
KAILI RESOURCES LIMITED

(Incorporated in Bermuda with limited liability)

ARBN 077 559 525

Annual Report – 2019

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CORPORATE DIRECTORY

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CHAIRMAN'S REPORT

Dear Shareholders,

I am pleased to present you the 2019 Annual Report.

This year we have focussed on our tenements in the Yilgarn Craton in Western Australia, one of the premier gold regions in the world. We completed a shallow 1,156 metres Vacuum drilling program within the Canegrass and Holey Dam tenements. We utilised a relatively light weight drilling rig that facilitated reliable geochemical sampling and which is also less damaging to the ground. Results indicate elevated gold parts per billion associated with structural targets and as such we are encouraged to plan further deeper drilling in 2020.

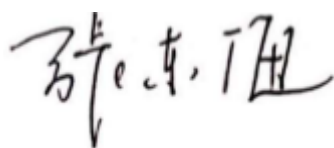
With respect to our recently granted tenements in the Halls Creek area with potential for cobalt, nickel, copper and gold mineralisation, our geophysical consultants have completed the acquisition, processing and interpretations of all available airborne magnetic, radiometric, gravity and electromagnetic data. Our exploration efforts in 2020 will be directed on the targets identified for sampling and analyses for gold and multi elements.

In the Pilbara Craton, the tenements have not produced encouraging results from the geological sampling and mapping and together with some challenges to progress we decided not to invest further risk capital in the area.

We are re-assessing the development potential of the Maryvale Coal Project in the Clarence Moreton Basin in Queensland having regards to general resistance of the local community to coal mining and will decide in 2020 on investment in the basin.

We will be continuing to look for acquisition of additional new projects aiming for growth of the Group in the medium to long term.

I would like to thank the Board members, staff and consultants for the excellent work performed to date and look forward to their and our shareholders continued support specially in the current economic environment that is severely impacted by the covid-19 pandemic. I am also thankful to the Yitai Group for standing by us with financial support in these difficult times.



Donghai Zhang
Chairman

31st March, 2019

REVIEW OF OPERATIONS (continued)

EXPLORATION

HIGHLIGHTS

WA: Yilgarn Craton Gold Projects (Gindalbie and Kookynie)

- At Canegrass and Holey Dam, following completion of a Heritage Survey the approved 120 Holes Vacuum Drilling was carried out with drilling results that warrant follow up RAB drilling.

WA: Halls Creek Cobalt/Nickel/Gold Projects

- Lithostructural targeting completed with field testing planned for 2020.

All granted tenements of the Group are compliant with statutory requirements.

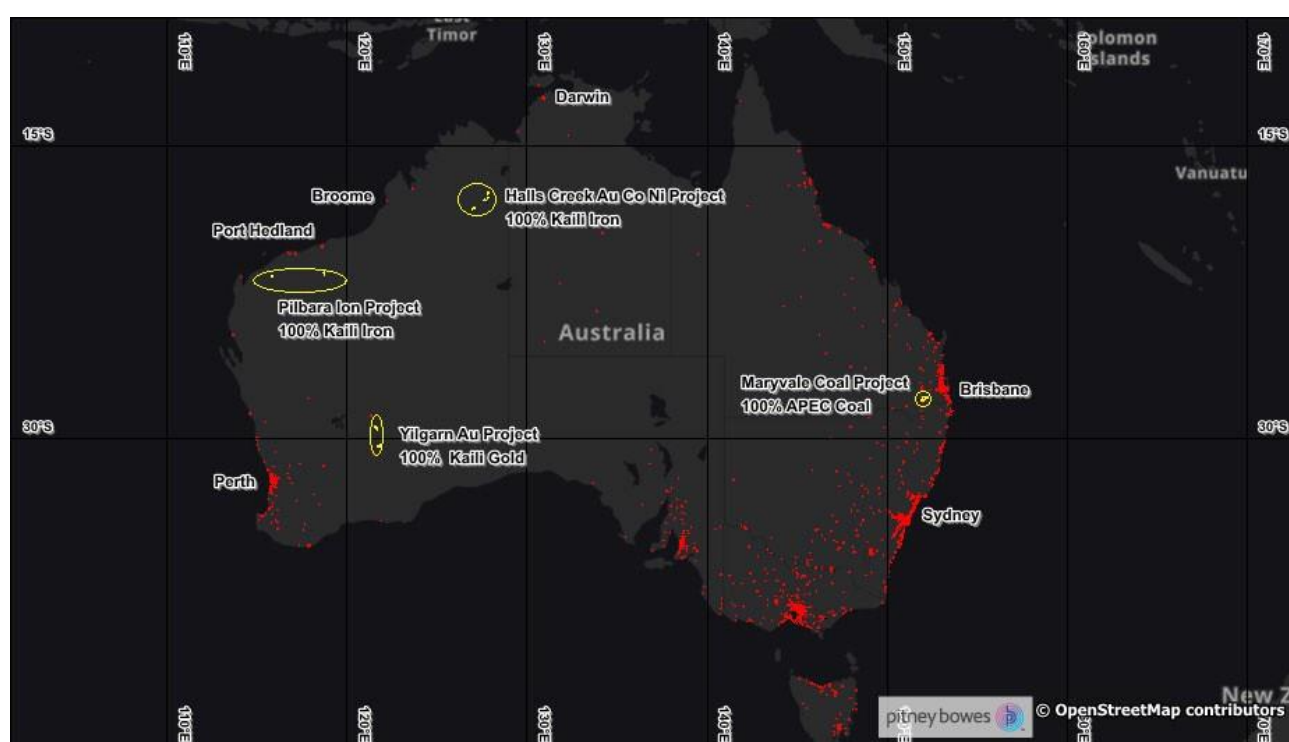


Figure 1: Kaili Resources project locations

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

*Table 1: Kaili Resources granted tenement areas, all held 100%.
Each sub-block is approximately 3.2 km²*

REVIEW OF OPERATIONS (continued)

WA: Yilgarn Craton Gold Projects (Gindalbie and Kookynie)

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

The Yilgarn Craton is one of the premier gold regions in the world and hosts numerous multimillion ounce gold mines and deposits. The Group's 5 tenements were selected for their proximity to known gold mineralisation and associated with mafic igneous extrusive/intrusive rocks in the Gindalbie area, north east of Kalgoorlie and the Kookynie area, south east of Leonora.



Figure 2: Yilgarn Craton Gold Project Locations in WA.

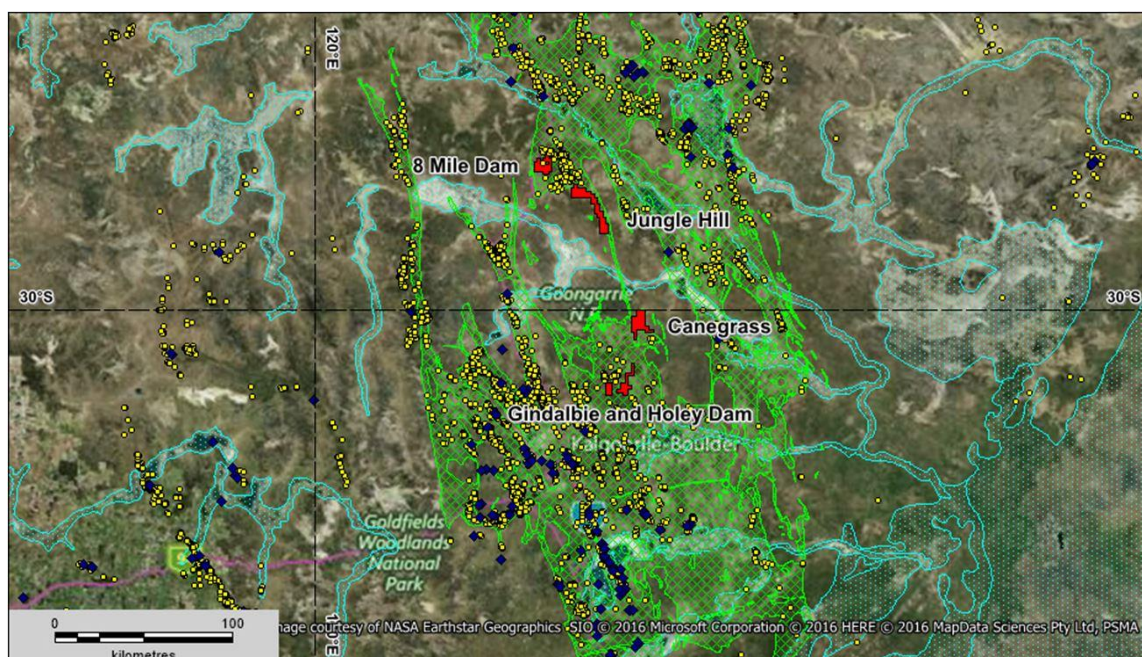


Figure 3: Satellite Image with Eastern Goldfields Superterrane (green hatching) and Kaili Gold tenements in red. Blue diamonds are operating mines and yellow dots are gold occurrences reported by other explorers

REVIEW OF OPERATIONS (continued)

Within the Yilgarn Craton the Eastern Goldfield Superterrane (EGS) hosts the bulk of the known gold deposits and operating mines (**Figure 3**). The EGS comprises felsic to ultramafic intrusives, volcanics and volcanoclastics with associated sediments with the mafic variants being the primary host to gold mineralisation.

Canegrass and Holey Dam Vacuum Drilling

During the year prior to drilling, a heritage survey within the Canegrass and Holey Dam areas was completed and the Program of Works (POW) was approved by the WA Department of Mines Industry Regulation and Safety (DMIRS).

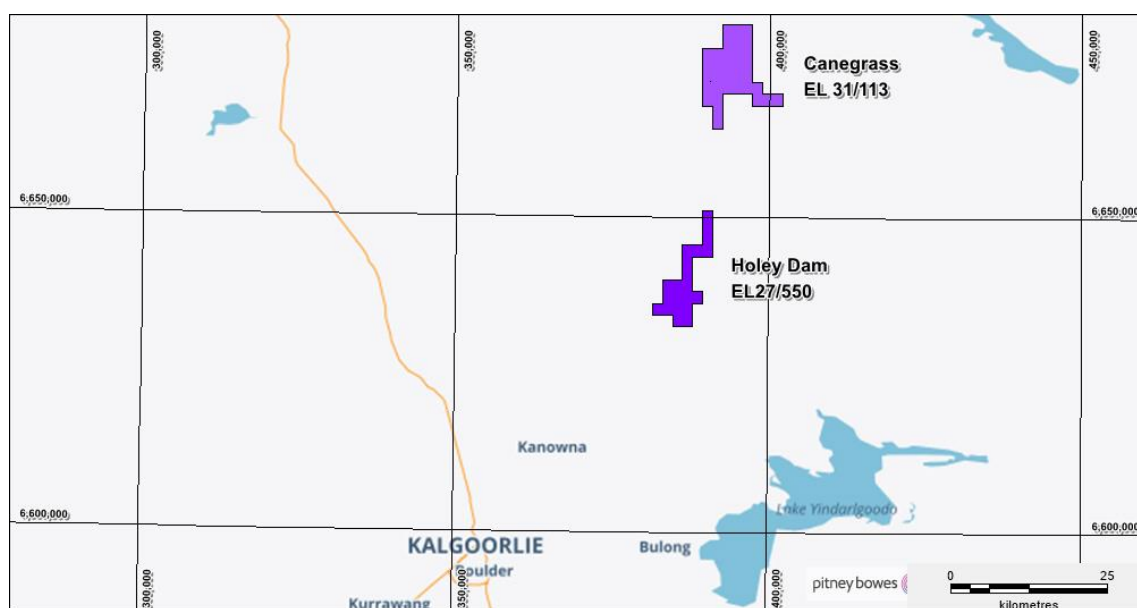


Figure 4: Canegrass and Holey Dam of the Gindalbie Gold Project Location

Using the Pathfinder/Strataprobe Vacuum drilling rig represents a relatively light weight drilling solution, particularly for reliable geochemical sampling. The rig (**Figure 4**) is towed by a Polaris Ranger 800XP ATV on flat terrain that bends rather than removes the vegetation on a drill traverse. The extra wide tyres on the vacuum rig also provide the advantage of a “soft” footprint.

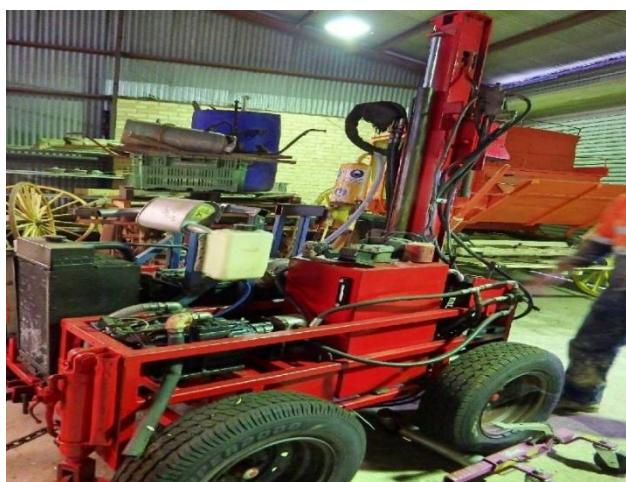


Figure 5: Strataprobe Vacuum Drilling Rig

A 397-hole drill program to test several gold structural/geochemical targets in the Canegrass (262 holes) and

REVIEW OF OPERATIONS (continued)

Holey Dam (135 holes) tenements commenced in the June 2019 quarter. Shallow grid based vacuum drilling along E-W lines with vertical hole depths was planned in the range of 1-12 m.

During the drilling, wet weather and staff availability hampered the program and the drilling was finalised in August 2019.

Bottom of hole (BOH) samples were collected in pre numbered calico bags and samples were despatched to ALS in Kalgoorlie for gold (Au) analyses in addition to BOH samples being collected in plastic chip trays for later multi element pXRF analyses by the Group's Delta Premium instrument.

A total of 389 vacuum drill holes were completed for 5 areas at Holey Dam and 6 areas at Canegrass. The total drill advance was 1,520 m and the average drilling depth was 4 m. Due to thick bush, 8 of the planned Canegrass drill holes were not completed.

Canegrass EL31/113

Figure 6 is a lithostructural interpretation of the Canegrass Project which is dominated by mafic lithologies (green) with lesser felsic volcanics (yellow) and granite (red). The areas drill tested were chosen using a mixture of recent surficial geochemical results and structures associated with mafic lithologies. **Figures 6 and 7** show the drill grids over a RTP 1VD aeromagnetic image and the structural interpretation that was derived from an interpretation of that and other geophysical data sets.

Of the six drill grids in the Canegrass tenement the vacuum drilling program has delineated four of them for further deeper drill evaluation (A, B, E and F). Areas A and B comprise elevated gold in vacuum drilling associated with a mineralised NW trending fold structure and faulting. This form of structural disruption associated with folding south of the tenement is associated with gold mineralisation. Area F and to a lesser extent E are associated with the N-S trending Emu Fault which along strike to the north is associated with gold mineralisation.

Drill testing of Areas A and B (**Figures 8 and 9**) returned two areas of elevated Au in the range of 10-25 ppb in fold axis/limbs settings. Several pot fold faults are evident in the image and may have been conduits for mineralising fluids.

Drilling within Areas E and F highlighted an area of elevated Au that is located at the faulted contact of felsic and mafic lithologies (**Figure 10**). That area produced the highest Au response in the Canegrass drilling program and will be one of the areas to be followed up by deeper drill testing.

REVIEW OF OPERATIONS (continued)

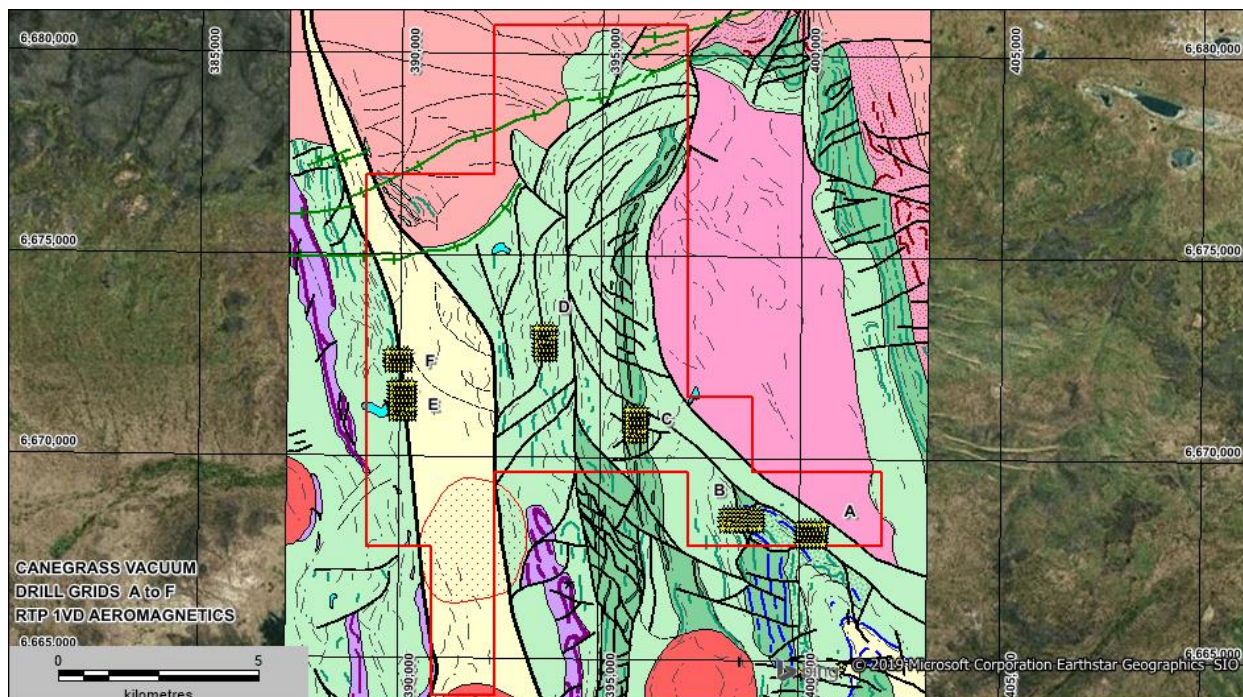


Figure 6: Canegrass Project – Geological Interpretation and Vacuum Drill Grids

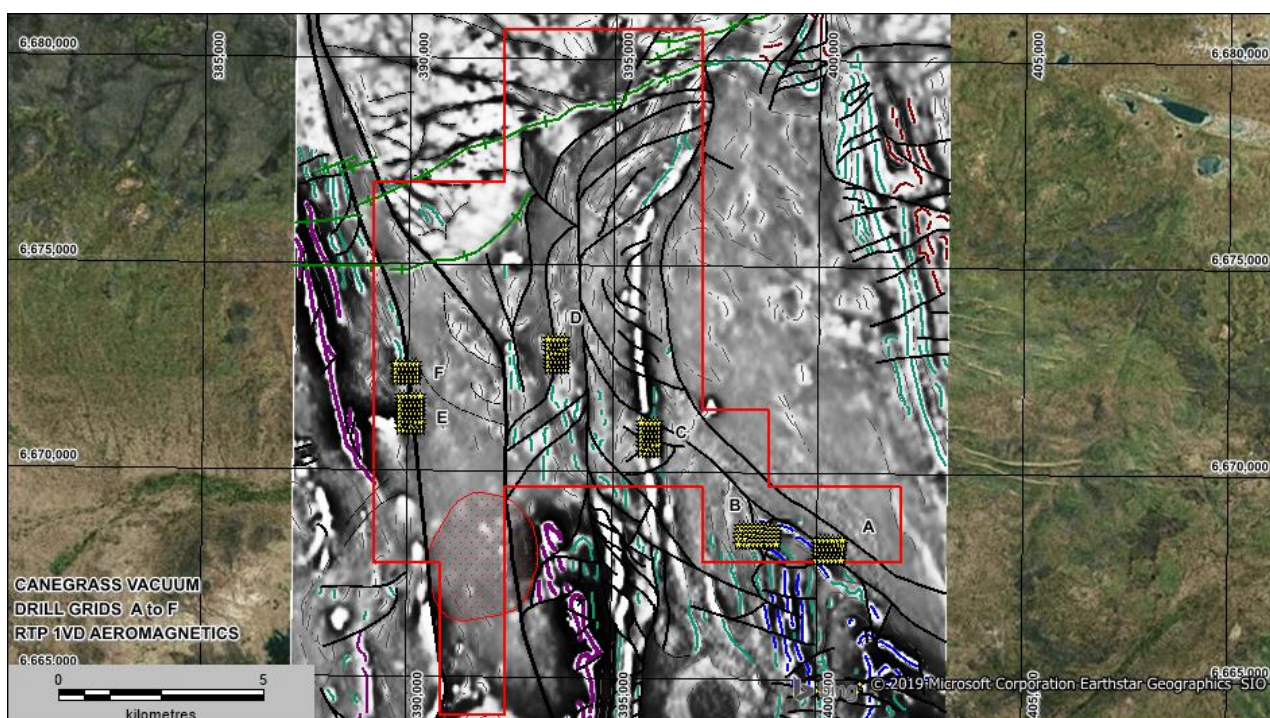


Figure 7: Canegrass Project – RTP 1VD Aeromagnetics and Vacuum Drill Grids

REVIEW OF OPERATIONS (continued)

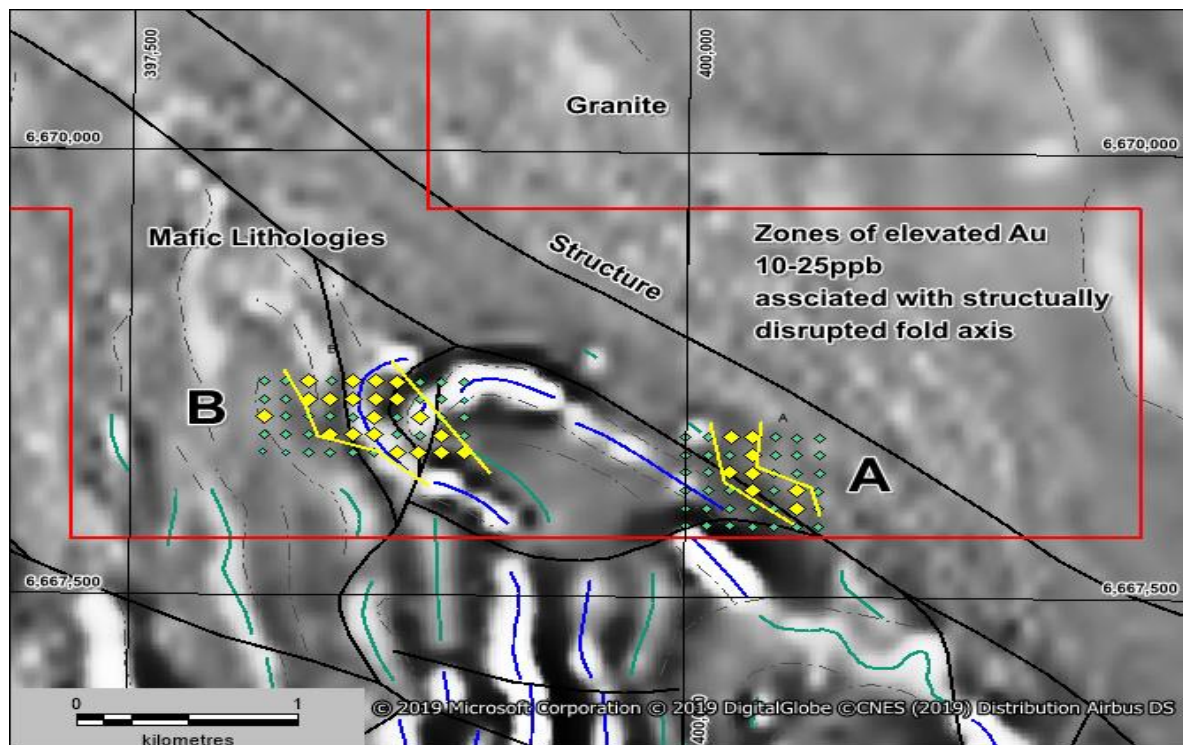


Figure 8: Canegrass Project – Areas A and B showing the areas of elevated Au geochemistry

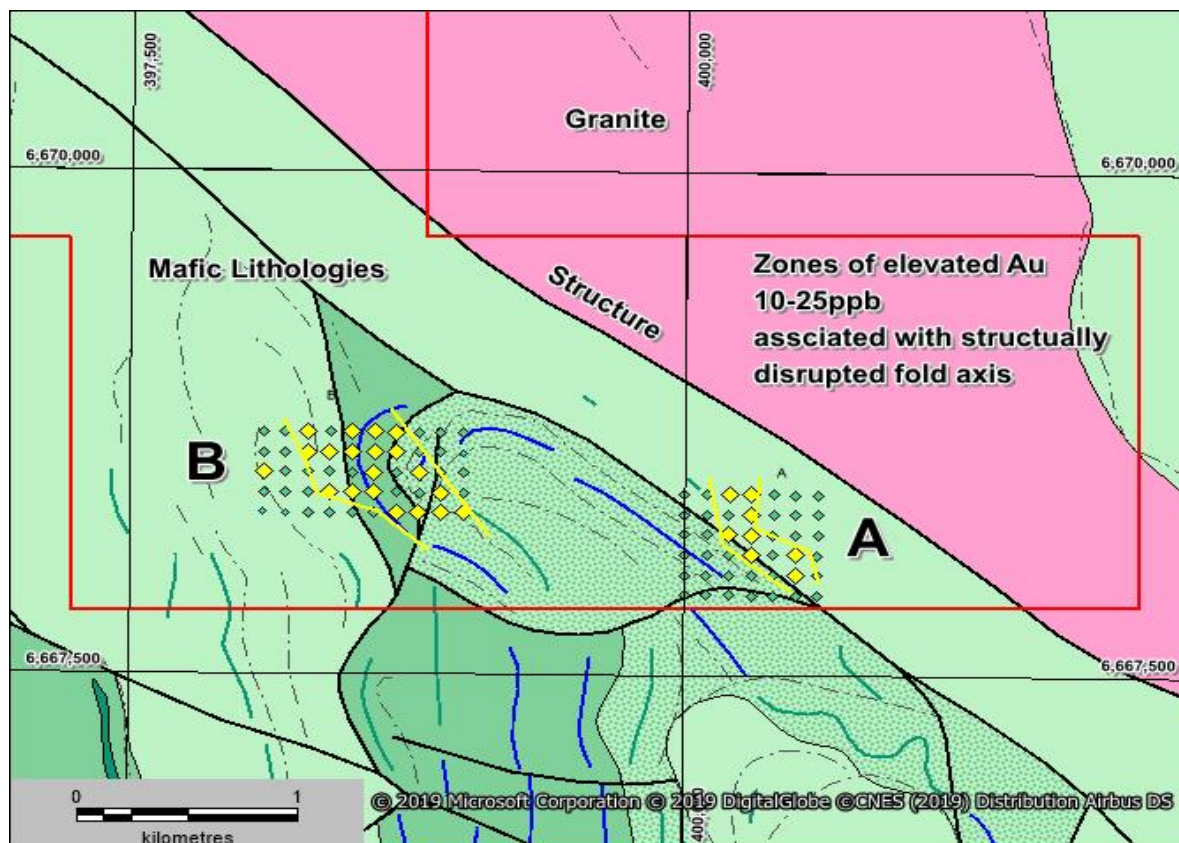


Figure 9: Canegrass Project – Areas A and B showing the areas of elevated Au geochemistry and interpreted geology

REVIEW OF OPERATIONS (continued)

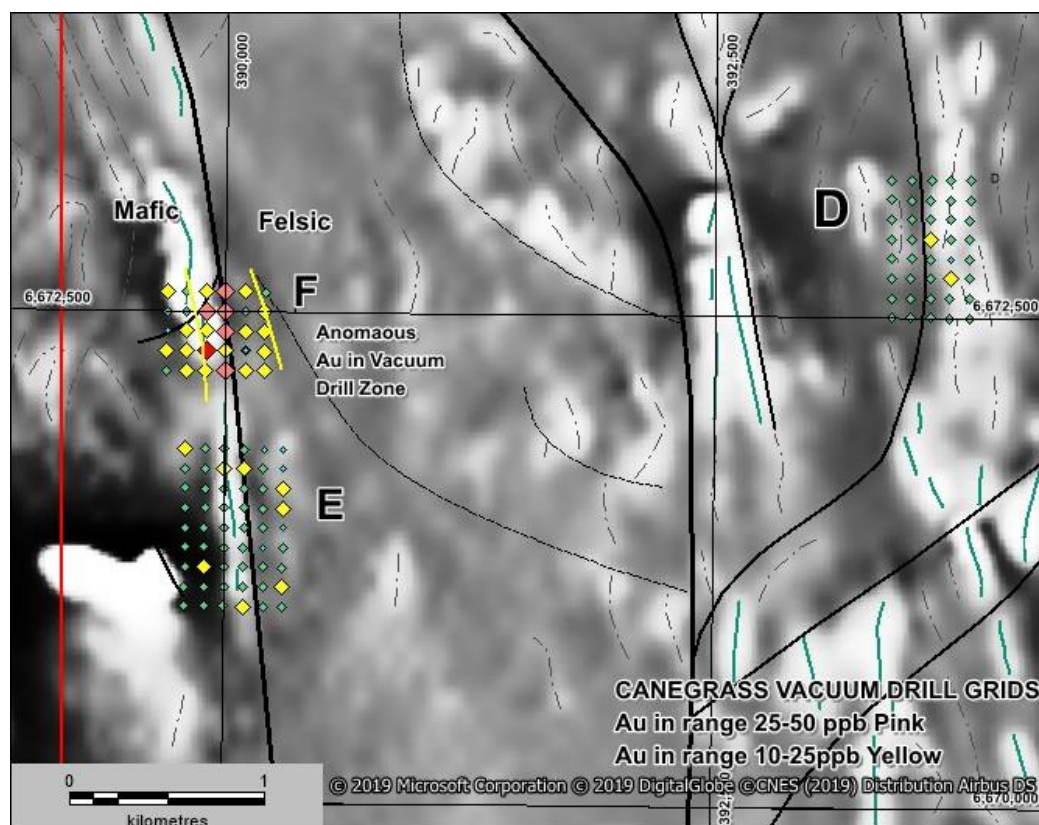


Figure 10: Canegrass Project – Areas E and F showing the areas of elevated Au geochemistry and magnetics

Holey Dam EL 27/550

Vacuum drilling within EL27/550 comprised drill grids (**Figure 11**) located mainly adjacent to major NW-SE and E-W structures.

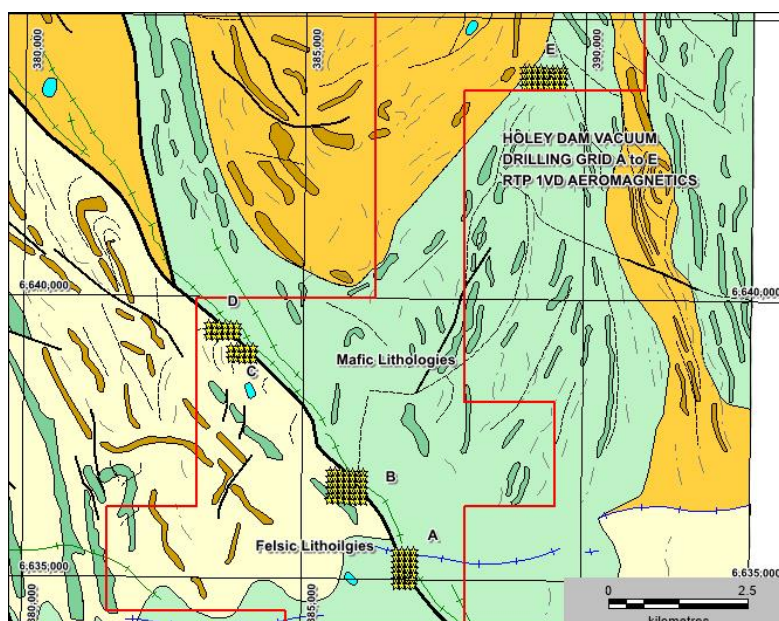


Figure 11: Holey Dam Project – Lithostructural Interpretation and Vacuum Drill Grids

REVIEW OF OPERATIONS (continued)

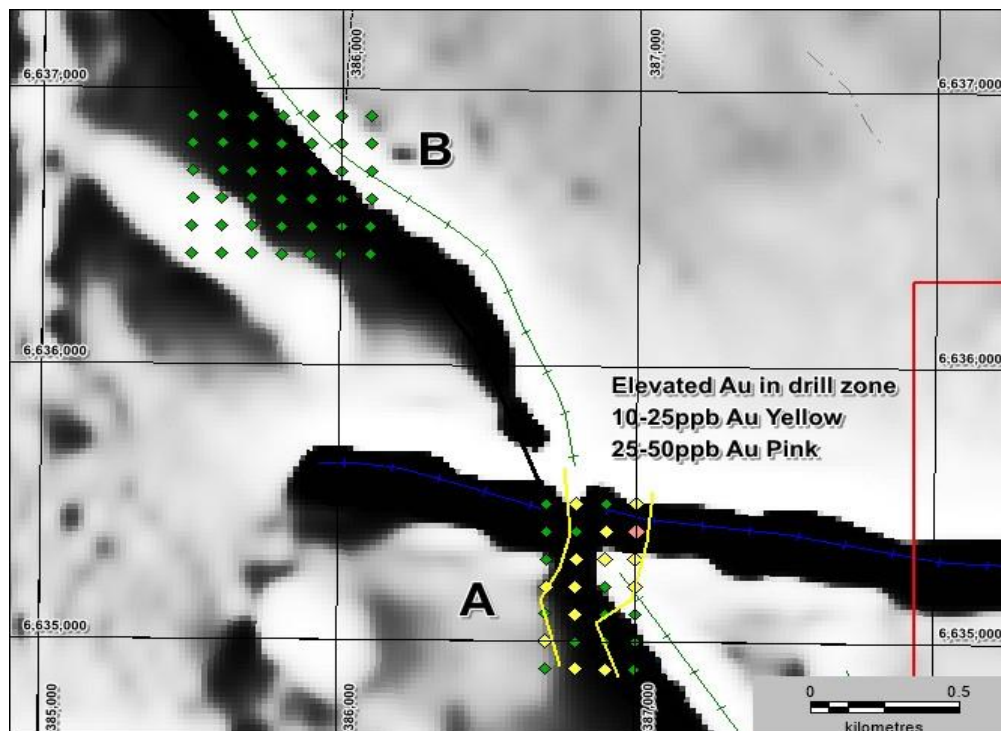


Figure 12: Holey Dam Project – Aeromagnetics and Vacuum Drill Grids

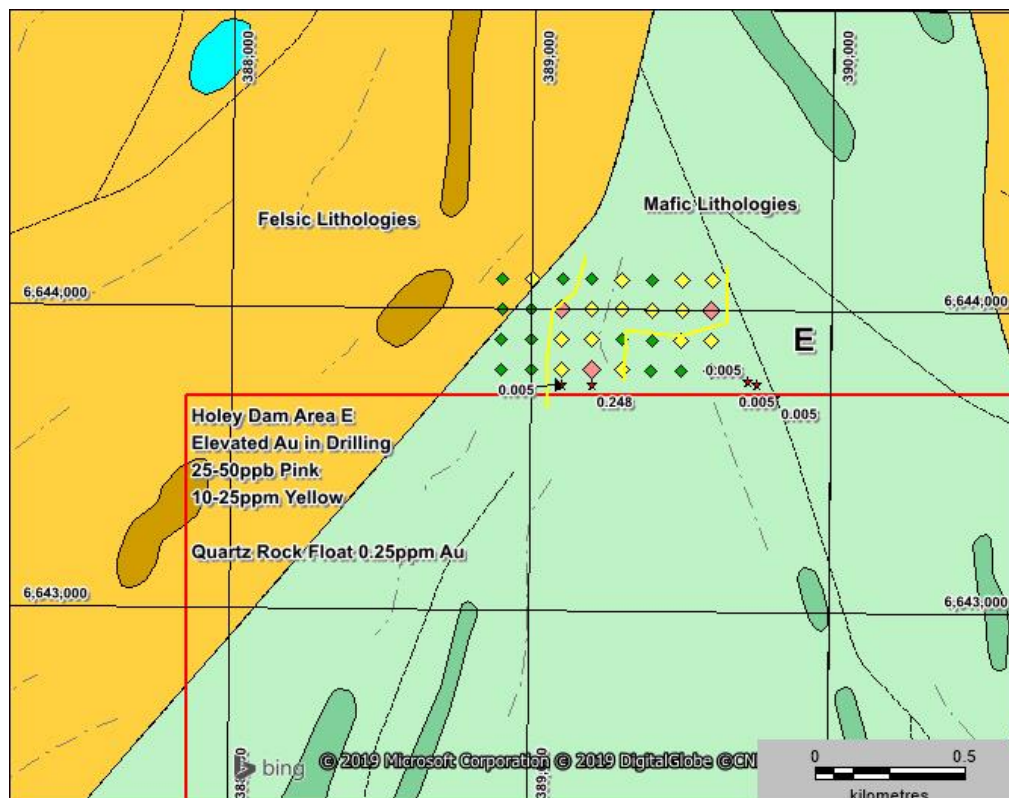


Figure 13: Holey Dam Project – Vacuum Grid E showing area of elevated Au

REVIEW OF OPERATIONS (continued)

Vacuum grid A was located at the intersection of major dolerite filled structure and as such a good place to explore for gold mineralisation. The elevated gold response is located at the intersection of the major structures and will be a target for deeper drill testing.

The other area showing a significant gold signature is Area E located within dominantly mafic lithologies and was chosen due to elevated Au in quartz float result of 0.248 ppm Au and the proximity to a possible faulted felsic contact. Within the Holy Dam tenement areas, A and E warrant further drill testing. The next phase of testing will involve using the Company's portable XRF instrument to collect multi element readings of all 387 bottom of hole vacuum drill samples in addition to spectral mineralogical analyses of the six priority areas for mineralogy that may be associated with alteration associated with gold mineralisation.

Follow up drill testing

Canegrass

Shallow vacuum drilling has resulted in three (3) areas (A,B and F – **Figures 8, 9 and 10**) being highlighted for follow up RAB Drilling. Areas A and B are located in a folded mafic sequence in the south of the tenement with historical gold workings located on the same fold structure to the south of the tenement. The fold has been disrupted by a NW-SE fault which could act as localising/concentrating feature for gold mineralisation within the nose of the fold. An elevated Au response was delineated in Area F associated with the regionally significant Emu Fault (**Figure 10**). Up to 3,000 m of angled RAB drilling may be planned for Areas A,B and F.

Holy Dam

Elevated Au in Vacuum Drilling has been delineated in Areas A and E (**Figures 12 and 13**). Area A is located at the intersection of two (2) regional structures, both intruded by Proterozoic dolerite dykes. The intersection of NNW-SSE structures with later E-W structures is a good location for Au mineralisation in the Yilgarn Craton. Area E is located at the nose of folded/faulted adjacent to felsic volcanics to the west. The competency contrast between the felsic and mafic lithologies and major folding and faulting are positive features for deposition of gold mineralisation. Up to 2,000 m of angled RAB drilling may be planned for Areas A and E.

WA: Halls Creek Cobalt/Nickel/Gold Projects (Black and Glidden, Carrington, Sandy Creek and Wild Dog)

E80/5112 (Black and Glidden), E80/5113 (Carrington), E80/5114 (Sandy Creek) and E80/5115 (Wild Dog) are held 100% by wholly owned subsidiary Kaili Iron Pty Ltd. All tenements are granted.

The Halls Creek Project comprises 4 granted tenements (**Figure 14**) 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 paragneisses 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 Halls Creek Project is

REVIEW OF OPERATIONS (continued)

situated primarily within gabbro to norite rocks of the McIntosh Suite.

WA based geophysical consultancy Southern Geoscience Consultants (“SCG”) have completed the acquisition and processing of all available airborne magnetic, radiometric, gravity and electromagnetic data covering the 4 tenements and have provided lithostructural interpretations and targeting maps and digital data. In addition, targets will be generated for field follow up. Sydney based 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.

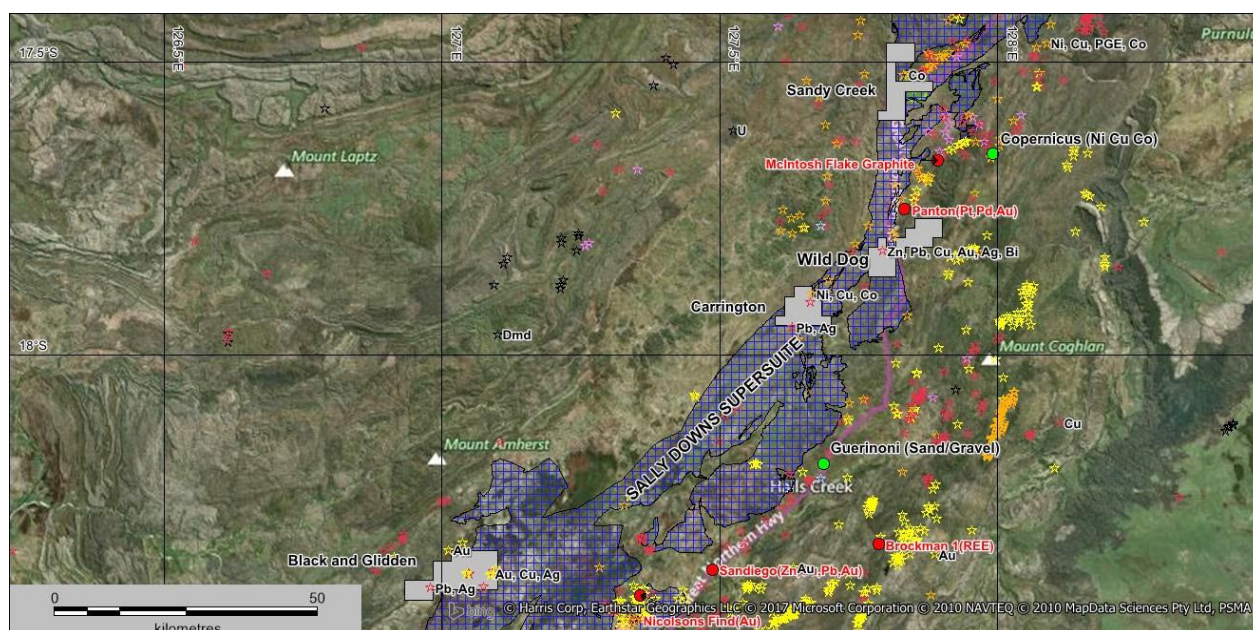


Figure 14: Halls Creek project showing the 4 tenements located adjacent to the town of Halls Creek.

Black and Glidden E08/5112

The Black and Glidden tenement is located 100 km west of Halls Creek with the dominant structure being the NE/SW trending Black and Glidden fault which forms a linear topographic feature to the south of the abandoned Mt Amhurst station. A small amount of Pb and Ag was mined from the Black and Glidden mine in the SW of the tenement with a report indicating the mineralisation was associated with a surface gossan. Elevated gold results were obtained from granite hosted quartz veins in the SE of the tenement associated with NE/SW trending shear zones. Several target zones have been delineated as shown in **Figures 15 and 16** with the main focus being structurally hosted Au mineralisation. There has been no historical drill testing of the Black and Glidden tenement.

REVIEW OF OPERATIONS (continued)

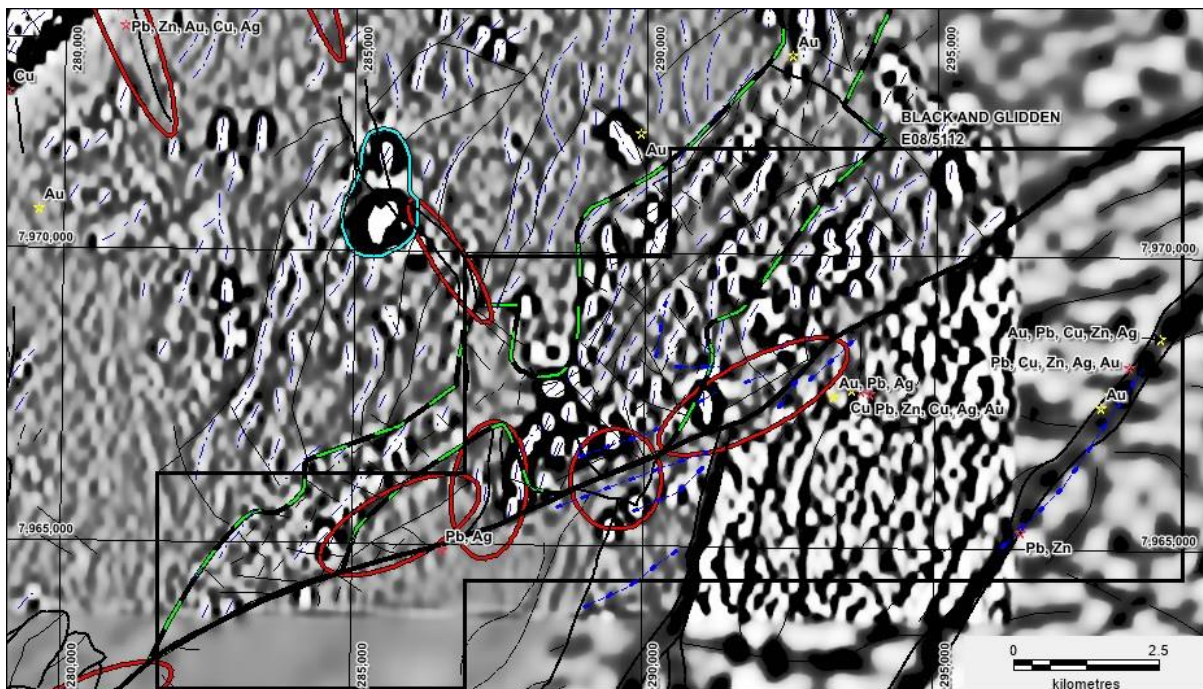


Figure 15: Black and Glidden tenement showing 2VD aeromagnetics, structures and targets

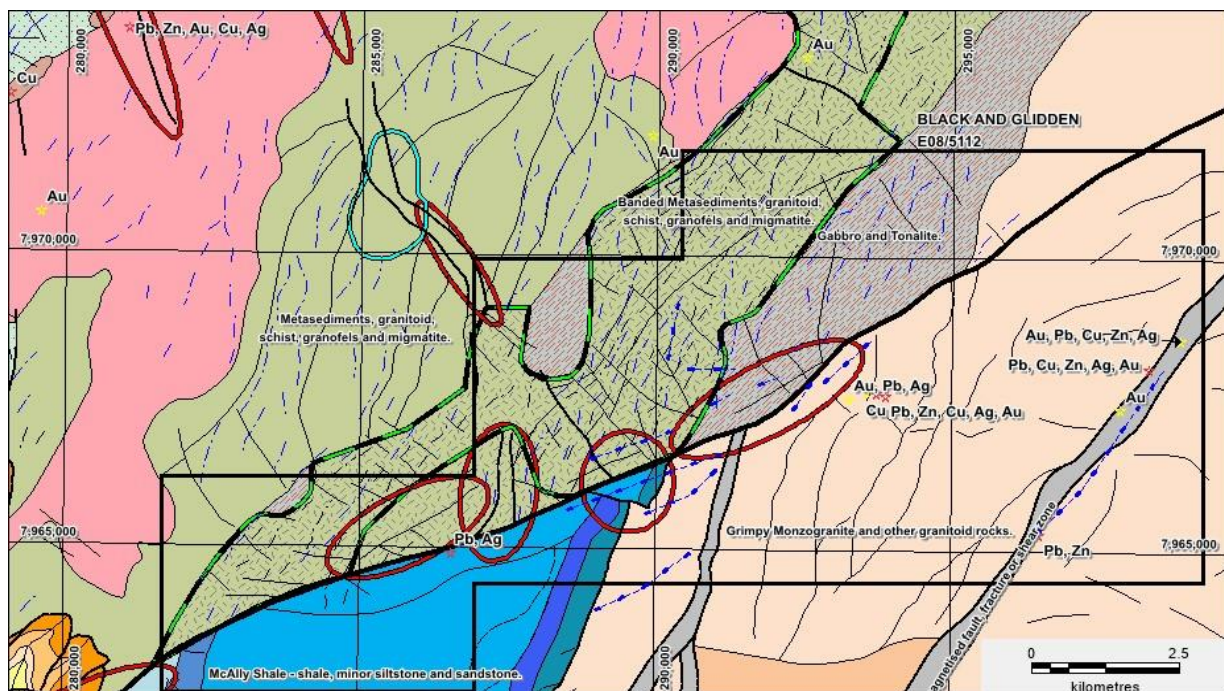


Figure 16: Black and Glidden tenement showing interpreted geology, structures and targets

REVIEW OF OPERATIONS (continued)

Carrington E08/5113

The Carrington tenement (**Figures 17 and 18**) comprises primarily the McIntosh gabbro/norite which is the main target for Co/Ni in addition to other structural gold/base metal targets delineated by the SCG team. An historical Nickel (Ni) Copper (Cu) Cobalt (Co) mineral occurrence is located in the north of the tenement and is associated with a discrete ElectroMagnetic (EM) conductor as shown in **Figure 19**.

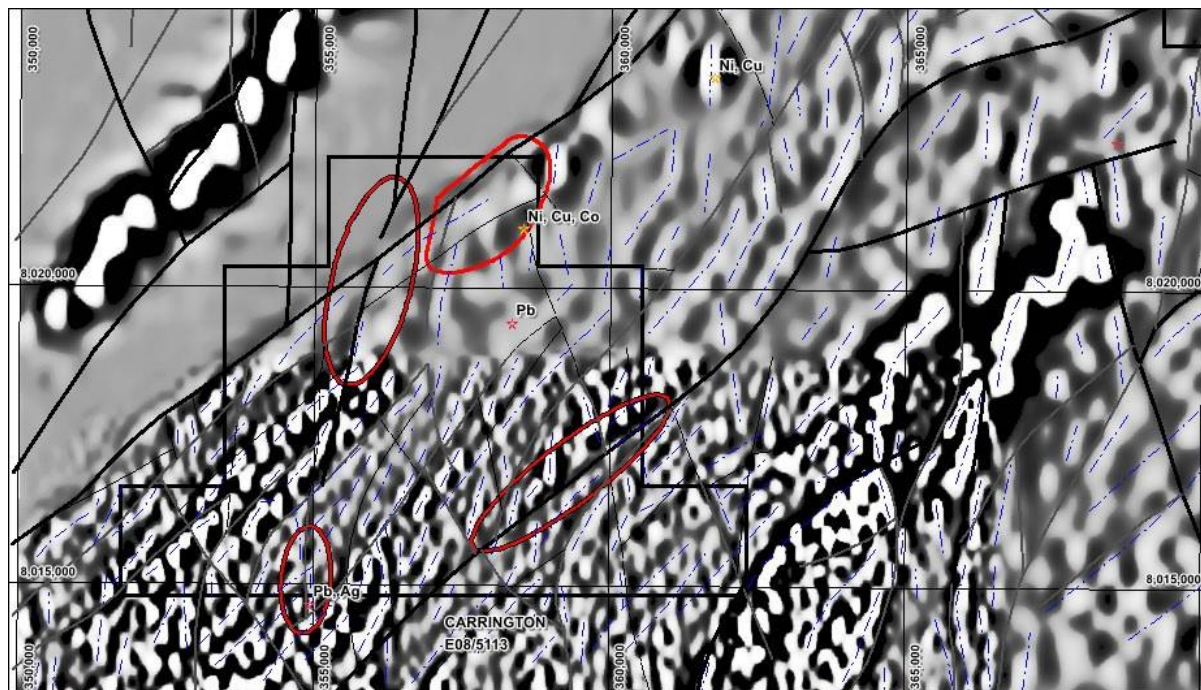


Figure 17: Carrington tenement showing 2VD aeromagnetics, structures and targets

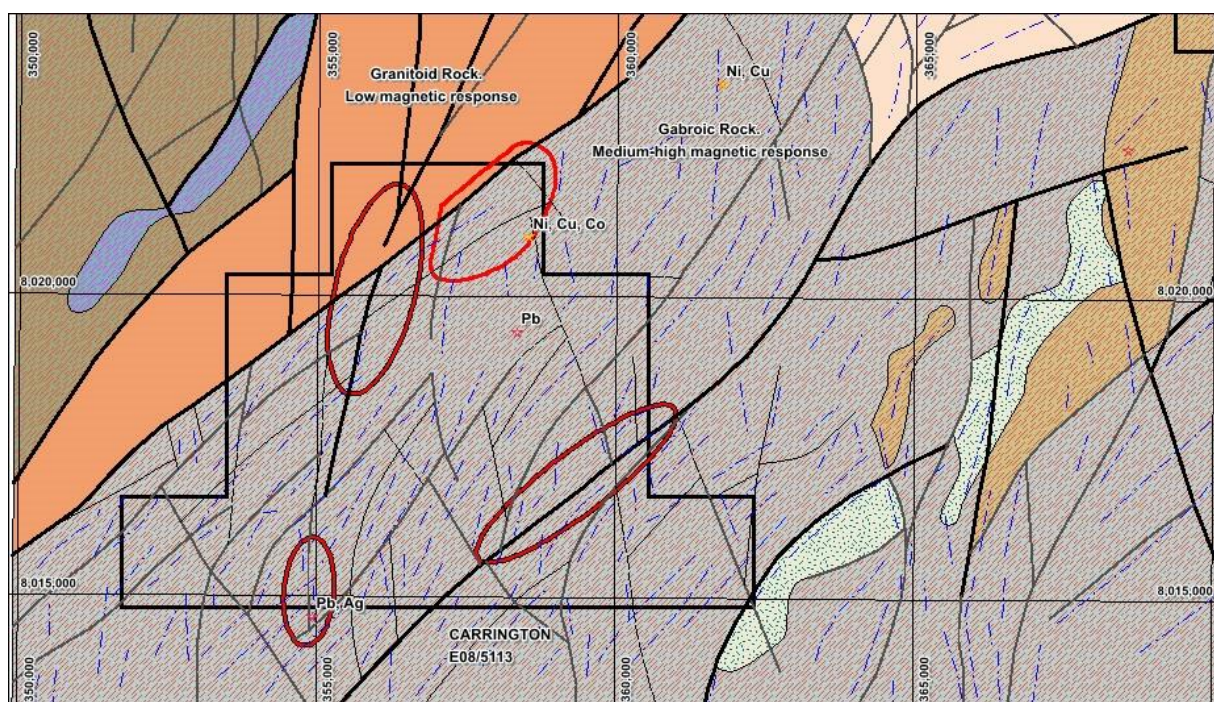


Figure 18: Carrington tenement showing interpreted geology, structures and targets

REVIEW OF OPERATIONS (continued)

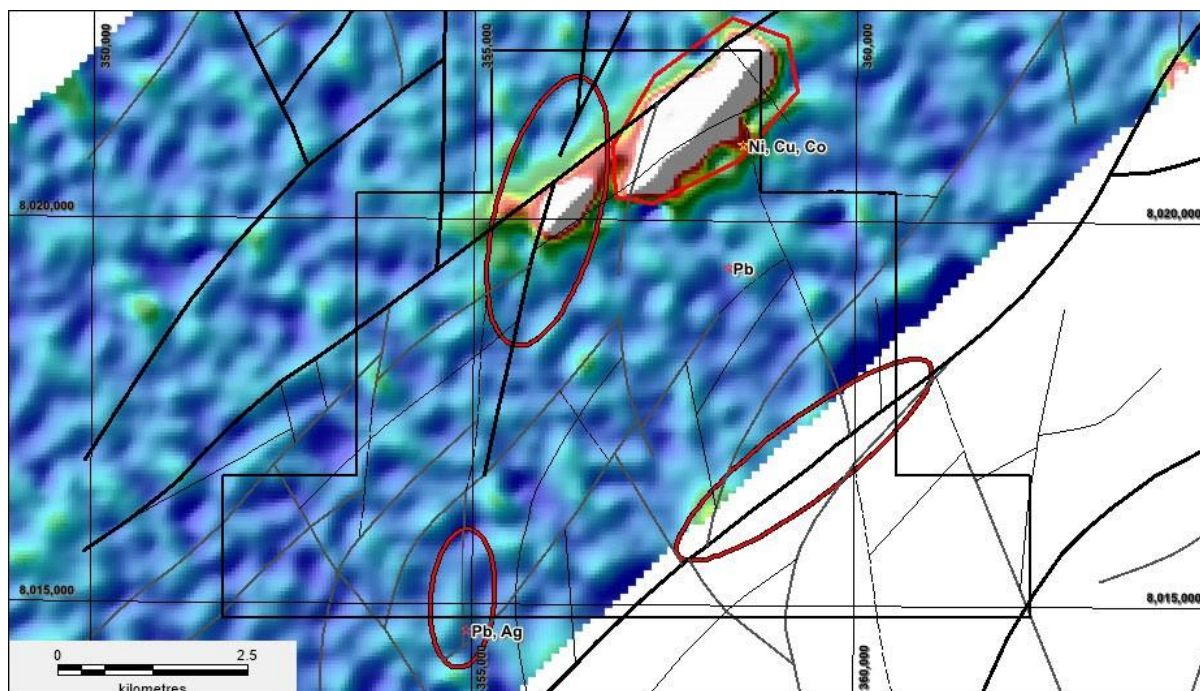


Figure 19: Carrington tenement showing airborne EM image and conductive feature in the north

Wild Dog E08/5114/Sandy Creek E08/5115

The Wild Dog and Sandy Creek tenements (**Figures 20 to 22**) are structurally complex and comprise layered mafic/ultramafic intrusions and McIntosh gabbro/norite in the north and south of the tenement. A series of Cu, Ni workings are aligned NE/SW to the north of the Sandy Creek with the same lithostructural contact extending into the Sandy Creek tenement and associated with a linear EM conductor.

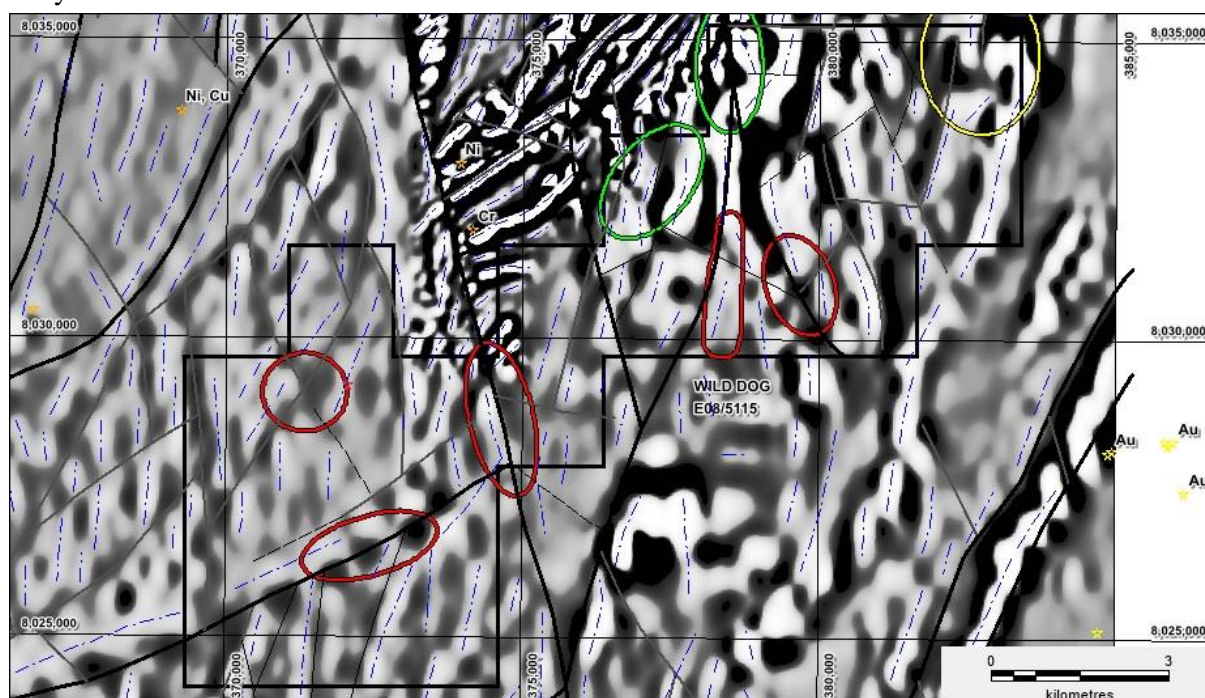


Figure 20: Wild Dog tenement showing 2VD aeromagnetics and target areas

REVIEW OF OPERATIONS (continued)

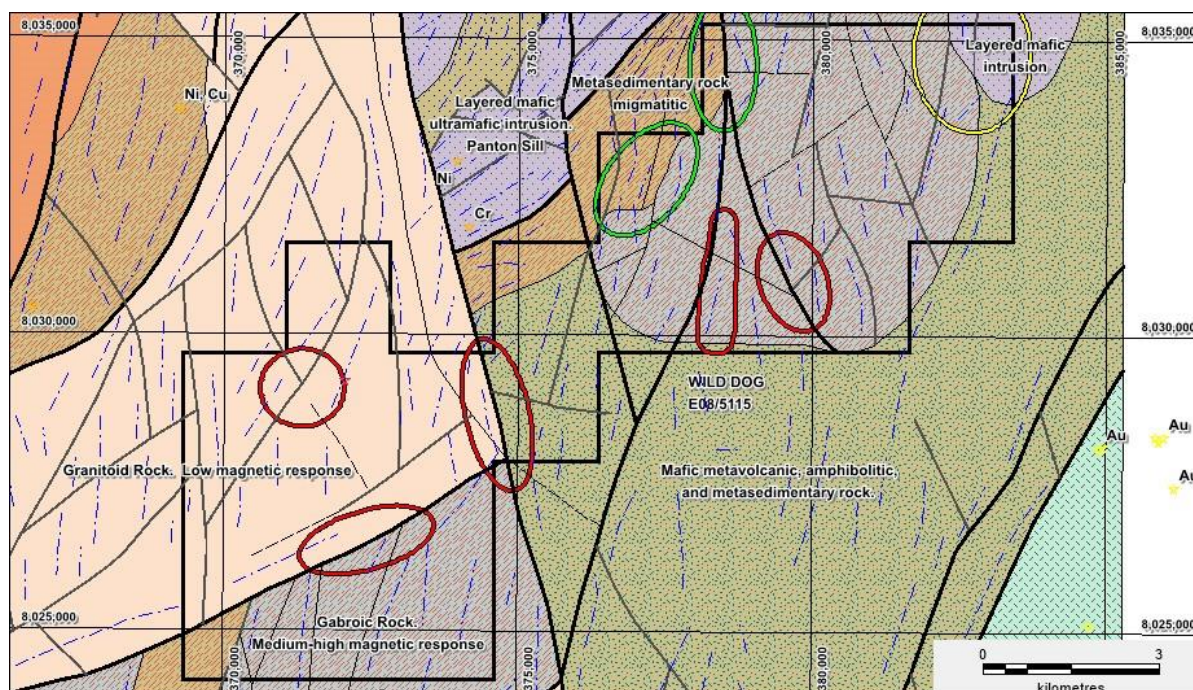


Figure 21: Wild Dog tenement showing interpreted solid geology, structures and target areas

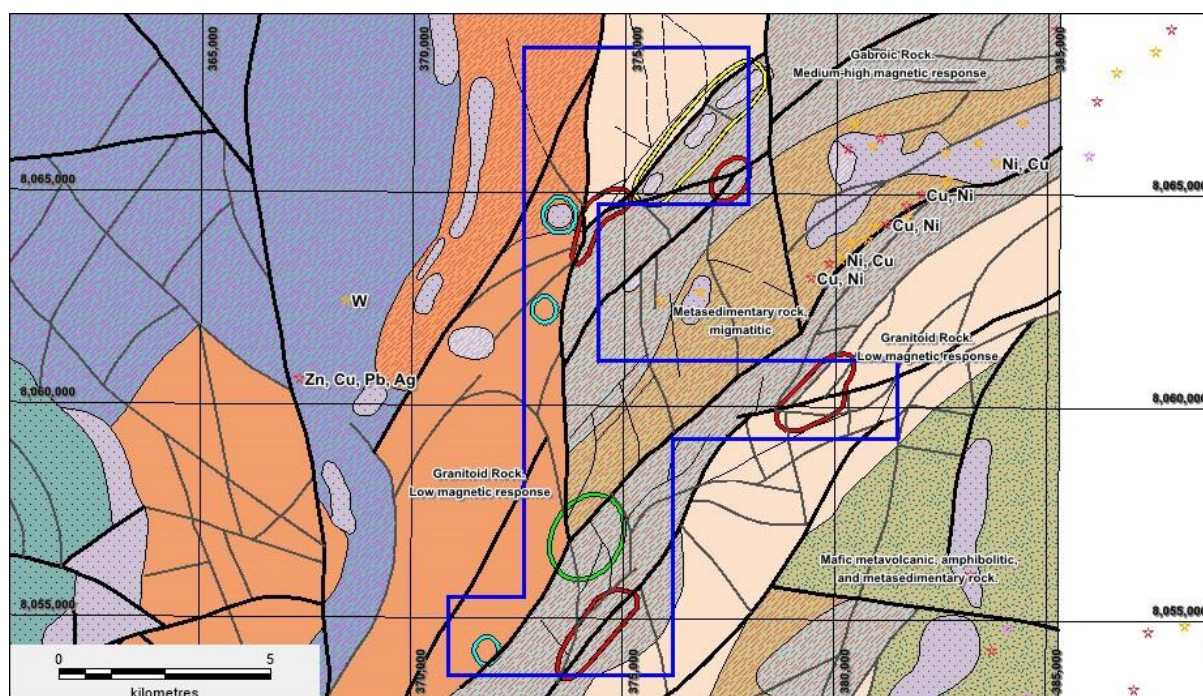


Figure 22: Sandy Creek tenement showing interpreted solid geology, structures and target areas

The Phase 1 exploration program for the Halls Creek Project will comprise a combination of helicopter, vehicle and foot traverse field surveys based out of Halls Creek. The exploration will focus initially on the targets identified in **Figures 15 to 22** and planned to commence in Quarter 2 2020. A combination of rock, stream and soil samples will be collected and submitted to the ALS Geochemical Laboratory in Perth for Au and multi element analyses in conjunction with pXRF readings using the Company's Olympus Delta instrument.

REVIEW OF OPERATIONS (continued)

WA: Pilbara Craton (Darnell Hill, Bustlers' Bore and Bea Bea Creek) Iron Projects

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



Figure 23: Kaili Resources iron projects showing iron ore mines of third parties as brown diamond

The Pilbara region of WA is one of the premier iron regions of the world with several world class iron ore mining operations. The Group has targeted the CID (Channel Iron Deposit) style of iron mineralisation which are found in ancient palaeochannels resulting in cemented masses of concretionary iron oxides of hematite to hematite-goethite composition. Major producing CIDs include Robe River (Rio Tinto) and Yandicoogina (BHP).

The Group had a proposed Work Program within the Bea Bea Creek tenement and has been waiting in vain for a budget from the Mugarinya Community for their monitoring role in order to commence the work in the first half of 2020. Work at Darnell Hill was also planned to be carried out concurrently having regards to the impact of the wet season on field based exploration in the area.

The difficulties of access with local community for Bea Bea Creek and the disappointing results from surficial geochemical sampling and geological mapping in conjunction with likely thin development of BIF layer based on historical drilling results at Bustler Bore, the Group has decided to relinquish the three Pilbara Craton Iron tenements.

QLD: Clarence Moreton Basin (Maryvale) Coal Project

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

The Maryvale 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 the heavy haulage rail system can transport coal for export

REVIEW OF OPERATIONS (continued)

through the Port of Brisbane for 145km (**Figure 24**).

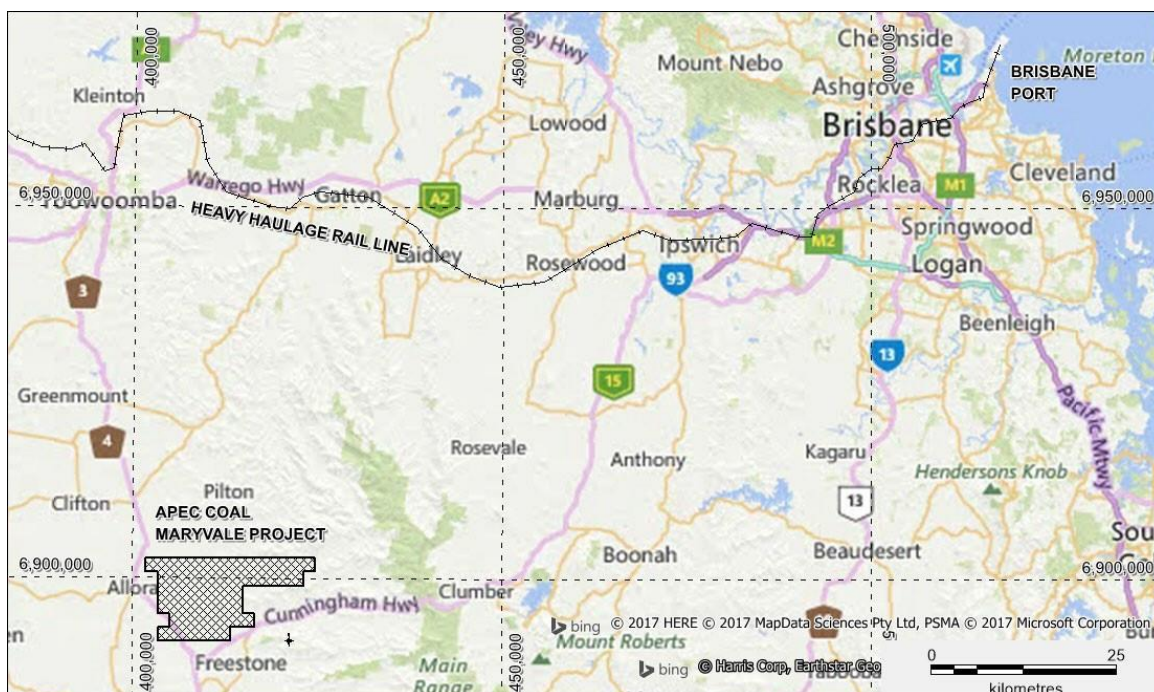


Figure 24: Maryvale Project Location Map

TABLE 2: INFERRED (ISG) RESOURCE ESTIMATE

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

Note: Packages lacked sufficient Points of Observations spacing to classify as Coal Resources and are expressed in ranges (lower- upper). Targets are conceptual in nature. The potential quantity and quality is conceptual in nature and there has been insufficient exploration to estimate a resource and it is uncertain if further exploration will result in the estimation of a mineral resource.

Table 2 and 3: ISG Resource and Exploration Target Estimates – Maryvale Project

The maiden JORC 2012 compliant resource is managed by 100% owned subsidiary APEC Coal Pty Ltd. 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 18**). **Table 2** and **3** summarise the Resource and Exploration Target Estimates.

REVIEW OF OPERATIONS (continued)

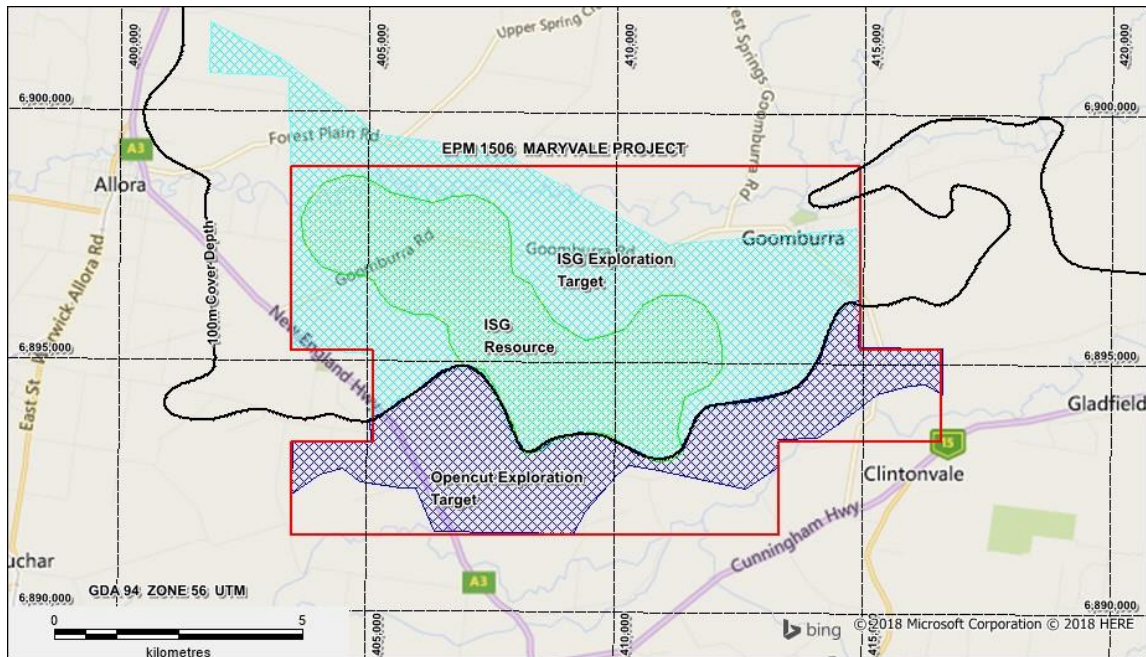


Figure 25: Maryvale Project showing the ISG Resource and Exploration Targets

There was no field based exploration during the year.

The Maryvale ISG Resource is in addition to the Open Cut Exploration Target in light blue and the ISG Exploration target in dark blue. Only exploration targets with <100 m of overburden were considered in the open cut Exploration Target and areas with a minimum overburden of 100 m were considered in the ISG Exploration Target.

The seam and area of interest is the Bulwer Seam (Taroom Coal Measures) within the Maryvale EPC1506 Project Area. This report and the resource/exploration target is a summary of the 2016 coal resource estimation project work carried out by Geoconsult.

Exploration data for the Maryvale Project Area is constituted of:

- data previously obtained from public domain records (Buck, 2010).
- drillhole data derived from various previous exploration programs (Buck, 2010).
- an exploration program of two partially cored drillholes and six open drillholes conducted by Clean Global Energy in 2010 (Buck, 2010); and
- an exploration program of one partially cored drillhole and five open drillholes conducted by the Group in 2016 (this report).

The 2010 and 2016 drillholes are the central basis of the geological data used in the resource estimate. These holes specifically targeted the Taroom Coal Measures of the Walloon Sub-Group in a depth range of 100 m to 350 m and they intersected significant portions of the stratigraphic sequence. Drillholes WK16, WK16C, WK17, WK18 & WK19 are located within the Goomburra area of EPC1506.

The initial ASX announcement was made on the 6th February 2017 – “Maiden 97 Mt JORC Resource at the Maryvale Coal Project”

REVIEW OF OPERATIONS (continued)

LICENCES STATUS

Minerals tenements and their locations held at 31 December 2019 are set out below:

Granted	Tenement	Name	Commodity	Region	Registered Holder	Beneficial Interest	Area km ²	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	30/06/2021
1/07/2016	E27/549	Gindalbie Dam	Gold	WA - Yilgarn Craton	Kaili Gold Pty Ltd	100%	25.6	30/06/2021
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
							1,033.60	

There was no acquisition or disposal or change in beneficial interests under farm-in or farm-out agreements during the year.

Competent person

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 2012 Edition 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.

Forward-Looking Statement

This report may include forward-looking statements. Forward-looking statements include, but are not limited to, statements concerning planned exploration program and other statements that are not historical facts. When used in this document, the words such as "could", "plan", "estimate", "expect", "intend", "may", "potential", "should" and similar expressions are forward-looking statements. Although Kaili Resources Limited believes that its expectations reflected in these forward-looking statements are reasonable, such statements involve risks and uncertainties and no assurance can be given that actual results will be consistent with these forward-looking statements

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 2019.

DIRECTORS

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

Donghai Zhang
Chunlin Liu
Jing Li
Jianzhong Yang
Long Zhao (Appointed on 9 August 2019)

DIRECTORS' INFORMATION

Donghai Zhang **Non-Executive Chairman**

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**

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**

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**

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.

Long Zhao **Executive Director – appointed on 9 August 2019**

Mr. Long Zhao holds a Bachelor degree of Commerce and Accounting from Macquarie University, Australia and has several years' experience in property investment and development since his graduation. He has been the Company Secretary of the Company since 28 June 2016.

COMPANY SECRETARY

Mr. Long Zhao is the Company Secretary of the Company during the year and up to the date of this report.

DIRECTORS' REPORT (continued)

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 20.

Performance

The loss of the Group after income tax for the year was \$1,522,601 (2018: loss \$832,683).

Financial position

Total equity of the Group at 31 December 2019 was \$1,249,234 (2018: \$2,771,835). Total assets decreased by \$699,957 to \$2,846,230 as a result of expenditure on the exploration licences and investment in plant and equipment, and total liabilities increased by \$822,644 to \$1,596,996, mainly as a result of applying AASB 16 Leases accounting for the first time, with cash and cash equivalents of \$249,816 (2018: \$1,977,022).

Subsequent to balance date, the Group received a letter of financial support from a related party of its ultimate parent company, Inner Mongolia Yitai Investment Co., Limited, undertaking to provide funds of up to \$2.5 million until 1 April 2021 that may be drawn as necessary to ensure that the Group continues to be able to pay its debts as and when they fall due, meets its work commitments and continues to operate as a going concern. The funds to be provided are unsecured and interest free. An initial amount of \$600,000 has been drawn by the Group in February 2020 under the undertaking.

Cash flows

Operating activities resulted in net outflow of \$849,203 (2018: \$911,000) as the Group is still in the exploration phase with no income. A total of \$344,286 (2018: \$499,189) 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:

- Undertaking a drilling program at ELs 31/1113 (Canegrass) and 27/550 (Holey Dam), which commenced on 20 June 2019 and was completed on 15 August 2019. Details of the drilling program are included in the Review of Operations.

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 be 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 Company in which the Director has a substantial interest, except for any benefit that may be deemed to have arisen as disclosed in Note 27 of the financial statements.

DIRECTORS' REPORT (continued)

DIRECTORS' INTERESTS IN CONTRACTS

No contracts involving Directors' interests were entered into during the financial year except as disclosed in Note 27 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	3	-
Chunlin Liu	3	-
Jing Li	3	2
Jianzhong Yang	3	3
Long Zhao (appointed 9 August 2019)	-	-

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
2019				
Donghai Zhang	-	-	-	-
Chunlin Liu	-	-	-	-
Jing Li	-	-	-	-
Jianzhong Yang	69,038	24,006	93,044	-
Long Zhao ¹	29,916	2,402	32,318	-
	98,954	26,408	125,362	-

¹ Appointed on 9 August 2019

DIRECTORS' REPORT (continued)

	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	-
	<u>203,396</u>	<u>38,371</u>	<u>241,767</u>	-

¹ Appointed on 9 November 2018

² Resigned on 8 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 until 9 February 2020. 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 Kaili Minerals Management 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. Service agreement ceased on 9 February 2020.

IV. Share-based compensation

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

DIRECTORS' REPORT (continued)

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:

2019

	Balance at the beginning of the year or date of appointment	Acquired	Disposed	Balance at the end of the year
Donghai Zhang	-	-	-	-
Chunlin Liu	-	-	-	-
Jing Li	-	-	-	-
Jianzhong Yang	13,200,000	-	-	13,200,000 ²
Long Zhao ¹	20,000	-	-	20,000
	13,220,000	-	-	13,220,000

¹ Appointed on 9 August 2019

² Shares held by Kaili Holdings Limited, a company controlled by Director Jianzhong Yang

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

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

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.

DIRECTORS' REPORT (continued)

EVENTS AFTER THE REPORTING DATE

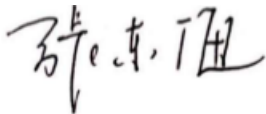
Subsequent to the reporting date, there were no matters or circumstances which have arisen since the end of the year which significantly affected or may significantly affect the Group's operations, the results of those operations or the Group's state of affairs in future years other than the following:

- On 4 February 2020, the Group received a letter of support from Yitai Group (Hongkong) Co., Ltd, a related company of Inner Mongolia Yitai Investment Co., Limited, the ultimate parent company of the Group, undertaking to provide financial support to the Group by making available funds of up to \$2.5 million until 1 April 2021 to ensure that the Group has working capital to be able to pay its debts as and when they fall due, meet their work commitments for the exploration licences and continue as a going concern. The funds provided will be unsecured and interest free. An initial amount of \$600,000 has been received by the Group on 7 February 2020 under the undertaking.

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration is included on page 27 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
31st March 2020

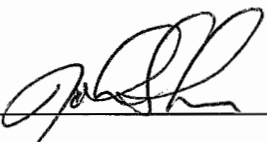
Kaili Resources Limited

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 2019 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 25 March 2020

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.

During 2019, the Group's corporate governance framework remained consistent with the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations – 3rd edition ('the ASX Principles'). While this statement reports against the 3rd edition ASX Principles, the Group's practices are consistent with the 4th edition Principles and Recommendations which are applicable for financial years commencing on or after 1 January 2020.

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>.

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS
AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2019**

	NOTE	2019	2018
		\$	\$
Revenue			
Interest income		1,849	1,323
Other income	4	<u>48,250</u>	<u>-</u>
		50,099	1,323
Expenses			
Depreciation expense	11	(310,557)	(1,031)
Employee benefits expense		(325,366)	(467,083)
Finance costs		(86,719)	-
Impairment of exploration and evaluation expenditure	13	(164,430)	-
Other expenses	5	(685,628)	(365,892)
		<u>(1,522,601)</u>	<u>(832,683)</u>
Loss before income tax			
Income tax	6	<u>-</u>	<u>-</u>
Loss after income tax		<u>(1,522,601)</u>	<u>(832,683)</u>
Other comprehensive income (loss) for the year, net of tax		<u>-</u>	<u>-</u>
Total comprehensive loss for the year attributable to members of the Parent Entity		<u>(1,522,601)</u>	<u>(832,683)</u>
		Cents	Cents
Loss per share			
Basic and diluted loss per share	22	<u>(1.03)</u>	<u>(0.83)</u>

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2019

	NOTE	2019	2018
		\$	\$
Current Assets			
Cash and bank balances	7	249,816	1,977,022
Trade and other receivables	8	11,784	43,812
Prepayments	9	30,505	53,586
Financial assets	10	500	10,895
Total Current Assets		292,605	2,085,315
Non-Current Assets			
Property, plant and equipment	11	787,559	103,272
Financial assets	10	235,814	2,500
Exploration and evaluation expenditure	13	1,530,252	1,355,100
Total Non-Current Assets		2,553,625	1,460,872
Total Assets		2,846,230	3,546,187
Current Liabilities			
Trade and other payables	14	318,558	274,352
Provisions	15	19,045	-
Borrowings	16	500,000	500,000
Lease liabilities	12	334,791	-
Total Current Liabilities		1,172,394	774,352
Non-Current Liabilities			
Lease liabilities	12	424,602	-
Total Non-Current Liabilities		424,602	-
Total Liabilities		1,596,996	774,352
Net Assets		1,249,234	2,771,835
Shareholders' Equity			
Share capital	19 (b)	1,474,004	1,474,004
Reserves	19 (c)	(224,770)	1,297,831
Total Equity		1,249,234	2,771,835

The accompanying notes form part of these financial statements.

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019**

	NOTE	2019 \$	2018 \$
Cash flows from operating activities			
Payments to suppliers and employees		(769,319)	(911,000)
Interest paid		(79,884)	-
Net cash used in operating activities	21(b)	(849,203)	(911,000)
Cash flows from investing activities			
Payments for exploration and evaluation expenditure		(344,286)	(499,189)
Purchase of plant and equipment		(153,987)	-
Receipt from Exploration Incentive Scheme (WA)		48,250	-
Net outflows for security deposits		(222,919)	-
Interest received		1,849	1,323
Net cash used in investing activities		(671,093)	(497,866)
Cash flows from financing activities			
Payments for lease liabilities		(191,797)	-
Proceeds from short term loan		-	500,000
Proceeds from issue of shares		-	1,768,805
Capital raising costs		(15,187)	(19,586)
Net cash used in financing activities		(206,984)	2,249,219
Net (decrease)/increase in cash and cash equivalents		(1,727,280)	840,353
Cash and cash equivalents at beginning of year		1,977,022	1,135,682
Effect of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies		74	987
Cash and cash equivalents at end of year	7	249,816	1,977,022

The accompanying notes form part of these financial statements.

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019**

	Share capital	Share premium	Accumulated losses	Total
	\$	\$	\$	\$
Balance as at 01 January 2018	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
Loss and total comprehensive loss for the year	-	-	(1,522,601)	(1,522,601)
Balance as at 31 December 2019	1,474,004	24,475,363	(24,700,133)	1,249,234

The accompanying notes form part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

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 20 to the financial statements.

2. GENERAL INFORMATION AND STATEMENT OF COMPLIANCE

The consolidated financial statements of the Group for the year ended 31 December 2019 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).

Inner Mongolia Yitai Investment Co., Limited is 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 Governor Phillip Tower, Suite 3, Level 44, 1 Farrer Place, Sydney NSW 2000, Australia.

The consolidated financial statements for the year ended 31 December 2019 were approved and authorized for issue by the Board on 31 March 2020.

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 2019 are consistent with those adopted in the financial statements for the year ended 31 December 2018 except that the Group has adopted AASB 16 Leases standard which became applicable on 1 January 2019 (see 3.(o)).

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 assessments of going concern and impairment of exploration and development expenditure.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

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 20.

(c) Going concern

At balance date the Group had current assets of \$292,605 including cash and cash equivalents of \$249,816, current liabilities of \$1,172,394 which included current lease liabilities under AASB 16 of \$334,791 and \$500,000 borrowing from a related company of the ultimate parent company (Note 16), and has incurred a net loss of \$1,522,601 in the year. In addition, the Group has an unfulfilled expenditure requirement under its exploration licences of \$415,000 for the next 12 months.

Notwithstanding the net loss for the year, the Directors have reviewed the cash flow forecasts for the next twelve months including consideration of the unfulfilled expenditure requirement and of other committed expenses. The Directors believe the Group has sufficient funds to settle its debts as and when they become due and payable as a result of financial support by its ultimate parent company (see below).

On 4 February 2020, the Group received a letter of support from Yitai Group (Hongkong) Co., Ltd, a related company of Inner Mongolia Yitai Investment Co., Limited, the ultimate parent company of the Group, undertaking to provide financial support to the Group by making available funds of up to \$2.5 million until 1 April 2021 to ensure that the Group has working capital to be able to pay its debts as and when they fall due, meet their work commitments for the exploration licences and continue as a going concern. The funds provided will be unsecured and interest free. An initial amount of \$600,000 has been received by the Group on 7 February 2020 under the undertaking. Based on that financial support, the consolidated financial statements have been prepared on a going concern basis, which assumes that the Group will be able to pay its debts as and when they become due and payable.

(d) 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.

(e) Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost, less provision for depreciation and impairment losses, if any. Right-of-use assets are disclosed under this heading. 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES – CONTINUED

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%

(f) Leased assets

For any new contracts entered into on or after 1 January 2019, the Group has adopted AASB 16 Leases and (Note 3(p)) considers whether a contract is, or contains a lease. A lease is defined as “a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration”. To apply this definition the Group assesses whether the contract meets three key evaluations which are whether:

- The contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Group;
- The Group has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract;
- The Group has the right to direct the use of the identified asset throughout the period of use. The Group assesses whether it has the right to direct “how and for what purpose” the asset is used throughout the period of use.

Measurement and recognition of leases as a lessee

At lease commencement date, the Group recognises a right-of-use asset and a lease liability on the statement of financial position. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Group, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

The Group depreciates the right-of-use asset on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Group also assesses the right-of-use asset for impairment when such indicators exist.

At the commencement date, the Group measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Group's incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments.

When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Group has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

(g) 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2019

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES – CONTINUED

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.

(h) 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.

(i) 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 2019

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES – CONTINUED

(j) Provisions

Employee Entitlements

The provision for employee entitlements relates to amounts expected to be paid to employees for long service and annual leaves 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.

(k) 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:

Interest income is recognised as interest accrues using the effective interest method.

(l) 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 2019

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES – CONTINUED

(m) 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, lease liabilities, 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.

(n) 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.

(o) 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.
 - (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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2019

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES – CONTINUED

(p) 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.

AASB 16 Leases

The Group has adopted AASB 16 from 1 January 2019 (Note 3(f)). The standard replaces AASB 117 Leases and for lessees eliminates the classifications of operating leases and finance leases. Except for short-term leases and leases of low-value assets, right-of-use assets and corresponding lease liabilities are recognised in the statement of financial position. Straight line operating lease expense recognition is replaced with a depreciation charge for the right-of-use assets (included in operating costs) and an interest expense on the recognised lease liabilities (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However, EBITDA (Earnings before tax, Tax, Depreciation and Amortisation) results improve as the operating expense is now replaced by interest expense and depreciation in profit or loss. For classification within the statement of cash flows, the interest portion is disclosed in operating activities and the principal portion of the lease payments are separately disclosed in financing activities.

Impact of adoption

The Group has no lease at 1 January 2019 that needed to be restated under AASB 16.

	2019	2018
	\$	\$
4. OTHER INCOME		
Exploration Incentive Scheme (WA)	48,250	-
5. OTHER EXPENSES		
Audit fees	18,800	19,750
Consulting fees	62,413	37,916
Insurance	2,915	6,038
Registration fees and charges	24,868	20,009
Legal and professional fees	77,521	65,912
Listing fees	18,423	24,446
Rental expenses	299,809	44,505
Office services charges	56,303	200
Share registry	9,629	13,018
Travel and accommodation	47,214	67,512
Other costs	67,733	66,586
	<u>685,628</u>	<u>365,892</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2019

	2019	2018
	\$	\$
6. 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>(1,522,601)</u>	<u>(832,683)</u>
Tax at the Australian domestic income tax rate 27.5% (2018:27.5%)	(418,715)	(228,988)
Tax losses not recognised	<u>418,715</u>	<u>228,988</u>
Income tax expense	<u>-</u>	<u>-</u>
At the reporting date, the Group has estimated tax losses of \$6,998,000 (2018: \$5,312,000). 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.		
7. CASH AND CASH EQUIVALENTS		
Cash at bank	<u>249,816</u>	<u>1,977,022</u>
8. TRADE AND OTHER RECEIVABLES		
GST receivable	<u>11,784</u>	<u>43,812</u>
9. PREPAYMENTS		
Prepayments	<u>30,505</u>	<u>53,586</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2019

	2019	2018
	\$	\$
10. FINANCIAL ASSETS		
Current		
Rental bond	500	10,895
Non-Current		
Security deposits	235,814	2,500

11. PROPERTY, PLANT AND EQUIPMENT

	Right-of-use assets	Furniture & office equipment	Motor vehicle	Total
	\$	\$	\$	\$
2019				
At cost:				
Balance at beginning of year	-	10,663	103,498	114,161
Additions	944,355	50,489	-	994,844
Balance at end of year	944,355	61,152	103,498	1,109,005
Depreciation:				
Balance at beginning of year	-	(10,251)	(638)	(10,889)
Depreciation charge	(288,553)	(9,067)	(12,937)	(310,557)
Balance at end of year	(288,553)	(19,318)	(13,575)	(321,446)
Carrying amount at 31 December 2019	655,802	41,834	89,923	787,559
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 2019

	2019 \$	2018 \$
12. LEASE LIABILITIES		
Current:		
Lease liabilities	334,791	-
Non-Current:		
Lease liabilities	424,602	-

The Group has a lease for office premises. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected on the statement of financial position as a right-of-use asset and a lease liability. The Group classifies its right-of-use assets under property, plant and equipment.

Future undiscounted lease payments recognised as liabilities at net present value in the statement of financial position at balance date were as follows:

Due within twelve months	397,614	-
Due twelve months or longer and not longer than five years	448,089	-

Lease payments not recognised as a liability

The Group has elected not to recognise a lease liability for short term leases (leases with an expected term of 12 months or less) or for leases of low value assets. Payments made under such leases are expensed as rental expenses as incurred.

	2019 \$	2018 \$
13. EXPLORATION AND EVALUATION EXPENDITURE		
At cost:		
Balance at beginning of year	1,355,100	850,874
Additions	339,582	504,226
Impairment	(164,430)	-
Balance at end of year	1,530,252	1,355,100

Impairment indicators in AASB 6 are considered on a project by project basis. Impairment has been recognised during the year on licences to be relinquished.

Ultimate recoupment of the carrying value of the exploration areas is dependent on successful development and commercial exploitation, or alternatively sale of the respective areas of interest. The areas of interest are exploration licences held by the Group and are detailed in the schedule contained in the Licence Status shown on page 20.

14. TRADE AND OTHER PAYABLES

Trade and other payables	15,108	41,199
Amount owing to director ¹	186,378	110,000
Accrued expenses	117,072	123,153
	318,558	274,352

¹ Amount owing to Director Jianzhong Yang at the beginning of the year was repaid during the year. During the year, Director Jianzhong Yang made payments for the short-term lease of accommodation and related expenses on behalf of the Company and has not been reimbursed in full at balance date.

15. PROVISIONS

Employee entitlements	19,045	-
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

	2019	2018
	\$	\$

16. BORROWINGS - CURRENT

Unsecured loan from a related party	500,000	500,000
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A \$500,000 unsecured loan facility at nil interest rate that was provided by Yitai Group (Hongkong) Co. Ltd, a related company of Inner Mongolia Yitai Investment Co., Limited, the ultimate parent company of the Group matured on 30 June 2019 and became due and payable at call.

17. REMUNERATION OF AUDITOR

Amounts received or due and receivable by the auditor for audit and review of financial statements	18,800	19,750
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18. SEGMENT INFORMATION

Business segments

The Group has identified its operating segment as the Mining Sector in Australia.

19. SHARE CAPITAL

	2019 Number of shares	2019 \$	2018 Number of shares	2018 \$
(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	147,400,363	1,474,004

	2019	2018
	\$	\$
(c) Reserves		
Share premium account	24,475,363	24,475,363
Accumulated losses	(24,700,133)	(23,177,532)
	(224,770)	1,297,831

20. CONTROLLED ENTITIES

(a) Investments in controlled entities comprise:

Name of subsidiary	Place of incorporation/operation	Principal activities	Beneficial percentage held by economic entity	
			2019	2018
			%	%
Kaili Corporation Pty Ltd	Australia/Australia	Investment holding	100	100
APEC Coal Pty Ltd	Australia/Australia	Coal exploration	100	100
Kaili Minerals Management Pty Ltd (ex 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2019

	2019	2018
	\$	\$
21. 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	(1,522,601)	(832,683)
Depreciation	310,557	1,031
Foreign exchange differences	(74)	(987)
Interest income	(1,849)	(1,323)
Exploration Incentive Scheme (WA)	(48,250)	-
Impairment of exploration and evaluation expenditure	164,430	-
Interest payable	6,835	-
	<hr/>	<hr/>
Operating cash flows before movements in working capital	(1,090,952)	(833,962)
Changes in assets and liabilities relating to operations:		
Decrease/(Increase) in trade and other receivables	32,028	(34,607)
Decrease/(Increase) in prepayments	22,748	(31,213)
Increase/(Decrease) in trade and other payables	167,928	(11,218)
Increase/(Decrease) in provisions	19,045	-
	<hr/>	<hr/>
Net cash used in operating activities	<u>(849,203)</u>	<u>(911,000)</u>

22. 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	<u>(1,522,601)</u>	<u>(832,683)</u>
Number of shares	Number	Number
Weighted average number of ordinary shares for the purposes of basic and diluted loss per share	<u>147,400,363</u>	<u>99,747,649</u>

23. COMMITMENTS

(a) Exploration expenditure commitments

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	415,000	245,000
Twelve months or longer and not longer than five years	715,000	1,270,000
	<hr/>	<hr/>
	<u>1,130,000</u>	<u>1,515,000</u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

	2019	2018
	\$	\$

(b) Lease commitments

Under the office lease agreement, the Group has to pay monthly contributions for the office building's outgoings and cleaning. These commitments together with short-term leases have not been provided for in the financial statements and are due as follows from balance date:

Within twelve months	78,500	-
Twelve months or longer and not longer than five years	84,100	-
	<u>162,600</u>	<u>-</u>

24. CONTINGENT LIABILITIES

At balance date, the Group has given guarantees totaling \$60,000 (2018: \$60,000) for compliance with the conditions of the exploration licences granted in Western Australia.

25. 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, lease liabilities 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	249,816	1,977,022
Trade and other receivables	11,784	43,812
Financial assets – current	500	10,895
Financial assets – non-current	235,814	2,500
Total financial assets	<u>497,914</u>	<u>2,034,229</u>

Financial liabilities at amortised cost

Trade and other payables	318,558	274,352
Borrowings	500,000	500,000
Lease liabilities - current	334,791	-
Lease liabilities – non-current	424,602	-
Total financial liabilities	<u>1,577,951</u>	<u>774,352</u>

The board of directors is responsible for the Group's risk management. The Group's overall risk management program focuses on seeking to minimize potential adverse effects on the financial performance of the Group. Interest rate and credit risks faced by the Group are considered minimal at this stage.

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 2019

(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 \$
2019					
Assets					
Total	(a)	497,914	-	-	497,914
Liabilities					
Total		(1,577,951)	-		(1,577,951)
Net fair value		(1,080,037)	-	-	(1,080,037)
2018					
Assets					
Total	(a)	2,034,229	-	-	2,034,229
Liabilities					
Total		(774,352)	-		(774,352)
Net fair value		1,259,877	-	-	1,259,877

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.

(i) Interest rate sensitivity analysis

A 1% decrease in interest rate would result in a decrease of \$4,831 (2018: \$19,770) 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 2019

(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:-

	2019			2018		
	Within 1 year \$	1 to 5 years \$	Total \$	Within 1 year \$	1 to 5 years \$	Total \$
Trade and other payables and borrowings	818,558	-	818,558	774,352	-	774,352
Lease liabilities	397,614	448,089	845,703	-	-	-

(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.

26. 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 2019.

27. RELATED PARTY TRANSACTIONS

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.

	2019 \$	2018 \$
Compensation of KMP of the Group:		
Short-term employee benefits	98,954	203,396
Post-employment benefits	26,408	38,371
Other long-term benefits	-	-
Termination benefits	-	-
Share-based payments	-	-
	<u>125,362</u>	<u>241,767</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2019

	2019	2018
	\$	\$
28. PARENT ENTITY INFORMATION		
Assets		
Current assets	1,455,116	3,068,772
Non-current assets	1,428,234	470,556
Total assets	<u>2,883,350</u>	<u>3,539,328</u>
Liabilities		
Current liabilities	937,300	625,812
Non-current liabilities	424,602	-
Total liabilities	<u>1,361,902</u>	<u>625,812</u>
Equity		
Issued capital	1,474,004	1,474,004
Share premium account	24,475,363	24,475,363
Accumulated losses	<u>(24,427,919)</u>	<u>(23,035,851)</u>
	<u>1,521,448</u>	<u>2,913,516</u>
Financial performance		
Loss for the year	(1,392,068)	(820,408)
Other comprehensive income	-	-
Total comprehensive loss	<u>(1,392,068)</u>	<u>(820,408)</u>

29. 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 other than the following:

- On 4 February 2020, the Group received a letter of support from Yitai Group (Hongkong) Co., Ltd, a related company of Inner Mongolia Yitai Investment Co., Limited, the ultimate parent company of the Group, undertaking to provide financial support to the Group by making available funds of up to \$2.5 million until 1 April 2021 to ensure that the Group has working capital to be able to pay its debts as and when they fall due, meet their work commitments for the exploration licences and continue as a going concern. The funds provided will be unsecured and interest free. An initial amount of \$600,000 has been received by the Group on 7 February 2020 under the undertaking.

30. APPROVAL OF THE FINANCIAL STATEMENTS

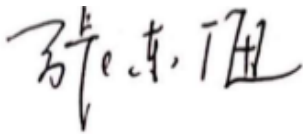
The financial statements were approved and authorised for issue by the Board of Directors on 31 March 2020.

DIRECTORS' DECLARATION

In the Directors' opinion:

- (a) the financial statements and notes set out on pages 29 to 48:
 - (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 2019 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
31st March 2020

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

We have audited the accompanying Consolidated Financial Statements of Kaili Resources Limited (the "Company") and the subsidiaries (together "the Group") set out on pages **29 to 48**, which comprise the consolidated statement of financial position as at 31 December 2019, the consolidated statement of profit or loss and other comprehensive income, 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 gives a true and fair view in accordance with International Financial Reporting Standards ("IFRS's") and the Corporations Act 2001, and for such internal control as the directors determine is necessary to enable the preparation of the financial statements that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards ("IFRS's").

Auditor's responsibility

Our responsibility is to express an opinion on these Consolidated Financial Statements based on our audit. We have conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the Consolidated Financial Report 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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined the matter described below to be the key audit matter to be communicated in our report.

Key Audit Matter	How our audit addressed this matter
<i>Impairment of Exploration Assets</i>	
Refer to Note 13 in the Consolidated Financial Statements	
<p>The Consolidated Entity has capitalised exploration and evaluation expenditure, with a carrying value of \$1,530,252 as at 31 December 2019.</p> <p>Under AASB 6 Exploration for and Evaluation of Mineral Resources, the Consolidated Entity is required to test the exploration and evaluation asset for impairment when facts and circumstances suggest that the carrying amount may exceed the recoverable amount. We determined this to be a key audit matter due to the significant management judgement involved in assessing the carrying value of the asset.</p>	<p>Our audit procedures in relation to the carrying value of exploration and evaluation expenditure included:</p> <ul style="list-style-type: none">• Obtaining evidence that the Consolidated Entity has valid rights to ongoing exploration and activities to support the continued capitalisation of these assets• Enquiring with management the basis on which they have determined that the exploration and evaluation of mineral resources has not yet reached the stage where it can be concluded that no commercially viable quantities of mineral resources exists;• Enquiring with management and reviewing budgets to determine that the Consolidated Entity will incur substantive expenditure on further exploration and evaluation of mineral resources in the specific areas of interest;• Testing on a sample basis the exploration costs incurred in the period to ensure that they meet the capitalisation criteria under AASB 6.

Independence

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

Opinion

In our opinion:

- a) the Consolidated Financial Statements of Kaili Resources Limited is in accordance with the Corporations Act 2001, including:
 - i. giving a true and fair view of the Company's financial position as at 31 December 2019 and of its performance for the year ended on that date; and
 - ii. complying with Australian Accounting Standards and the Corporations Regulations 2001; and
- b) the financial report also complies with International Financial Reporting Standards ("IFRS's") as disclosed in Note 3.

Emphasis of Matter

We draw attention to Note 2 to the financial statements which describes the undertaking by Yitai Group (Hong Kong) Co. Ltd, a related company of Inner Mongolia Yitai Investment Co. Limited, the ultimate parent company of the Group to provide financial support to the group.

The undertaking is to provide funding up to \$2.5 million until 1 April 2021 to ensure the Group has working capital to be able to meet its debts as and when they fall due and continue as a going concern.

Our opinion is not modified in respect of this matter.

Report on the Remuneration Report

We have audited the Remuneration Report included in paragraph A and B of the directors' report for the year ended 31 December 2019. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with International Financial Reporting Standards ("IFRS's").

Opinion

In our opinion the Remuneration Report of Kaili Resources Limited for the year ended 31 December 2019, complies with section 300A of the Corporations Act 2001.

JOHN F SHUTE
Chartered Accountant



John F Shute

Sydney
31 March 2020

ADDITIONAL INFORMATION

Additional information included in accordance with Listing Rules of the ASX Limited as at 10 March 2020

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

* Director 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 10 March 2020

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. MS JUNLAN WANG	3,166,666	2.15
7. MR SHUJUN LIU	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. SUO ZHANG	430,000	0.29
17. EDGEFIELD INTERNATIONAL LIMITED	363,000	0.25
18. MR CALVIN AU	322,000	0.22
19. PING GAO	250,000	0.17
20. GUICHENG QIAO	230,000	0.16
Twenty largest shareholders	139,890,112	94.93
Others	7,510,251	5.07
	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”.