is planned in the future with funds from the recent capital raising and with the support of Yitai. The Review of Operations provides details of the work and assessment of the results of exploration.

I look forward to your continued support as the Board gears up to grow the Company for the benefit of all shareholders and staff.



Donghai Zhang
Chairman

28th March, 2019

REVIEW OF OPERATIONS

EXPLORATION HIGHLIGHTS

- All granted tenements complied with statutory requirements

Yilgarn Craton (Gindalbie and Kookynie) Gold and Iron Projects in Western Australia:

- Soil sampling at Jungle Hill and Eight Mile Dam projects
- 17 RC drill holes for 2,023 meters at Jungle Hill project completed.
- Significant results from the Jungle Hill drilling include (ASX Release - 16 November 2018):
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
5m @ 18.0% Fe in JHRC07
5m @ 19.8% Fe in JHRC08
15m @ 18.5% Fe in JHRC03.

Halls Creek Cobalt/Gold Project in Western Australia:

- 4 new tenements granted for nickel/cobalt/copper/gold exploration, namely E08/5112, E08/5113, E08/5114 and E08/5115.
- Native Title Agreement signed for all 4 tenements.
- 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%.
km² has been calculated at approximately 3.2 km² per block*

REVIEW OF OPERATIONS (continued)

WESTERNAUSTRALIA

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 third parties' iron ore mines as brown diamond*

The tenements are located in the Hamersley region 100 km south east of the town of Onslow in Western Australia.

The Mugarinya Community are yet to provide a budget for the Company's proposed Work Program within the Bea Bea Creek tenement. The work programs for Bea Bea Creek and Bustler Bore will be carried out in the same time period. With the usual impact of wet season on field-based exploration the next phase of field work is planned for the June Quarter 2019.

REVIEW OF OPERATIONS

YILGARN CRATON (GINDALBIE AND KOOKYNIIE) GOLD AND IRON PROJECTS

E40/354(Eight 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**).

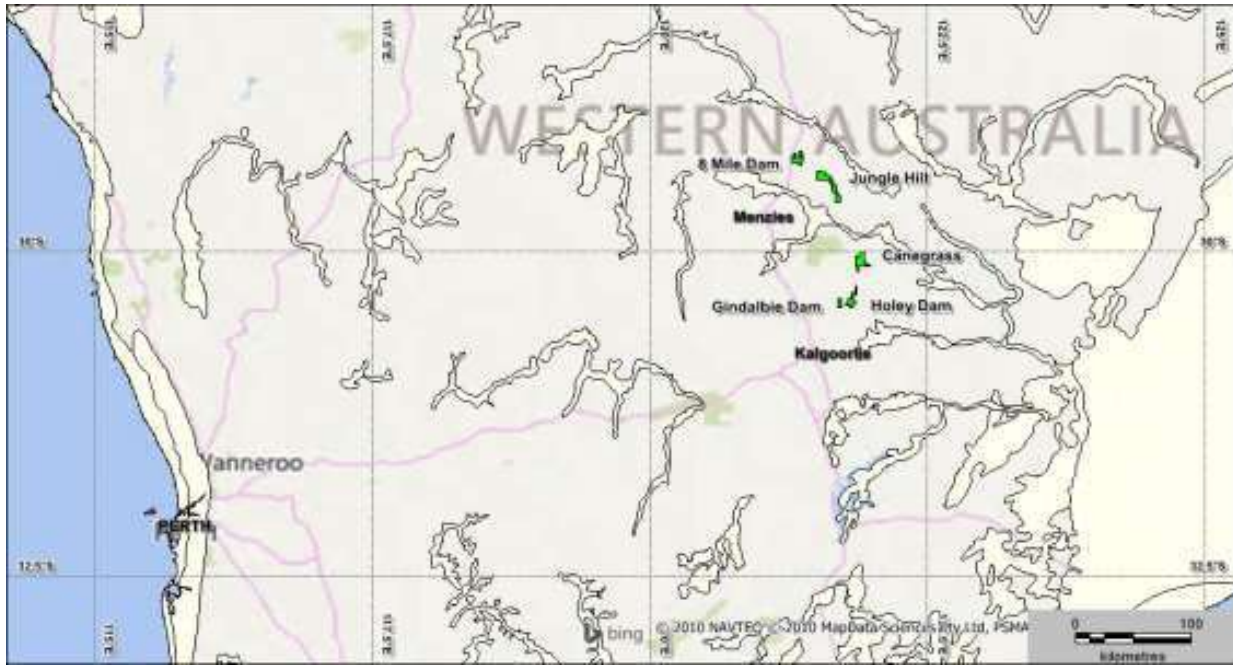


Figure 3: Kaili Resources WA Gold Projects

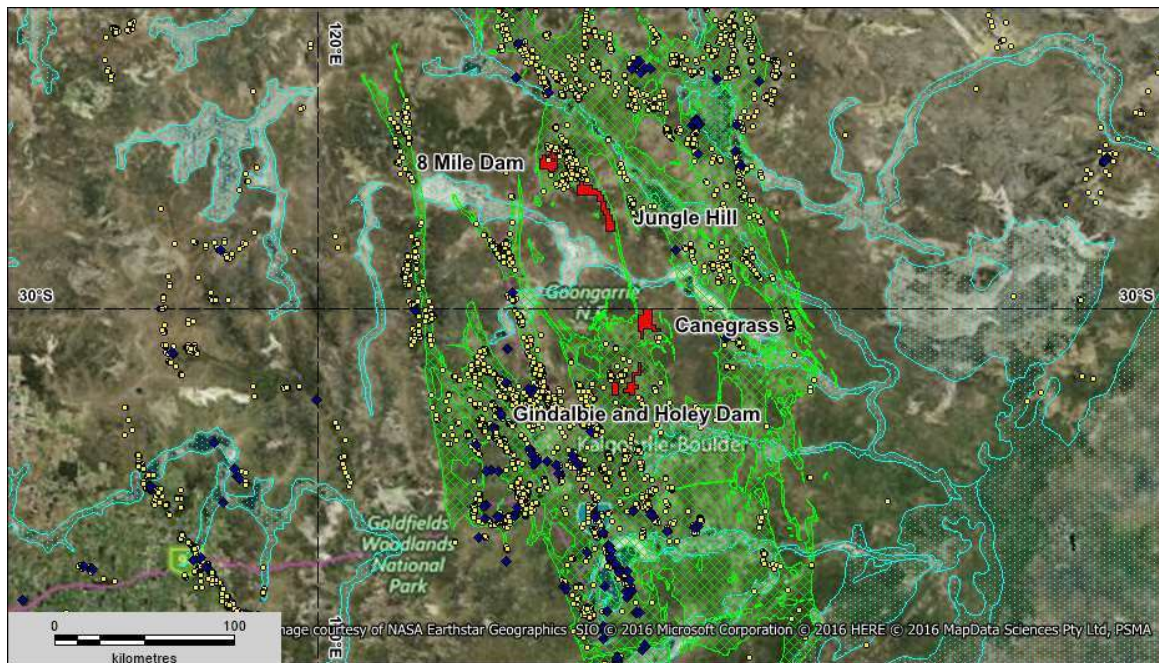


Figure 4: Satellite Image with Eastern Goldfields Superterrane (green hatching) and Kaili Resources gold projects in red. Blue diamonds are operating mines of third parties and yellow dots are gold occurrences

REVIEW OF OPERATIONS

JUNGLE HILL AND EIGHT MILE DAM SAMPLING

In February 2018, a program of surficial geochemical sampling was completed at Jungle Hill and Eight Mile Dam projects (announced on ASX on 8 February 2018). A total of 506 soil samples and 32 rock samples were collected.

At each sample site, the Company's Olympus DELTA Premium portable handheld XRF analyser (DELTA) was used to collect a suite of multi element geochemical readings in addition to a 500g soil sample that was submitted to the ALS Kalgoorlie Geochemical Laboratory (analysed in the Perth laboratory) for low level gold analysis. The samples/readings were collected at 100 m spaced intervals along E-W lines spaced every 200 m. Geological and regolith observations were made at each sample site. The data collected by the DELTA instrument are considered to be partial assays. At the start and finish of each traverse 3 DELTA standards were measured in addition to a duplicate and OREAS standard being inserted into the soil sampling sequence after every 30th soil sample. A duplicate sample was also collected at every 30th sample.

At Jungle Hill, the exploration is in an area dominated by folded mafic and felsic stratigraphy and a reasonable exposure of the bed rock units. Six soil grids were established. Several low order Au in soils areas were delineated from the sampling program with elevated zones of 5-16ppb Au or 5% of the sample population. Some of these elevated areas of Au ppb in soil had rock chip As ppm results to 1640ppm. Elevated Cu in pXRF readings in the northern portion of the tenement ranged from 75 to 149ppm with some associated with gossanous areas. Further surficial sampling is planned to target the Au/As areas in the south of the tenement and the elevated Cu areas in the north.

At Eight Mile Dam, the surface sampling program comprised 189 soil samples and 5 rock chip samples. There were no significant results from the limited rock sampling however, the soil sampling highlighted 3 elevated gold in soil results in the range 4 to 10ppb (10% of the population) and located on the contact between a felsic and mafic unit.

JUNGLE HILL DRILLING

Following from the sampling program the Group completed a drilling program at the Jungle Hill project (E31/1114) south east of Kookynie in Western Australia (**Figures 5 and 6**) during September and October 2018. On 16 November 2018 the results of the drilling were announced on ASX. The Company's Delta Premium portable XRF unit was used to collect multi element readings from every meter of the drilling program and 4 m composite samples were sent to the ALS geochemical laboratory for gold (Au) only analysis. The Group was successful in obtaining a WA Government grant of \$47,000 under 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

REVIEW OF OPERATIONS

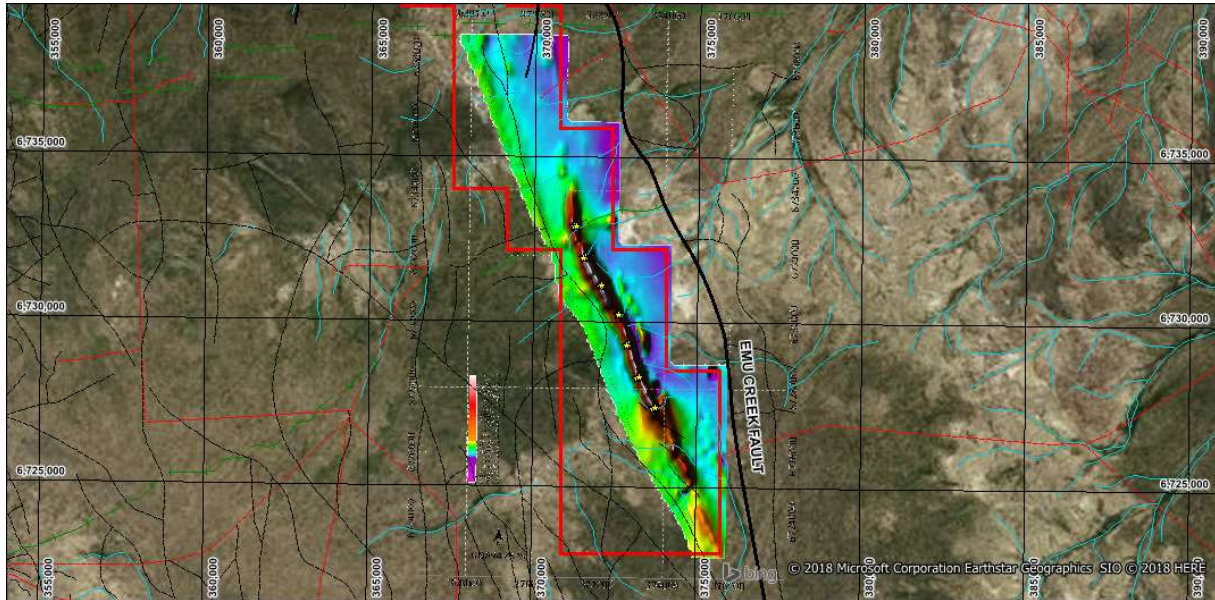


Figure 5: Ground magnetic image (warm colours-high magnetics) showing the 7 drill traverses located along the 7 km high magnetic zone

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**). Surface rock sampling of the “BIF” zone had 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.

REVIEW OF OPERATIONS

Hole_ID	GDA94mE_UT M Zone51	GDA94mN_UTM Zone51	Elevation (mASL)	Dip	Azimuth	Actual Depth(m)
JHRC001	371233	6732906	452	-50	250	78
JHRC002	371295	6732920	449	-50	250	132
JHRC003	371520	6731958	464	-50	250	132
JHRC004	371583	6731988	461	-50	250	202
JHRC005	372043	6731100	466	-50	240	167
JHRC006	372081	6731122	461	-50	240	180
JHRC007	372551	6730221	459	-50	240	138
JHRC008	372605	6730248	456	-50	240	209
JHRC009	372862	6729324	463	-50	250	78
JHRC010	372915	6729343	461	-50	250	132
JHRC011	373185	6728325	455	-50	250	72
JHRC012	373249	6728355	450	-50	250	137
JHRC013	373680	6727390	437	-50	240	60
JHRC014	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

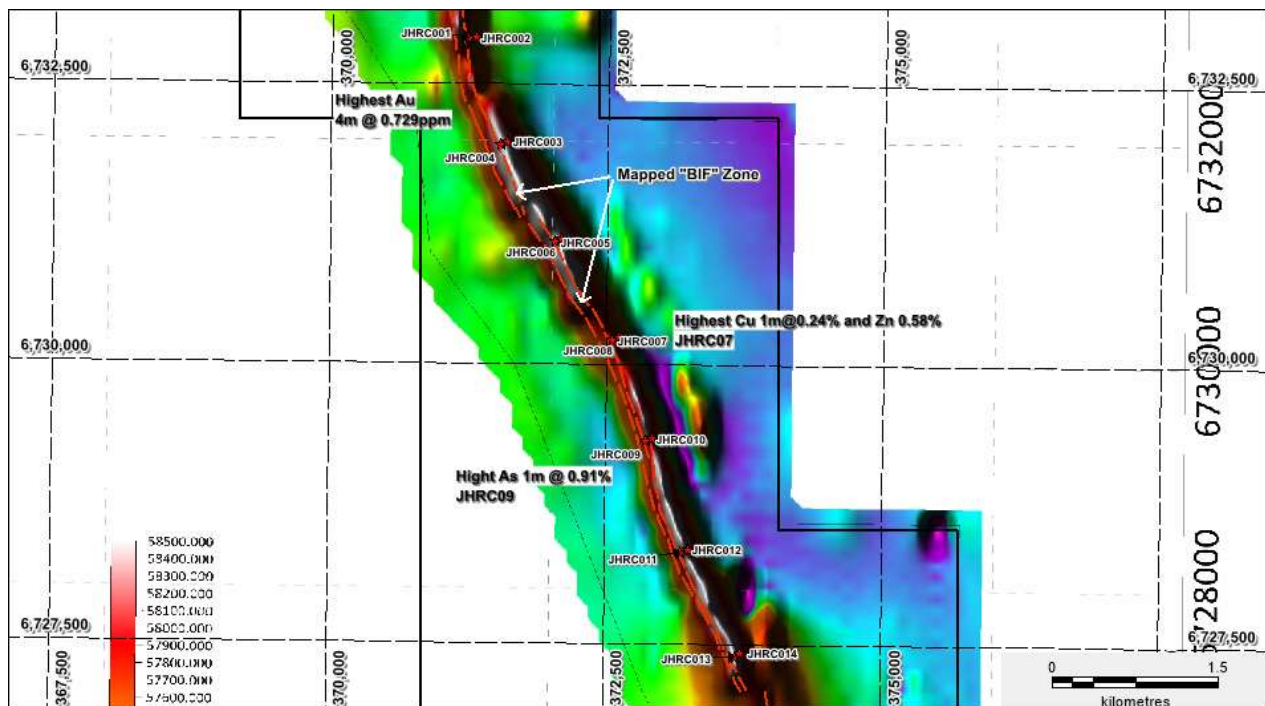


Figure 6: Ground magnetic image showing significant drill analyses

REVIEW OF OPERATIONS



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

REVIEW OF OPERATIONS



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

REVIEW OF OPERATIONS

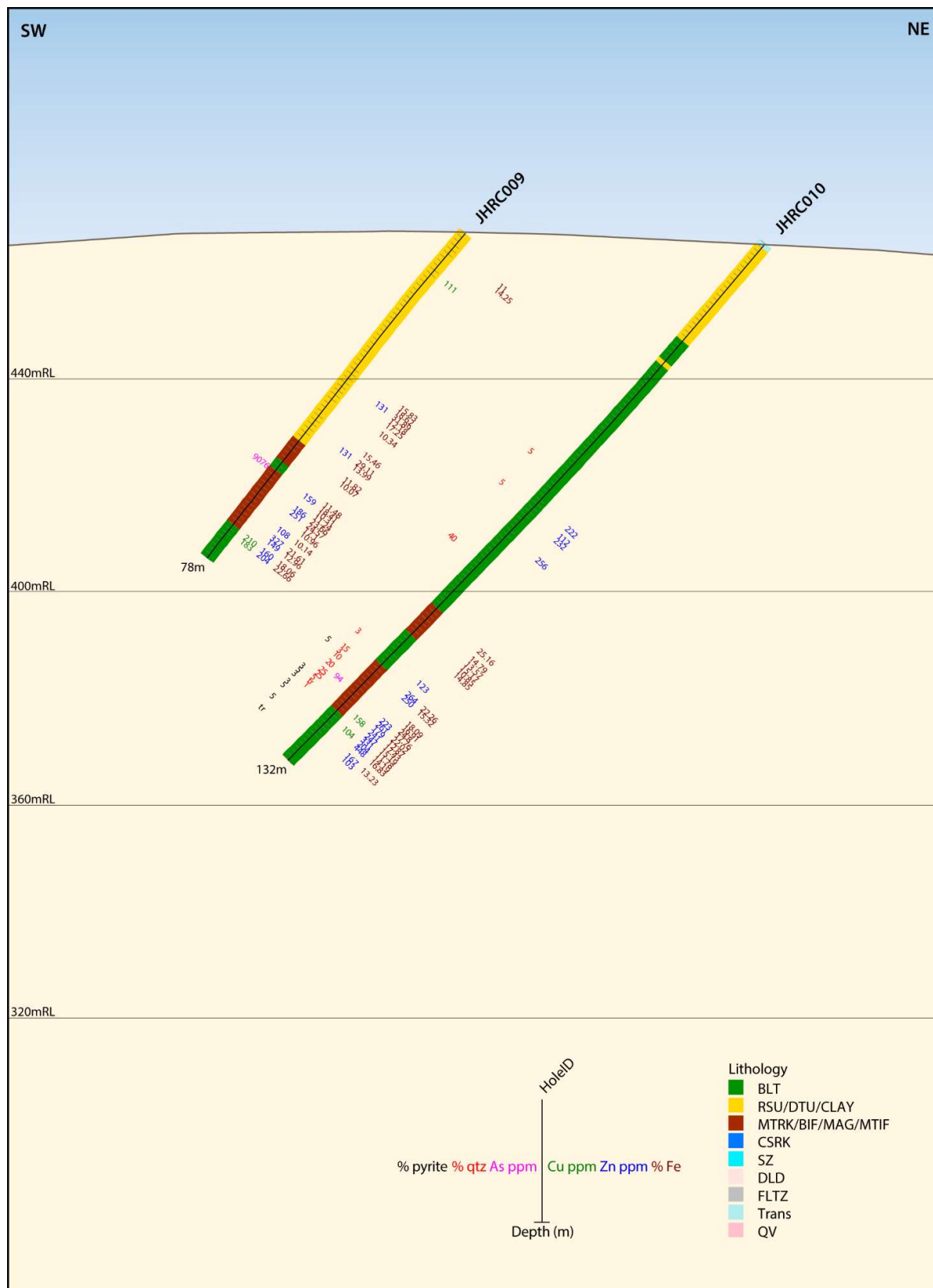


Figure 10: Drill section JHRC009 and 010 showing down hole geochemistry and geology

REVIEW OF OPERATIONS

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 5-15 m (**Figures 11 and 12**). Drilling is 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 March 2019.

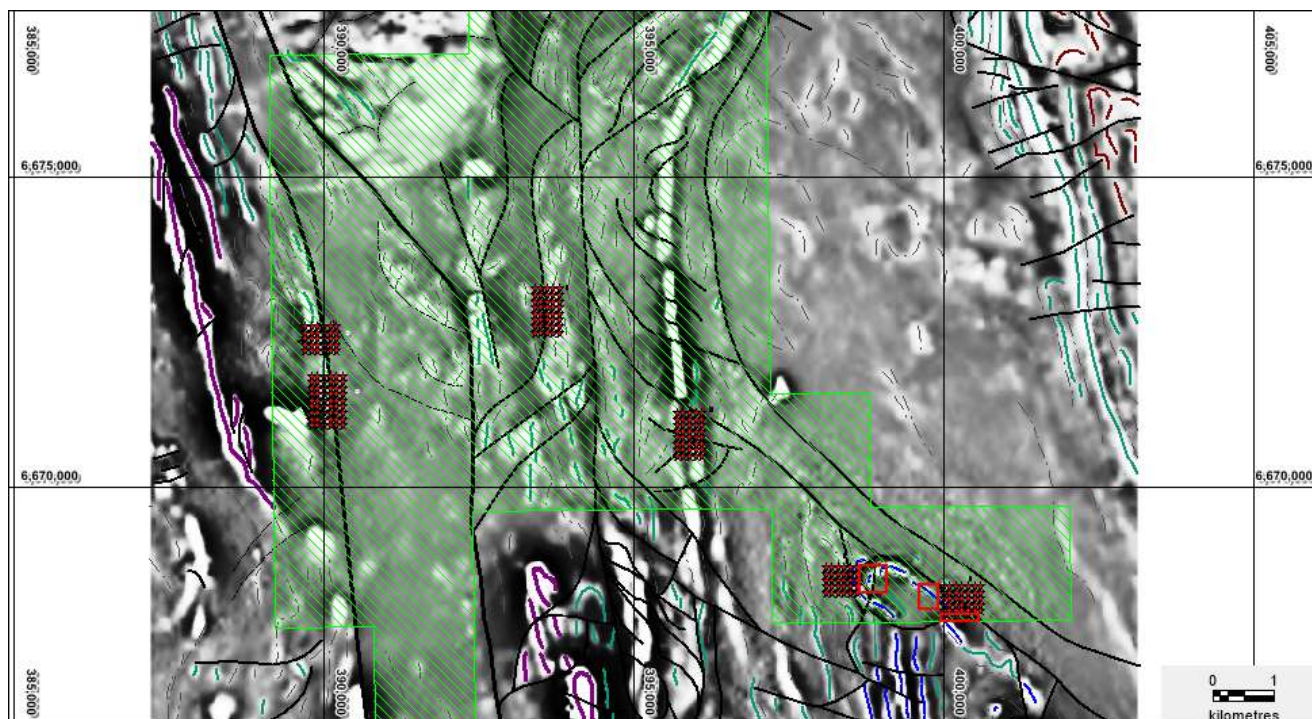


Figure 11: Canegrass Project – Aeromagnetic image showing structure and proposed vacuum drill traverses. The red boxes are drill areas recently added to the Program of Works

REVIEW OF OPERATIONS

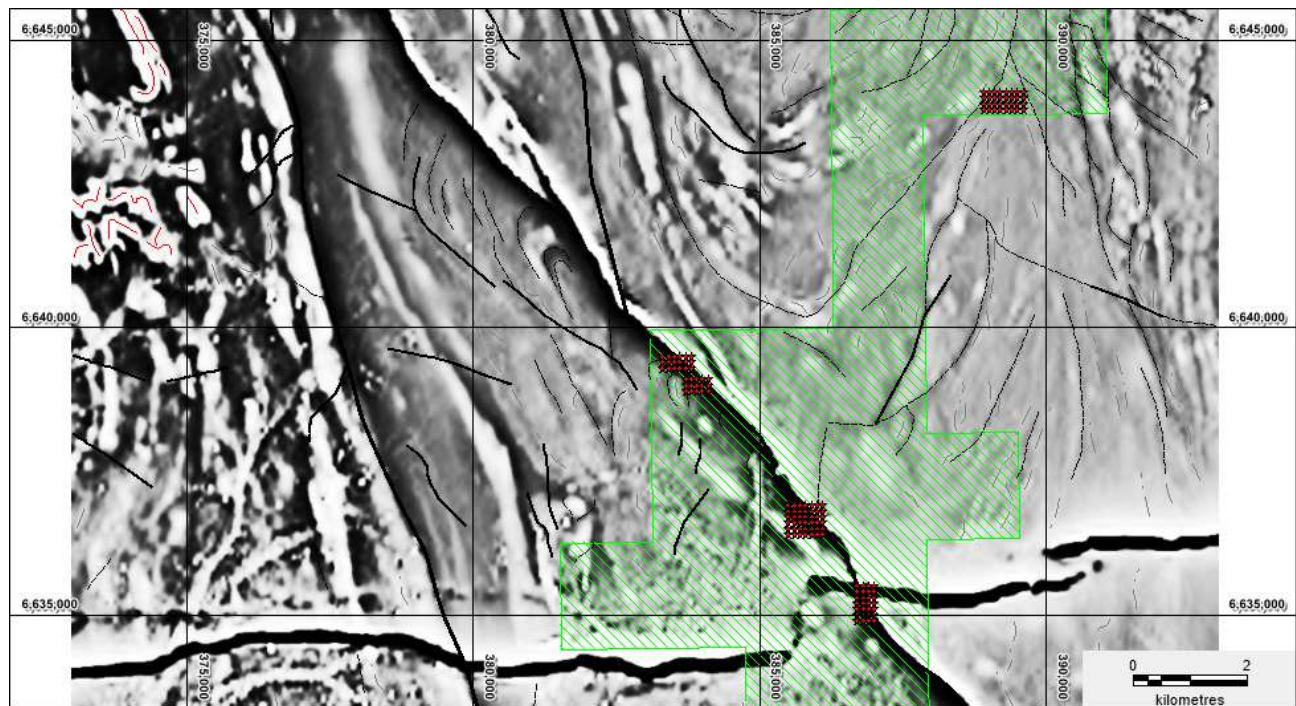


Figure 12: *Holey Dam Tenement Project – Aerial image structure and proposed aircore drill traverses*

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

The Halls Creek Project comprises 4 granted tenements (**Figure 13**) granted from 31 August 2018 for a period of 5 years and 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 granulites 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.

REVIEW OF OPERATIONS

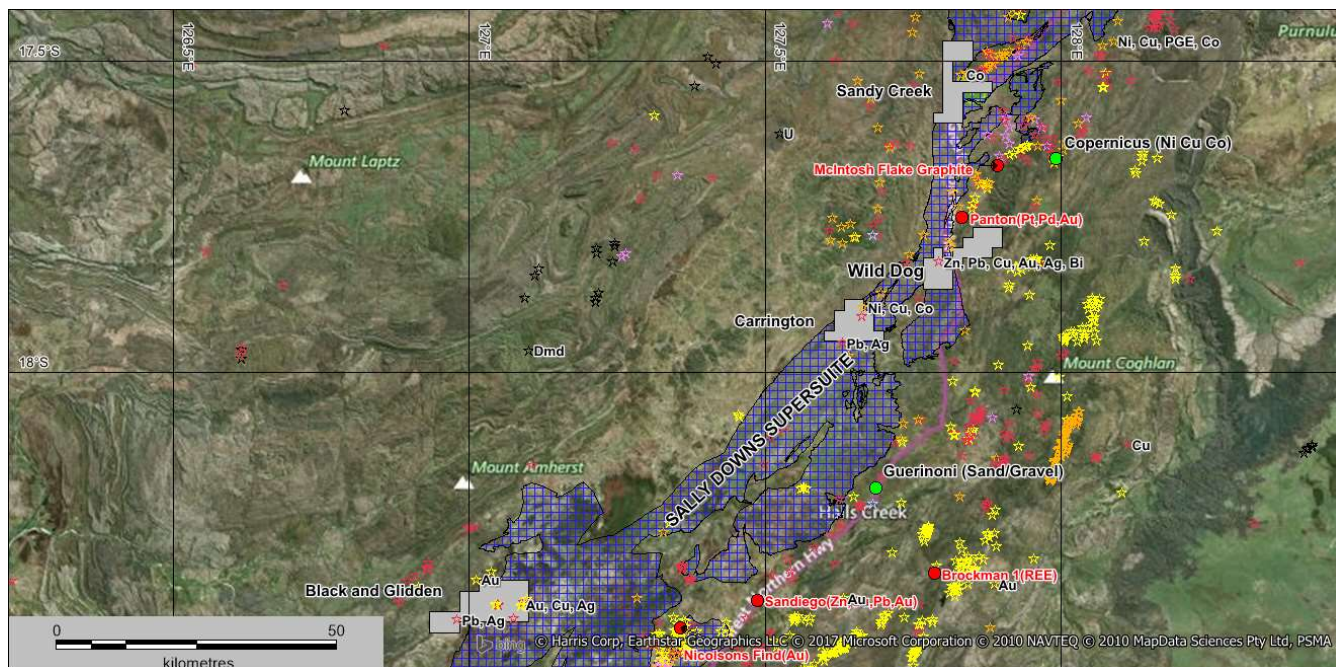


Figure 13: Halls Creek Project showing the 4 granted tenements located in the vicinity of Halls Creek

QUEENSLAND

CLARENCE MORETON BASIN (MARYVALE) COAL PROJECT

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

During the year, a renewal of the permit was submitted with a compulsory 50% reduction in area. The original 53 sub block EPC was reduced by 26 sub blocks to 27 sub blocks.

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 and 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

REVIEW OF OPERATIONS

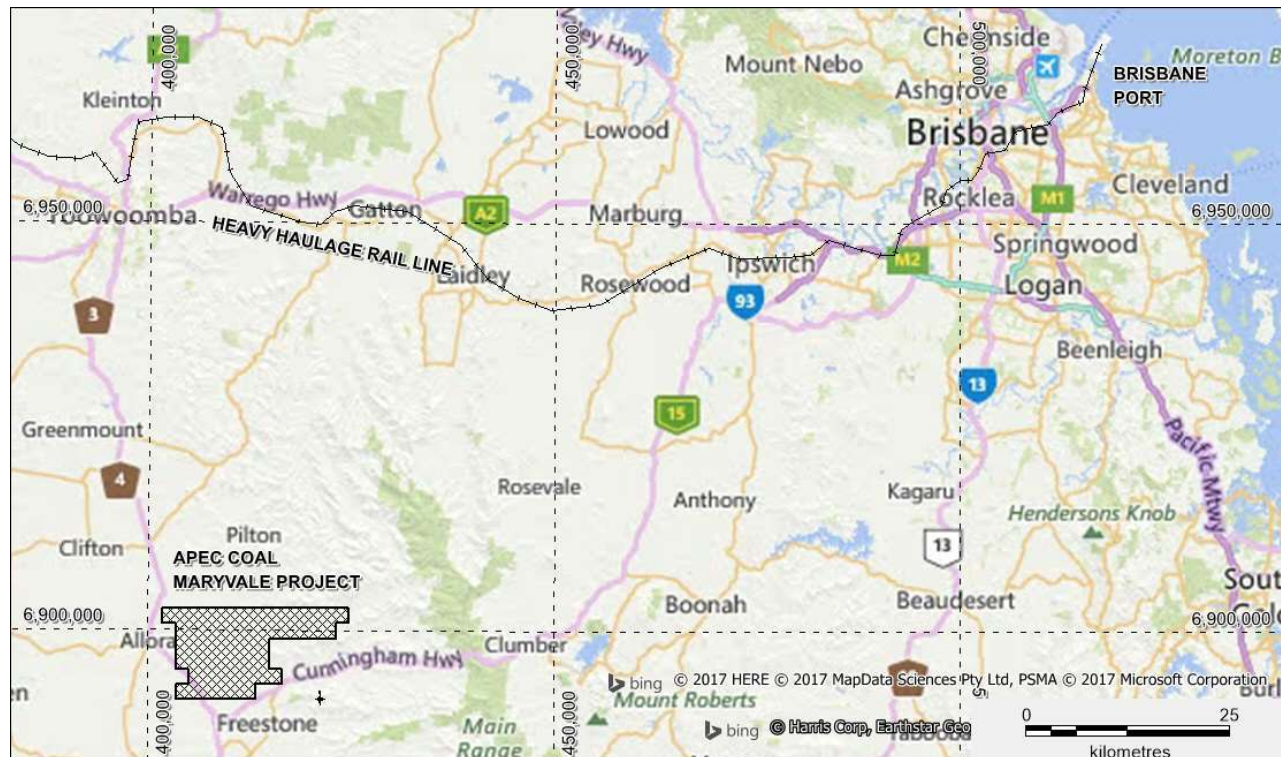


Figure 14: Maryvale Project Location Map

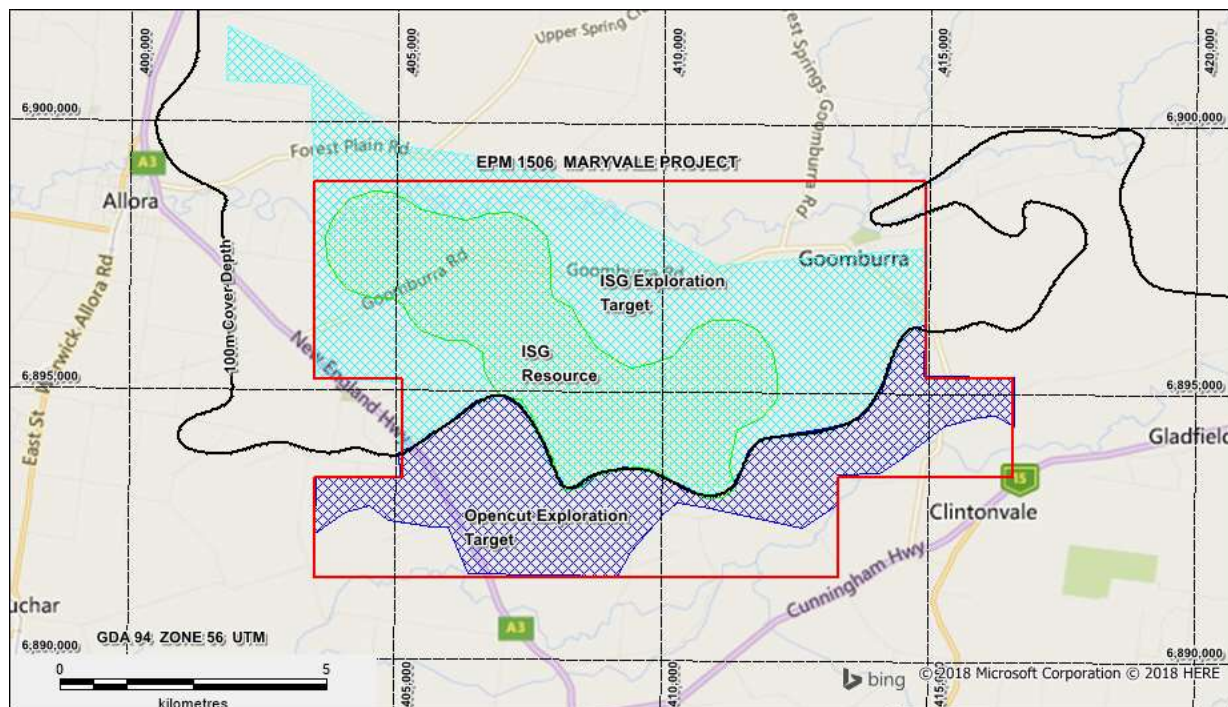


Figure 15 Maryvale Project showing the ISG Resource and Exploration Targets

REVIEW OF OPERATIONS

The maiden JORC 2012 compliant resource and exploration targets, first reported on 6 February 2017, are 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. The resource and exploration targets have not been updated since they were first reported on the basis that the information has not materially changed. 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.

The Company has continued its review of the exploration to date with particular reference to the drilling data used in the calculation of the ISG Resources and Exploration Targets.

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, subscribed for the 38,964,537 shortfall shares under the offer bringing its total shareholding to 75,734,441 shares being 51.38% of the Company’s issued capital. Inner Mongolia Yitai Investment Co., Limited as the holding company of Treasure Unicorn Limited became the Group’s ultimate holding company.

REVIEW OF OPERATIONS

LICENCES STATUS

Minerals tenements held at 31 December 2018 are as follows:

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
31/8/2018	E80/5112	Black and Glidden	Cobalt/Gold	WA - Lamboo Province	Kaili Iron Pty Ltd	100%	102.4	31/8/2023
31/8/2018	E80/5113	Carrington	Cobalt/Gold	WA - Lamboo Province	Kaili Iron Pty Ltd	100%	51.2	31/8/2023
31/8/2018	E80/5114	Sandy Creek	Cobalt/Gold	WA - Lamboo Province	Kaili Iron Pty Ltd	100%	64.0	31/8/2023
31/8/2018	E80/5115	Wild Dog	Cobalt/Gold	WA - Lamboo Province	Kaili Iron Pty Ltd	100%	70.4	31/8/2023
							1,033.6	

E80/5112, E80/5113, E80/5114 and E80/5115 in WA were granted during the year.

There were no tenements acquired or disposed of or change in beneficial interests under farm-in or farm-out agreements during the year.

(The information in the report above that relates to Exploration Results, Exploration Targets and Mineral Resources 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 2004 and 2012 Editions of the Australasian Code for Reporting of Exploration Results, Exploration Targets, 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.)

DIRECTORS' REPORT

The Directors present their report together with the consolidated financial statements of Kaili Resources Limited (“the Company”) and its controlled entity (“the Group”) for the year ended 31 December 2018.

DIRECTORS

The following persons were Directors of the Company during the year and up to the date of this report:

Donghai Zhang (Appointed on 9 November 2018)
Chunlin Liu (Appointed on 9 November 2018)
Jing Li (Appointed on 9 November 2018)
Jianzhong Yang
Kaiyuan Yang (Resigned on 9 November 2018)
Yutian Bai (Resigned on 9 November 2018)

DIRECTORS' INFORMATION

Donghai Zhang

Non-Executive Chairman - appointed on 9 November 2018

Mr Donghai Zhang holds a Master of Business Administration degree from Fordham University of New York. He also graduated from the Beijing International MBA Program of Peking University. He is presently Chairman and President of Yitai Group which controls Inner Mongolia Yitai Coal Co., Ltd which is listed on the Shanghai Stock Exchange and the Hong Kong Stock Exchange. He is also a Director of Inner Mongolia Yitai Investment Co., Ltd which is a substantial shareholder with relevant interests in 51.38% of the Company.

Chunlin Liu

Non-Executive Director - appointed on 9 November 2018

Mr Chunlin Liu holds a Master of Senior Business Administration degree from Tsinghua University of China. He is presently a Director and the Chief Financial Officer of Yitai Group and of Inner Mongolia Yitai Investment Co., Ltd. He is also a director of Inner Mongolia Yitai Coal Co., Ltd.

Jing Li

Non-Executive Director - appointed on 9 November 2018

Miss Jing Li holds a Master of Arts degree from University of Greenwich of UK. She is a senior executive of the Yitai Group.

Jianzhong Yang

Non-Executive Director - appointed on 21 April 2014, Executive Chairman until 9 November 2018

Mr Jianzhong Yang holds a Master Degree from Huazhong University of Science and Technology in China and a Diploma in Coalfield Geology and Exploration and Mining Geology from the Inner Mongolia Coal Engineering School. He has extensive experience in coal and energy industry from his home province of Inner Mongolia, China. Since 2011 he is Vice Chairman, after five years as the General Manager, of the Inner Mongolia Hengdong Energy Group Co., Ltd. He has previously held positions in Inner Mongolia as Office Director at The Office of Railway Construction Supporting Project of Zhungeer Banner, Township Head of the Township Government of Hadai Gaole Township of Zhungeer County, Deputy Director of the Bureau State Land and Resources Bureau of Zhungeer County, teacher in Coalfield Geology and Exploration & Mining Geology at a vocational school.

Kaiyuan (Kelly) Yang

Executive Director – resigned on 9 November 2018

Ms Kelly Yang's responsibilities encompass the oversight of the investment program in the coal and resources industry and assessing new investment opportunities for growth. She is also responsible for investors' relation, especially those from overseas.

DIRECTORS' REPORT (continued)

Yutian Bai

Non-Executive Director - resigned on 9 November 2018

Mr Yutian Bai holds a Master of Management from Australian National University and a Bachelor of Accounting from the University of Geosciences, China. He was previously director then chairman of Inner Mongolia Zhengyuan Culture Media Co Ltd. Currently he is a Chairman of Ordos Zhongding Investment Co.,Ltd .

PRINCIPAL ACTIVITIES

During the year the Group has been active in exploration for coal, iron ore, cobalt and gold.

OPERATING AND FINANCIAL REVIEW

Review of operations

A Review of Operations for the financial year, together with future prospects, is set out on pages 3 to 17.

Performance

The loss of the Group after income tax for the year was \$832,683 (2017: loss \$712,107).

Financial position

At the end of the year, the Group had \$1,977,022 (2017: \$1,135,682) in cash and cash equivalents and net working capital, being current assets less current liabilities, of \$1,310,963 (2017: \$1,104,747).

The net assets of the Group at 31 December 2018 increased to \$2,771,835 from \$1,958,926 as a result of new shares issued during the year. Total liabilities increased by \$700,944 to \$774,352 mainly due to \$500,000 unsecured loan from a related company of the largest shareholder, Treasure Unicorn Limited.

Cash flows

Operating activities resulted in net outflow of \$911,000 (2017: \$619,288) as the Group is still in the exploration phase with no income. A total of \$499,189 (2017: \$274,246) was spent on exploration activities.

State of affairs

There were no significant changes in the state of affairs of the Group during the year other than:

- raising a total of approximately \$1.769 million under an underwritten non-renounceable entitlement pro-rata offer at \$0.036 per share with the issue of 49,133,448 new fully paid ordinary shares; and
- the grant of four new tenements in the Halls Creek region in WA.

Dividends

The Directors recommend that no dividend be declared or paid.

Likely developments

During the subsequent financial year the likely developments of the Group will involve continuation of exploration in its tenement in Queensland aiming to advance to a full feasibility study for mining coal and exploration for gold, cobalt and iron ore in its tenements in Western Australia.

DIRECTORS' BENEFITS

No Director of the Company has received or become entitled to receive a benefit (other than a benefit included in the aggregate amount of remuneration received or due and receivable by Directors as detailed in the Remuneration Report) by reason of a contract made by the consolidated entity or a controlled entity with the Director or with a firm of which the Director is a member, or with a

DIRECTORS' REPORT (continued)

Company in which the Director has a substantial interest, except for any benefit that may be deemed to have arisen as disclosed in Note 24 of the financial statements.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts involving Directors' interests were entered into during the financial year except as disclosed in Note 24 of the financial statements.

DIRECTORS' MEETINGS

Attendances by each Director to meetings of directors during the year were as follows:

	Directors' Meetings	
	Number eligible to attend	Number attended
Donghai Zhang (appointed 9 November 2018)	-	-
Chunlin Liu (appointed 9 November 2018)	-	-
Jing Li (appointed 9 November 2018)	-	-
Jianzhong Yang	1	1
Kaiyuan Yang (resigned 9 November 2018)	1	1
Chi Yuen Kuan (resigned 9 November 2018)	1	1

During the year other Board business was carried out by execution of circulated resolutions.

REMUNERATION REPORT

The information provided in this remuneration report has been audited.

A. Principles Used to Determine Amount and Nature of Remuneration

The objective of the Group's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The Board ensures that executive reward satisfies the following key criteria for good reward governance practices:

- Competitiveness and reasonableness
- Acceptability to shareholders
- Transparency

The maximum aggregate annual remuneration for Directors' services as Directors is subject to approval by the shareholders in general meeting to be divided between the Directors as the Board determines.

The Group's policy regarding executive remuneration is that the executives are paid commercial salary and benefits based on the Group's performance, market rate and individual experience.

B. Details of Remuneration of Key Management Personnel of the Group

I. Remuneration of Directors

	Short-term benefits Cash salary and fees \$	Post- Employment benefits Superannuation \$	Total \$	% of performance related remuneration
2018				
Donghai Zhang ¹	-	-	-	-
Chunlin Liu ¹	-	-	-	-
Jing Li ¹	-	-	-	-
Jianzhong Yang	62,604	24,996	87,600	-
Kaiyuan Yang ²	-	-	-	-
Yutian Bai ²	140,792	13,375	154,167	-
	203,396	38,371	241,767	-

DIRECTORS' REPORT (continued)

	Short-term benefits Cash salary and fees \$	Post- Employment benefits Superannuation \$	Total \$	% of performance related remuneration
2017				
Jianzhong Yang	64,008	27,495	91,503	-
Kaiyuan Yang	-	-	-	-
Yutian Bai	28,158	2,675	30,833	-
	92,166	30,170	122,336	-

¹ Appointed on 9 November 2018

² Resigned on 9 November 2018

II. Remuneration of Key Management Personnel of the Group

There were no other key management personnel employed by the Company and Group during the year for which disclosure of remuneration is required, apart from the remuneration details disclosed above.

III. Service agreement

There are no service agreements with Directors other than with Mr Jianzhong Yang. Salient details of the contract are as follows:

Director or key management personnel	Salient details
Jianzhong Yang Non-Executive Director	<ul style="list-style-type: none"> Employment contract with ASF Kaili Resource Pty Ltd, a wholly owned subsidiary, as Managing Director, for a period of 3 years from 14 August 2015 on a salary of \$80,000 p.a. plus statutory superannuation. On expiry of the contract from 14 August 2018 the remuneration continued on the same terms and conditions on a month by month basis; Statutory leave entitlements in New South Wales apply. Either party may terminate the employment contract by giving 4 weeks' notice.

IV. Share-based compensation

There was no share-based compensation granted during the year.

C. Directors' securities holdings

The number of shares in the Company held in the financial year by each Director of the Company, including their personally related parties are as follows:

2018	Balance at the beginning of the year or date of appointment	Acquired under non-renounceable entitlement offer at \$0.036 per share	Disposed	Balance at the end of the year or date of resignation
Donghai Zhang ¹	-	-	-	-
Chunlin Liu ¹	-	-	-	-
Jing Li ¹	-	-	-	-
Jianzhong Yang	45,569,904	4,400,000	(36,769,904) ⁴	13,200,000 ³
Kaiyuan Yang ²	-	-	-	-
Yutian Bai ²	2,666,666	-	-	2,666,666 ²
	48,236,570	4,400,000	(36,769,904)	15,866,666

DIRECTORS' REPORT (continued)

¹ Appointed on 9 November 2018

² Resigned on 9 November 2018

³ Shares held by Kaili Holdings Limited, a company controlled by Director Jianzhong Yang

⁴ Shares held by Treasure Unicorn Limited, not controlled by Director Jianzhong Yang from May 2018

2017

	Balance at the beginning of the year	Acquired	Disposed	Balance at the end of the year
Jianzhong Yang (i)	45,569,904	-	-	45,569,904
Kaiyuan Yang	-	-	-	-
Yutian Bai	2,666,666	-	-	2,666,666
	48,236,570	-	-	48,236,570

(i) 36,769,904 shares are held in the name of Treasure Unicorn Limited and 8,800,000 shares are held in the name of Kaili Holdings Limited.

ENVIRONMENTAL REGULATION

The Group is required to carry out its activities in accordance with applicable regulations in each of the jurisdictions in which it undertakes its exploration activities. The Group is not aware of any matter which requires disclosure with respect to any significant environmental regulation in respect of its operating activities.

NON-AUDIT SERVICES

No non-audit services were performed by the auditor of the Company during the year.

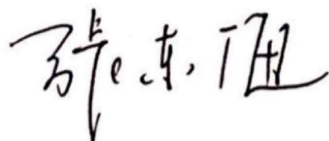
EVENTS AFTER THE REPORTING DATE

Subsequent to the reporting date, there were no matters or circumstances which have arisen since the end of the year which significantly affected or may significantly affect the Group's operations, the results of those operations or the Group's state of affairs in future years.

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration is included on page 23 of the Annual Report and forms part of this report.

Signed in accordance with a resolution of the Board of Directors.



Donghai Zhang
Chairman

Sydney
28th March 2019

Kaili Resources Limited

AUDITORS INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001

To the Directors of Kaili Resources Limited

I declare that, to the best of my knowledge and belief, in relation to the review of Kaili Resources Limited for the half year ended 31 December 2018 there has been:

- a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.



J F Shute

John F Shute Chartered Accountant
Suite 605, Level 6
321 Pitt Street
Sydney, NSW 2000

Dated this 28 March 2019

CORPORATE GOVERNANCE STATEMENT

The Board is committed to achieving and demonstrating the highest standards of corporate governance. As such, Kaili Resources Limited and its controlled entities ('the Group') have adopted a corporate governance framework and practices to ensure they meet the interests of shareholders.

The Australian Securities Exchange Corporate Governance Council's Corporate Governance Principles and Recommendations – 3rd edition ('the ASX Principles') are applicable for financial years commencing on or after 1 July 2014.

The Group has chosen to publish its Corporate Governance Statement on its website rather than in this Annual Report. The Corporate Governance Statement and governance policies and practices can be found in the corporate governance section of the Company's website at www.kailigroup.com.au/corporate-governance-policy and <http://www.kailigroup.com.au/compliance-to-corporate-governance-recommendations>.

The Group's Corporate Governance Statement incorporates the disclosures required by the ASX Principles under the headings of the eight core principles. All of these practices, unless otherwise stated, were in place for the full reporting period.

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE
INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018**

	NOTES	2018	2017
		\$	\$
Revenue			
Interest income		1,323	8,613
		<u>1,323</u>	<u>8,613</u>
Expenses			
Depreciation expense		(1,031)	(393)
Employee benefits expense		(467,083)	(443,792)
Other expenses	4	<u>(365,892)</u>	<u>(276,535)</u>
Operating loss		(832,683)	(712,107)
Loss before income tax		(832,683)	(712,107)
Income tax	5	<u>-</u>	<u>-</u>
Loss after income tax		<u>(832,683)</u>	<u>(712,107)</u>
Other comprehensive income (loss) for the year, net of tax		-	-
Total comprehensive loss for the year attributable to members of the Parent Entity		<u>(832,683)</u>	<u>(712,107)</u>
		Cents	Cents
Loss per share			
Basic and diluted loss per share	19	<u>(0.83)</u>	<u>(0.72)</u>

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2018

	NOTES	2018	2017
		\$	\$
Current Assets			
Cash and bank balances	7	1,977,022	1,135,682
Trade and other receivables	8	43,812	9,205
Prepayments	9	53,586	22,373
Financial assets	10	10,895	10,895
Total Current Assets		2,085,315	1,178,155
Non-Current Assets			
Property, plant and equipment	11	103,272	805
Financial assets	10	2,500	2,500
Tenements	12	1,355,100	850,874
Total Non-Current Assets		1,460,872	854,179
Total Assets		3,546,187	2,032,334
Current Liabilities			
Trade and other payables	13	274,352	73,408
Short term loan	14	500,000	-
Total Current Liabilities		774,352	73,408
Total Liabilities		774,352	73,408
Net Assets		2,771,835	1,958,926
Shareholders' Equity			
Share capital	17 (b)(c)	1,474,004	982,669
Reserves	17 (d)(c)	1,297,831	976,257
Total Equity		2,771,835	1,958,926

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018

	NOTES	2018 \$	2017 \$
Cash flows from operating activities			
Payments to suppliers and employees		(911,000)	(619,288)
Net cash used in operating activities	18(b)	(911,000)	(619,288)
Cash flows from investing activities			
Payments for exploration costs		(499,189)	(274,246)
Proceeds from/(Payments for) security deposits		-	2,500
Interest received		1,323	8,613
Net cash used in investing activities		(497,866)	(263,133)
Cash flows from financing activities			
Proceeds from short term loan		500,000	-
Proceeds from issue of shares		1,768,805	-
Capital raising costs		(19,586)	-
Net cash used in financing activities		2,249,219	-
Net Increase/(Decrease) in cash and cash equivalents		840,353	(882,421)
Cash and cash equivalents at beginning of year		1,135,682	2,018,983
Effect of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies		987	(880)
Cash and cash equivalents at end of year	7	1,977,022	1,135,682

The accompanying notes form part of these financial statements.

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018**

	Share capital	Share premium	Contributed surplus	Foreign currency translation	Accumulated losses	Total
	\$	\$	\$	\$	\$	\$
Balance as at 1 January 2017	982,669	23,321,106	7,553,193	(1,358,572)	(27,827,363)	2,671,033
Loss and total comprehensive loss for the year	-	-	-	-	(712,107)	(712,107)
Transfer to accumulated losses			(7,553,193)	1,358,572	6,194,621	-
Balance as at 31 December 2017	982,669	23,321,106	-	-	(22,344,849)	1,958,926
Loss and total comprehensive loss for the year	-	-	-	-	(832,683)	(832,683)
Transaction with owners in their capacity as owners:						
Issue of share capital	491,335	1,277,470	-	-	-	1,768,805
Capital raising costs		(123,213)	-	-	-	(123,213)
Balance as at 31 December 2018	1,474,004	24,475,363	-	-	(23,177,532)	2,771,835

The accompanying notes form part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

1. NATURE OF OPERATIONS

Kaili Resources Limited and subsidiaries' ("the Group") principal activities are investment in the coal, energy and resources industry. Details of the principal activities of the Group are set out in Note 6 to the financial statements.

2. GENERAL INFORMATION AND STATEMENT OF COMPLIANCE

The consolidated financial statements of the Group for the year ended 31 December 2018 have been prepared in accordance with Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board (AASB). Compliance with Australian Accounting Standards results in full compliance with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

In December 2018, Inner Mongolia Yitai Investment Co., Limited became the ultimate parent company of the Group. Kaili Resources Limited ("the Company") is a public limited company incorporated in Bermuda with its shares listed on the Australian Securities Exchange ("ASX"). The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and its office is at World Tower, Suite 1612, Level 16, 87-89 Liverpool Street, Sydney NSW 2000, Australia.

The consolidated financial statements for the year ended 31 December 2018 were approved and authorized for issue by the Board on 28th March 2019.

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

(a) Basis of Preparation

These financial statements have been prepared on a going concern basis.

These financial statements are presented in Australian dollars.

These financial statements have been prepared on the basis of historical costs and, except where stated, do not take into account changing money values or current valuations of non-current assets. Cost is based on the fair values of the consideration given in exchange for assets.

The principal accounting policies and methods of computation used by the Group in the preparation of the financial statements for the year ended 31 December 2018 are consistent with those adopted in the financial statements for the year ended 31 December 2017.

Judgments

The preparation of financial statements in conformity with IFRSs requires the Directors of the Company to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The Directors have considered the development, selection and disclosure of the Group's critical accounting policies and estimates. There are no critical accounting judgments and estimates in applying the Group's accounting policies other than the assessment of impairment of exploration and development expenditure.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES – CONTINUED

(b) Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition and up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-Group transactions, balances, income and expenses are eliminated in full on consolidation.

The interests in the controlled entities are disclosed in Note 6.

(c) Investments

Controlled Entities

Investments in controlled entities are carried in the Company's financial statements at the lower of cost and their recoverable amount. Dividends and distributions are brought to account in profit or loss when they are proposed by the controlled entities.

(d) Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost, less provision for depreciation and impairment losses, if any. Details are set out in Note 11.

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable cost of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the item has been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the consolidated income statement in the year in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in future economic benefits expected to be obtained from the use of the item, the expenditure is capitalised as an additional cost of the item. When an item of property, plant and equipment is sold, its cost and accumulated depreciation are removed from the consolidated financial statements and any gain or loss resulting from the disposal, being the difference between the net disposal proceeds and the carrying amount of the asset, is included in the consolidated income statement.

	<u>Depreciation Method</u>	<u>Depreciation Rate</u>
Office Equipment	Prime Cost	20.0%
Motor Vehicle	Prime Cost	12.5%

(e) Foreign Currency

Translation of foreign currency transactions

Foreign currency transactions are translated into Australian currency at the rates of exchange ruling at the dates of the transactions. Amounts receivable and payable in foreign currencies at the end of the reporting period are translated at the rates of exchange applicable on that date.

Exchange differences relating to amounts payable and receivable in foreign currencies are brought to account in the statement of profit and loss account in the financial year, as exchange gains or losses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES – CONTINUED

(f) Income Tax

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

Current income tax expense charged to profit or loss is the tax payable on taxable income. Current tax liabilities/(assets) are 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.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled and their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability. With respect to non-depreciable items of property, plant and equipment measured at fair value and items of investment property measured at fair value, the related deferred tax liability or deferred tax asset is measured on the basis that the carrying amount of the asset will be recovered entirely through sale.

Deferred tax assets relating to temporary differences and unused tax losses are recognized 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 utilized.

(g) Exploration and Development Expenditure

Exploration, evaluation and development expenditures incurred are capitalized in respect of each identifiable area of interest. These costs are only capitalized to the extent that they are expected to be recovered 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 or loss 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 capitalize costs in relation to that area of interest.

Costs of site restoration are provided for over the life of the project 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 local laws and regulations and clauses of the permits, such costs have been determined using estimates of future costs, current legal requirements and technology on an undiscounted basis.

Any changes in the estimates for the costs are accounted for on a prospective basis. In determining the costs of site restoration, there is uncertainty regarding their 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

4. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES – CONTINUED

(h) Provisions

Employee Entitlements

The provision for employee entitlements relates to amounts expected to be paid to employees for long service and annual leave and is based on legal and contractual entitlements and assessments having regard to prior experience of staff departures and leave utilization.

Current wage rates are used in the calculation of the provisions.

Doubtful Debts

The collectability of debts is assessed at year end and specific provision is made for any doubtful accounts.

(i) Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (i) on the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and
- (ii) interest income, on a time proportion basis, taking into account the principal outstanding and the effective interest rate applicable.

(j) Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required other than financial assets, goodwill and non-current assets or a disposal group classified as held for sale, the recoverable amount of the asset is estimated. An asset's recoverable amount is the higher of the value in use of the asset or cash-generating unit to which it belongs and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. 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. An impairment loss is charged to the consolidated income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued assets.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES – CONTINUED

(k) Financial instruments

Financial assets

The Group's principal financial assets are cash and bank balances.

Other investments, where the Group is not in a position to exercise significant influence or joint control, are stated at cost less impairment losses recognised, where the investment's carrying amount exceeds its estimated recoverable amount.

Assessment for impairment is undertaken at least at the end of each reporting period whether or not there is objective evidence that a financial asset or a group of financial assets is impaired. Impairment loss on loans and receivables is recognised when there is objective evidence that the Group will not be able to collect all the amounts due to it in accordance with the original terms of the receivables. The amount of the impairment loss is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows.

Financial liabilities

Financial liabilities are classified according to the substance of the contractual arrangements entered into. Debt instruments issued which carry a right to convert to equity that is dependent on the outcome of uncertainties beyond the control of both the Group and the holder, are classified as liabilities except where the possibility of non-conversion is remote.

Significant financial liabilities include borrowings, trade and other payables and provisions.

Interest-bearing loans and bank overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption, are accounted for on an accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Trade and other payables and provisions are stated at their nominal value.

(l) Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents represent short-term, highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance.

(m) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

- (i) The entity and the Group are members of the same group.
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2018

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES – CONTINUED

- (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(n) New and amended standards and interpretations

The Group has adopted all new and amended Australian Accounting Standards and AASB interpretations effective that are mandatory for the current reporting period. The adoption of these Accounting Standards and interpretations did not have any significant impact on the financial performance and position of the current period or any prior period and is not likely to affect future periods.

(o) Accounting Standards issued but not yet effective and not been adopted early by the Group

Australian Accounting Standards that have recently been issued or amended but are not yet effective and have not been adopted by the Group for the annual reporting period ended 31 December 2018 are outlined below:

- *AASB 16 Leases* provides a new lessee accounting model which requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. The new standard is effective 1 January 2019 and will be adopted from its mandatory application date. The Group has no lease to be accounted for under AASB 16 during the year.

4. OTHER EXPENSES

	2018	2017
	\$	\$
Audit fees	19,750	17,450
Consulting fees	37,916	44,178
Insurance	6,038	5,950
Legal and professional fees	65,912	65,762
Listing fees	24,446	24,767
Registration fees and charges	20,009	37,633
Rent on land and buildings	44,505	40,101
Share registry	13,018	9,548
Travel, accommodation & conferences	67,512	2,516
Other costs	66,786	28,630
	<u>365,892</u>	<u>276,535</u>

5. INCOME TAX

No provision for income tax has been provided in the financial statements.

The prima facie tax is reconciled to the loss before income tax in the statement of profit or loss and other comprehensive income as follows:

Loss before income tax	<u>(832,683)</u>	<u>(712,107)</u>
Tax at the Australian domestic income tax rate 27.5% (2017:27.5%)	(228,988)	(195,829)
Tax losses not recognised	<u>228,988</u>	<u>195,829</u>
Income tax expense	<u>-</u>	<u>-</u>

At the reporting date, the Group has estimated tax losses of \$5,312,000 (2017: \$3,952,000). A deferred tax asset has not been recognised for these losses because it is not probable that future taxable income will be available to use against such losses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2018

6. CONTROLLED ENTITIES

(a) Investments in controlled entities comprise:

Name of subsidiary	Place of incorporation/operation	Principal activities	Beneficial percentage held by economic entity	
			2018 %	2017 %
Kaili Corporation Pty Ltd	Australia/Australia	Investment holding	100	100
APEC Coal Pty Ltd	Australia/Australia	Coal exploration	100	100
ASF Kaili Resource Pty Ltd	Australia/Australia	Administration	100	100
Kaili Gold Pty Ltd	Australia/Australia	Gold/cobalt exploration	100	100
Kaili Iron Pty Ltd	Australia/Australia	Iron ore exploration	100	100
			2018 \$	2017 \$

7. CASH AND CASH EQUIVALENTS

Cash at bank	1,977,022	1,135,682
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8. TRADE AND OTHER RECEIVABLES

GST receivable	43,812	9,205
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9. PREPAYMENTS

Prepayments	53,586	22,373
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10. FINANCIAL ASSETS

Current

Rental bond	10,895	10,895
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Non-Current

Security deposit	2,500	2,500
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11. PROPERTY, PLANT AND EQUIPMENT

	Furniture & office equipment \$	Motor vehicle \$	Total \$
2018			
At cost:			
Balance at beginning of year	10,663	-	10,663
Additions	-	103,498	103,498
Balance at end of year	10,663	103,498	114,161
Depreciation:			
Balance at beginning of year	(9,858)	-	(9,858)
Depreciation charge	(393)	(638)	(1,031)
Balance at end of year	(10,251)	(638)	(10,889)
Carrying amount at 31 December 2018	412	102,860	103,272

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2018

	Furniture & office equipment	Motor vehicle	Total
2017	\$	\$	\$
At cost:			
Balance at beginning and end of year	10,663	-	10,663
Depreciation:			
Balance at beginning of year	(9,465)	-	(9,465)
Depreciation charge	(393)	-	(393)
Balance at end of year	(9,858)	-	(9,858)
Carrying amount at 31 December 2017	805	-	805

	2018	2017
	\$	\$
12. TENEMENTS		
At cost:		
Balance at beginning of year	850,874	609,200
Additions	504,226	241,674
Balance at end of year	1,355,100	850,874
13. TRADE AND OTHER PAYABLES		
Trade payables	36,501	-
Other payables	114,698	44,735
Accrued expenses	123,153	28,673
	274,352	73,408
14. BORROWINGS - CURRENT		
Unsecured loan from a related party*	500,000	-
*Further information relating to the loan from a related party is set out in Note 24(b).		
15. REMUNERATION OF AUDITOR		
Amounts received or due and receivable by the auditor for audit and review of financial statements	19,750	17,450
16. SEGMENT INFORMATION		
Business segments		
The Group has identified its operating segment as the Mining Sector in Australia.		

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2018

17. SHARE CAPITAL

	2018 Number of shares	2018 \$	2017 Number of shares	2017 \$
(a) Authorised capital:				
Authorised ordinary shares : Par value \$0.01	5,000,000,000	50,000,000	5,000,000,000	50,000,000
(b) Issued and paid up capital:				
Fully paid ordinary shares: Par value \$0.01	147,400,363	1,474,004	98,266,915	982,669

(c) Movements in ordinary share capital during the year

Date	Details	No. of shares	Par value	Share capital
			\$	\$
1 Jan 2018	Balance at beginning of year	98,266,915	0.01	982,669
20 Dec 2018	Issue of shares under non-renounceable entitlement offer	10,168,911	0.01	101,689
24 Dec 2018	Issue of shortfall shares to underwriter	38,964,537	0.01	389,646
31 Dec 2018	Balance at end of year	147,400,363		1,474,004

In December 2018, the Company launched an underwritten 1 for 2 non-renounceable entitlement offer of new shares at an issue price of \$0.036 per new share. A total of \$1,768,805 was received and 49,133,448 new shares were issued in December 2018.

Any amount paid for shares in excess of the par value is accounted for in the share premium account. Share issue costs are offset against the share premium account.

(d) Movements in share premium account during the year

Date	Details	\$
1 Jan 2018	Balance at beginning of year	23,321,106
20-24 Dec 2018	Issue of 49,133,448 non-renounceable shares of par value \$0.01 at \$0.036 per share	1,277,470
	Transaction costs	(123,213)
31 Dec 2018	Balance at end of year	24,475,363

	2018 \$	2017 \$
(e) Reserves		
Share premium account	24,475,363	23,321,106
Accumulated losses	(23,177,532)	(22,344,849)
	1,297,831	976,257

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2018

	2018 \$	2017 \$
18. CASH FLOW INFORMATION		
(a) Reconciliation of Cash		
Cash and cash equivalents include cash and bank balances.		
(b) Reconciliation of loss before income tax to cash flows from operating activities		
Loss before income tax	(832,683)	(712,107)
Depreciation	1,031	393
Foreign exchange differences	(987)	880
Interest income	(1,323)	(8,613)
Exploration licences application fees	-	17,008
GST claimed on exploration expenditure	-	15,196
Rental expense released from rental bond	-	2,965
	<hr/>	<hr/>
Operating cash flows before movements in working capital	(833,962)	(684,278)
Changes in assets and liabilities relating to operations:		
(Increase)/Decrease in trade and other receivables	(34,607)	20,406
(Increase)/Decrease in prepayments	(31,213)	4,072
(Decrease)/Increase in trade and other payables	(11,218)	40,512
	<hr/>	<hr/>
Net cash used in operating activities	<u>(911,000)</u>	<u>(619,288)</u>

19. LOSS PER SHARE

The calculation of the basic and diluted (loss) per share is based on the following data:

Loss for the purposes of basic and diluted loss per share	(832,683)	(712,017)
	<hr/>	<hr/>
Number of shares	Number	Number
Weighted average number of ordinary shares for the purposes of basic and diluted loss per share	<u>99,747,649</u>	<u>98,266,915</u>

20. COMMITMENTS

a) Lease commitment

Commitment for minimum lease payments in relation to non-cancellable operating leases is payable as follows:

Within twelve months	16,584	39,516
Twelve months or longer and not longer than five years	-	-
	<hr/>	<hr/>
	16,584	39,516

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2018

	2018	2017
	\$	\$

b) Minerals tenements commitment

The Group holds thirteen granted tenements in Australia. A condition of the tenements is that the Group is required to meet minimum committed expenditure requirements to maintain current rights of tenure. These commitments may be subject to renegotiation, may be farmed out or may be relinquished and have not been provided for in the financial statements and are due as follows from balance date:

Within twelve months	245,000	150,000
Twelve months or longer and not longer than five years	1,270,000	1,020,000
	<u>1,515,000</u>	<u>1,170,000</u>

The Group has obligations to restore and rehabilitate areas disturbed during exploration.

21. CONTINGENT LIABILITIES

At balance date, the Group has given guarantees totaling \$60,000 for compliance with the conditions of the exploration licences granted in Western Australia.

22. FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES

The Group's principal financial instruments comprise of cash and bank balances, accounts receivable and payables, security deposits, borrowings and loans to and from subsidiaries.

The carrying amounts of each of the categories of financial instruments at the end of the reporting period are as follows:-

Financial assets

Cash and cash equivalents	1,977,022	1,135,682
Trade and other receivables	43,812	9,205
Financial assets – security deposits	13,395	13,395
Total financial assets	<u>2,034,229</u>	<u>1,158,282</u>

Financial liabilities at amortised cost

Trade and other payables	274,352	73,408
Borrowings	500,000	-
Total financial liabilities	<u>774,352</u>	<u>73,408</u>

The board of directors is responsible for the Company's risk management. It is, and has been throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are fair value and cash flow interest rate risk, foreign currency risk, credit risk, liquidity risk and price risk. The Board reviews and agrees policies for managing each of these risks and they are summarized below.

(a) (i) Fair value and cash flow interest rate risks

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group has no interest bearing financial assets and liabilities, other than the bank balances.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2018

(ii) Fair value hierarchy

The hierarchy of the fair value measurement of the Group's financial assets and liabilities was as follows:

	Note	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
2018					
Assets					
Total	(a)	2,034,229	-	-	2,034,229
Liabilities					
Total		(774,352)	-	-	(774,352)
Net fair value		<u>1,259,877</u>	<u>-</u>	<u>-</u>	<u>1,259,877</u>
2017					
Assets					
Total	(a)	1,158,282	-	-	1,158,282
Liabilities					
Total		(73,408)	-	-	(73,408)
Net fair value		<u>1,084,874</u>	<u>-</u>	<u>-</u>	<u>1,084,874</u>

Measurement of fair value

The method and valuation techniques used for the purpose of measuring fair value are unchanged compared to the previous reporting period.

(a) The fair values are estimated using market prices.

(iii) Interest rate sensitivity analysis

A 1% decrease in interest rate would result in a decrease of \$19,770 (2017: \$11,357) in interest income for the year based on financial instruments held at each reporting date that are sensitive to changes in interest rates, with all other variables remaining unchanged. A 1% increase in interest rate would have the opposite effect.

(b) Foreign currency risk

Most of the Group's monetary assets and liabilities are denominated in Australian dollars, and the Group conducted its business transactions principally in Australian dollars. The exchange rate risk of the Group is not significant.

(c) Credit risk

Exposure to credit risk relating to financial assets arises from the potential non-performance by counterparties of contract obligations that could lead to a financial loss to the Group. The Group does not have any material credit risk exposure to any single debtor or group of debtors under financial instruments entered into by the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

(d) Liquidity risk

The Group's objective is to maintain a balance between the continuity of funding and the expenditure commitments. The maturity profile of the Group's and Company's financial liabilities at the end of the reporting period, based on the contractual undiscounted payments, is as follows:-

	2018			2017		
	On demand	Over 1 year	Total	On demand	Over 1 year	Total
	\$	\$	\$	\$	\$	\$
Trade and other payables and borrowings	774,352	-	774,352	73,408	-	73,408

(e) Price risk

As the Group does not derive revenue from sale of products, the effect on profit and equity capital as a result of changes in the price risk is not considered material. The fair value of the exploration projects will be impacted by commodity price changes and could impact future revenues once operational.

23. CAPITAL MANAGEMENT

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain optimal returns to shareholders and benefits for other stakeholders. Moreover the Group aims to maintain a capital structure that ensures minimal cost of capital available. Management adjusts the capital structure to the extent possible to take advantage of favorable costs or high returns on assets. As the market is constantly changing, management may change the amount of dividends to be paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes during the year ended 31 December 2018.

24. RELATED PARTY TRANSACTIONS

(a) The Group's related parties include its subsidiaries and key management personnel (KMP).

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

	2018	2017
	\$	\$
Compensation of KMP of the Group:		
Short-term employee benefits	203,396	92,166
Post-employment benefits	38,371	30,170
Other long-term benefits	-	-
Termination benefits	-	-
Share-based payments	-	-
	<u>241,767</u>	<u>122,336</u>

(b) Loan from a related party

In December 2018, a \$500,000 unsecured loan facility at nil interest rate was provided by Yitai Group (Hongkong) Co., Limited, a related company of Inner Mongolia Yitai Investment Co., Limited, the ultimate parent company of the Group. The loan facility which was fully drawn at balance date expired on 31 December 2018 and subsequent to balance date has been extended to 30 June 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2018

	2018	2017
	\$	\$
25. PARENT ENTITY INFORMATION		
Assets		
Current assets	3,068,772	1,417,379
Non-current assets	470,556	683,454
Total assets	<u>3,539,328</u>	<u>2,100,833</u>
Liabilities		
Current liabilities	625,812	12,500
Total liabilities	<u>625,812</u>	<u>12,500</u>
Equity		
Issued capital	1,474,004	982,669
Share premium account	24,475,363	23,321,106
Accumulated losses	<u>(23,035,851)</u>	<u>(22,215,442)</u>
	<u>2,913,516</u>	<u>2,088,333</u>
Financial performance		
Loss for the year	(820,408)	(2,217,404)
Other comprehensive income	-	-
Total comprehensive loss	<u>(820,408)</u>	<u>(2,217,404)</u>

26. EVENTS AFTER THE REPORTING DATE

Subsequent to the reporting date, there were no matters or circumstances which have arisen since the end of the year which significantly affected or may significantly affect the Group's operations.

27. APPROVAL OF THE FINANCIAL STATEMENTS

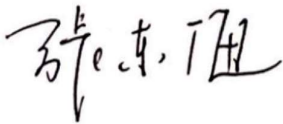
The financial statements were approved and authorised for issue by the Board of Directors on 28th March 2019.

DIRECTORS' DECLARATION

In the Directors' opinion:

- (a) the financial statements and notes set out on pages 18 to 42:
 - (i) are in accordance with International Accounting Standards; and
 - (ii) give a true and fair view of the Group's financial position as at 31 December 2018 and of its performance for the year then ended; and
- (b) there are reasonable grounds to believe that Kaili Resources Limited will be able to pay its debts as and when they become due and payable.

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



Donghai Zhang
Chairman

Sydney
28th March 2019

**INDEPENDENT AUDIT REPORT
TO THE SHAREHOLDERS OF KAILI RESOURCES LIMITED**
(Incorporated in Bermuda with a limited liability)

We have audited the Consolidated Financial Statements of Kaili Resources Limited (the "Company") and the subsidiaries (together "the Group") set out on pages **25 to 42**, which comprise the consolidated and Company statements of financial position as at 31 December 2018, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of financial position, the consolidated statement of cash flows and the consolidated statement of changes in equity for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the directors declaration.

Directors' responsibilities for the Consolidated Financial Statements

The Directors of the Company are responsible for the preparation of Consolidated Financial Statements that give a true and fair view in accordance with International Financial Reporting Standards ("IFRS's"). This responsibility includes establishing and maintaining internal control relevant to the preparation of the Consolidated Financial Statements; selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances to enable the preparation of Consolidated Financial Statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these Consolidated Financial Statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We have conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the Consolidated Financial Statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Consolidated Financial Statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the Consolidated Financial Statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the Consolidated Financial Statements that give a true and fair view 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 Consolidated Financial Statements.

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

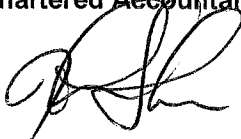
Independence

In conducting our audit we have complied with the independence requirements of the Corporations Act 2001.

Opinion

In our opinion, the Consolidated Financial Statements of Kaili Resources Limited give a true and fair view of the Company's financial position as at 31 December 2018 and of its performance for the year ended on that date in accordance with International Financial Reporting Standards and the accounting policies described in Note 3 to the Consolidated Financial Statements.

JOHN F SHUTE
Chartered Accountant

A handwritten signature in black ink, appearing to read 'JF Shute', written over a horizontal line.

John F Shute

Sydney
28 March 2019

ADDITIONAL INFORMATION

Additional information included in accordance with Listing Rules of the ASX Limited as at 12th March 2019

SHAREHOLDINGS

1. Substantial shareholders

Substantial shareholders in the Company: -

Name	Number of ordinary shares held (directly and indirectly)	Percentage of issued capital
Treasure Unicorn Limited	75,734,441	51.38
Mile Ocean Limited	16,532,222	11.22
Kaili Holdings Limited*	13,200,000	8.96
Jin He	9,361,788	6.35

*Mr Jianzhong Yang has relevant interests in this entity.

2. Distribution of fully paid ordinary Shares:-

Range of shareholdings	Number of shareholders	Number of shares	Percentage of issued capital
1 — 1,000	23	5,236	0.00
1,001 — 5,000	8	23,783	0.02
5,001 — 10,000	228	2,277,194	1.54
10,001 — 100,000	95	3,979,250	2.70
100,001 and over	29	141,114,900	95.74
	<hr/> 383	<hr/> 147,400,363	<hr/> 100.00

260 shareholders held less than a marketable parcel.

3. Voting rights

Each shareholder is entitled to one vote per ordinary share.

4. The Company is incorporated in Bermuda and is not regulated in respect of Chapters 6, 6A, 6B and 6C of the Australian Corporations Act 2001 (Cth). There is no limitation on the acquisition of securities imposed by the jurisdiction in which the Company is incorporated.

5. Top twenty shareholders as at 12th March 2019

Name	Number of fully paid ordinary shares held	Percentage of issued capital
1. TREASURE UNICORN LIMITED	75,734,441	51.38
2. MILE OCEAN LIMITED	16,532,222	11.22
3. KAILI HOLDINGS LIMITED	13,200,000	8.96
4. JIN HE	9,361,788	6.35
5. MR YUTIAN BAI	3,999,999	2.71
6. MR SHUJUN LIU	2,666,666	1.81
7. MS JUNLAN WANG	2,666,666	1.81
8. ASF GROUP LIMITED	2,200,000	1.49
9. MRS MAN SUN NG	2,000,000	1.36
10. MR HAIYU HE	1,999,999	1.36
11. MR GUIYING JIA	1,999,999	1.36
12. MR QIUSHENG LI	1,666,666	1.13
13. MS YONGJUN LIU	1,666,666	1.13
14. WUJIANG INVESTMENT PTY LTD	1,100,000	0.75
15. SMART STEP LIMITED	1,000,000	0.68
16. JUNLAN WANG	500,000	0.34
17. SUO ZHANG	430,000	0.29
18. EDGEFIELD INTERNATIONAL LIMITED	363,000	0.25
19. MR CALVIN AU	322,000	0.22
20. PING GAO	250,000	0.17
Twenty largest shareholders	139,660,112	94.77
Others	7,740,251	5.23
	147,400,363	100.00

6. Register of securities are kept at the following addresses:

Australia

Computershare Investor Services Pty Ltd
Level 4, 60 Carrington Street
Sydney, NSW 2000
Australia

Bermuda

Butterfield Corporate Services Ltd
The Rosebank Centre
14 Bermudiana Road
Pembroke HM08
Bermuda

7. Ordinary shareholders - enquiries

Ordinary shareholders with enquiries about their shareholdings should contact Kaili Resources Limited ordinary shares register, Computershare Investor Services Pty Limited by telephone on 1300 850 505 (within Australia) or (612) 8234 5000 (outside Australia) or by facsimile (612) 8234 5050.

8. Trading symbol

The trading symbol for the ordinary shares listed on the Australian Securities Exchange is “KLR”.

