

**KAILI RESOURCES LIMITED
AND CONTROLLED ENTITIES**

ARBN 077 559 525

**Half-Year Financial Report
30 June 2019**

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CORPORATE DIRECTORY

Directors

Donghai Zhang - Chairman
Chunlin Liu
Jing Li
Jianzhong Yang
Long Zhao

Share Registry in Australia

Computershare Investor Services Pty Limited
Level 4, 60 Carrington Street
Sydney NSW 2000
Australia
Telephone: +61 2 8234 5222
Facsimile: +61 2 8234 5050

Company Secretary

Long Zhao

Auditor

John Shute
Chartered Accountant
321 Pitt Street
Sydney NSW 2000
Australia

Registered Office

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2 Church Street
Hamilton HM 11
Bermuda

Home Stock Exchange

ASX Limited
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Sydney NSW 2000
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ASX Code: KLR

Representative Office in Australia

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REVIEW OF OPERATIONS

EXPLORATION

HIGHLIGHTS

Kookynie and Jungle Hill Gold Projects in Western Australia

- Canegrass and Holey Dam Heritage Survey Completed
- Vacuum drilling commenced at Holey Dam with 120 shallow holes drilled and results awaited

Halls Creek Projects Cobalt/Gold in Western Australia

- Lithostructural targeting completed with field testing planned for September Quarter 2019.

All granted tenements are up to date regarding statutory requirements.

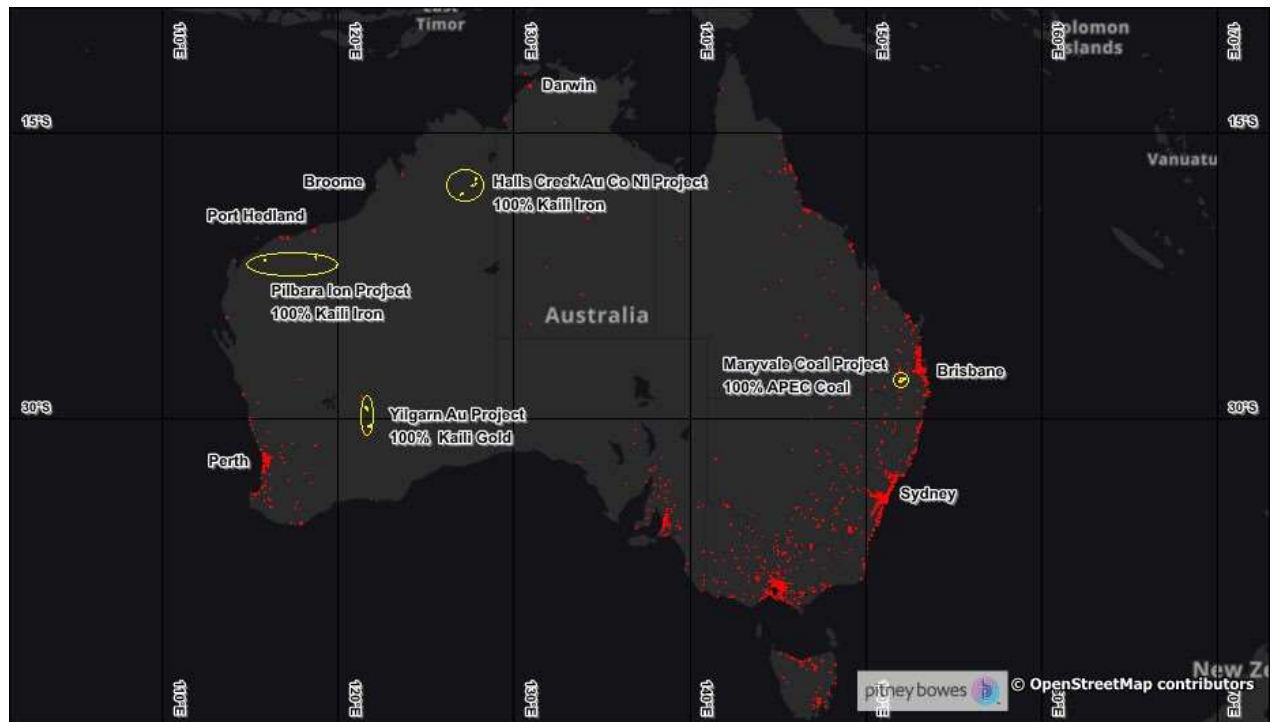


Figure 1: Kaili Resources project locations

| PROJECT LOCATION | TENEMENT AREA IN SUB BLOCKS | TENEMENT AREA IN KM ² |
|-------------------|-----------------------------|----------------------------------|
| Queensland | 27 | 86.4 |
| Western Australia | 296 | 956.84 |
| Total Area | 323 | 1043.24 |

*Table 1: Kaili Resources granted tenement areas, all held 100%.
km² has been calculated at approximately 3.2 km² per block*

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 2: 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). Typical composition of ore from Yandicoogina is about 58% Fe, 0.05% P, 4.8% SiO₂ and 1.4% Al₂O₃.

The Group has prepared a proposed Work Program within the Bea Bea Creek tenement and is waiting for a budget from the Mugarinya Community in order to commence the work. The work programs for Bea Bea Creek and Darnell Hill planned for the September Quarter 2019 avoiding the wet season.

Yilgarn Craton (Gindalbie and Kookynie) Gold Projects

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

The Yilgarn Craton is one of the premier gold regions in the world and hosts numerous multimillion ounce gold mines and deposits. The Group reviewed several areas for tenement applications in proximity to known gold mineralisation and associated with mafic igneous extrusive/intrusive rocks. The Gindalbie area, north east of Kalgoorlie and the Kookynie (**Figure 3**) area, south east of Leonora were chosen and include the 5 granted tenements:

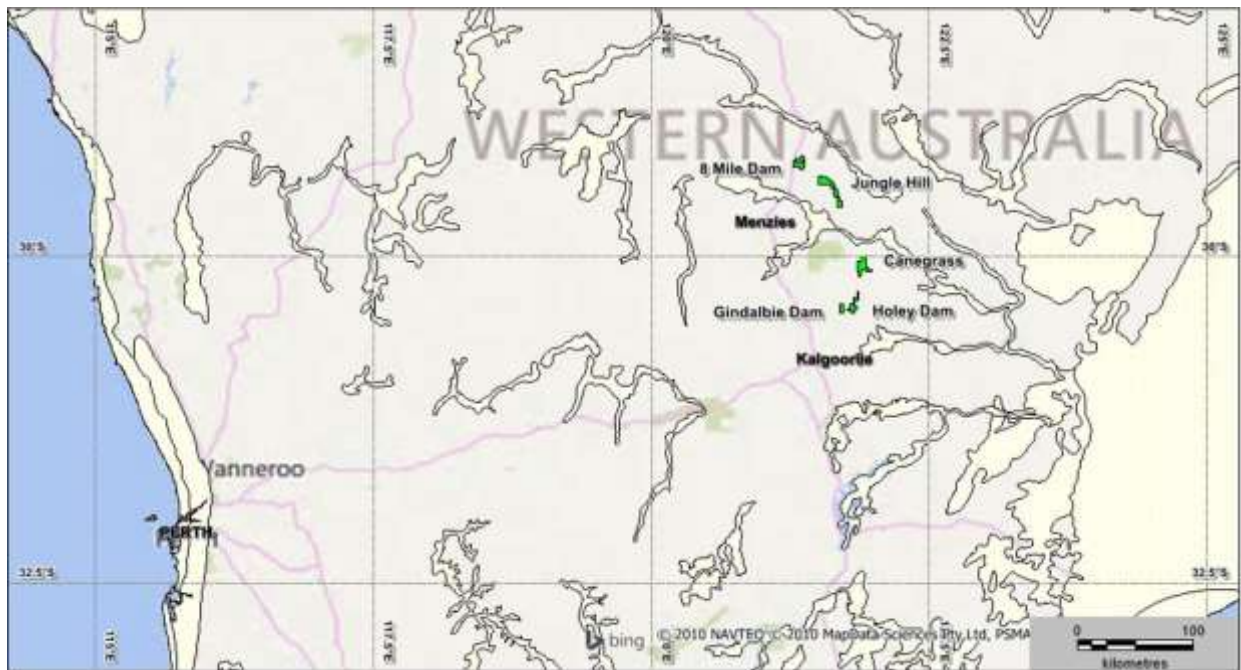


Figure 3: Kaili Resources Western Australian Gold Projects.

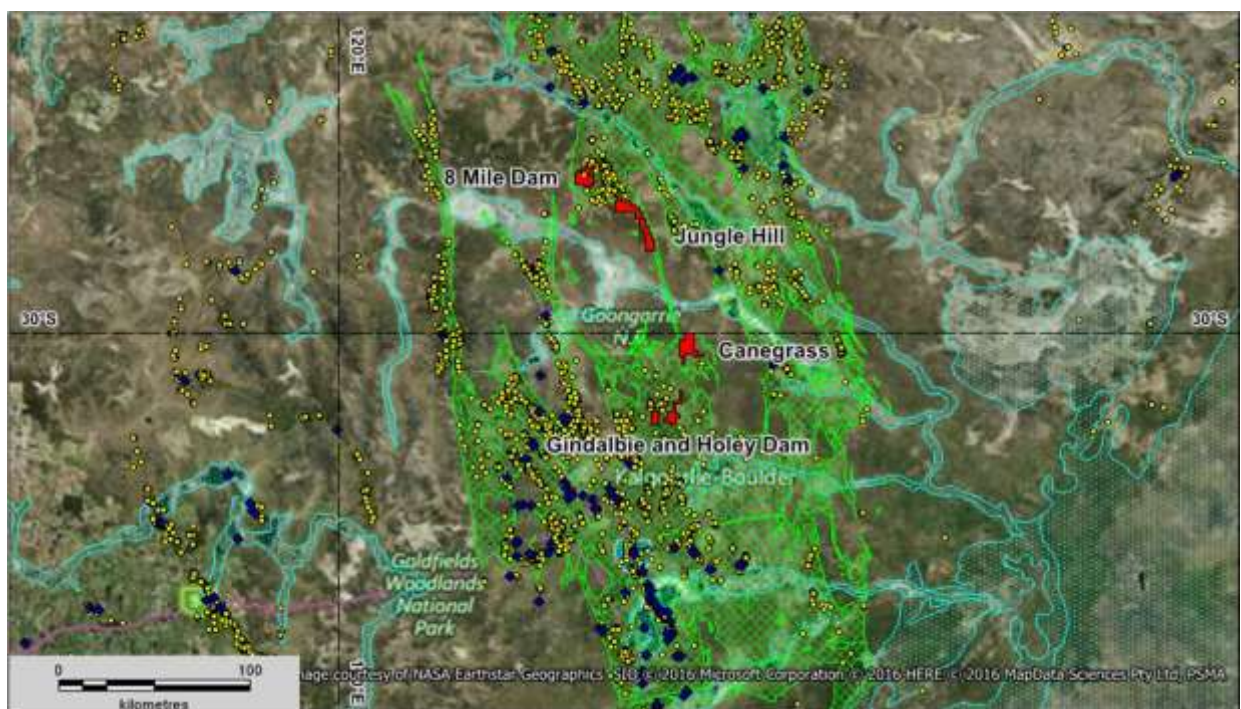


Figure 4: Satellite Image with Eastern Goldfields Superterrane (green hatching) and Kaili Gold tenements in red. Blue diamonds are operating mines and yellow dots are gold occurrences reported by other explorers

The Group's Western Australian gold projects are located within the Archaean Yilgarn Craton, one of the most highly endowed gold regions in the world. Within the Yilgarn Craton the Eastern Goldfield Superterrane (EGS) hosts the bulk of the known gold deposits and operating mines (**Figure 4**). 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

A 397-hole drill program to test several gold structural/geochemical targets in the Canegrass (262 holes) and Holey Dam (135 holes) tenements commenced in the June 2019 quarter. Shallow grid based Vacuum drilling is in process along E-W lines with vertical hole depths planned in the range of 1-12 m (**Figures 5 and 6**). The Pathfinder/Strataprobe Vacuum drilling rig represents a relatively light weight drilling solution, particularly for reliable geochemical sampling. The rig (see picture below) 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.

Wet weather and staff availability hampered the project. To date 120 shallow holes have been completed for a total advance of 810 at an average depth of 7 m/hole (**Figure 7**)

Bottom of hole (BOH) samples have been collected in pre numbered calico bags and samples for the first 120 holes have been 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.



Strataprobe Vacuum Drilling Rig

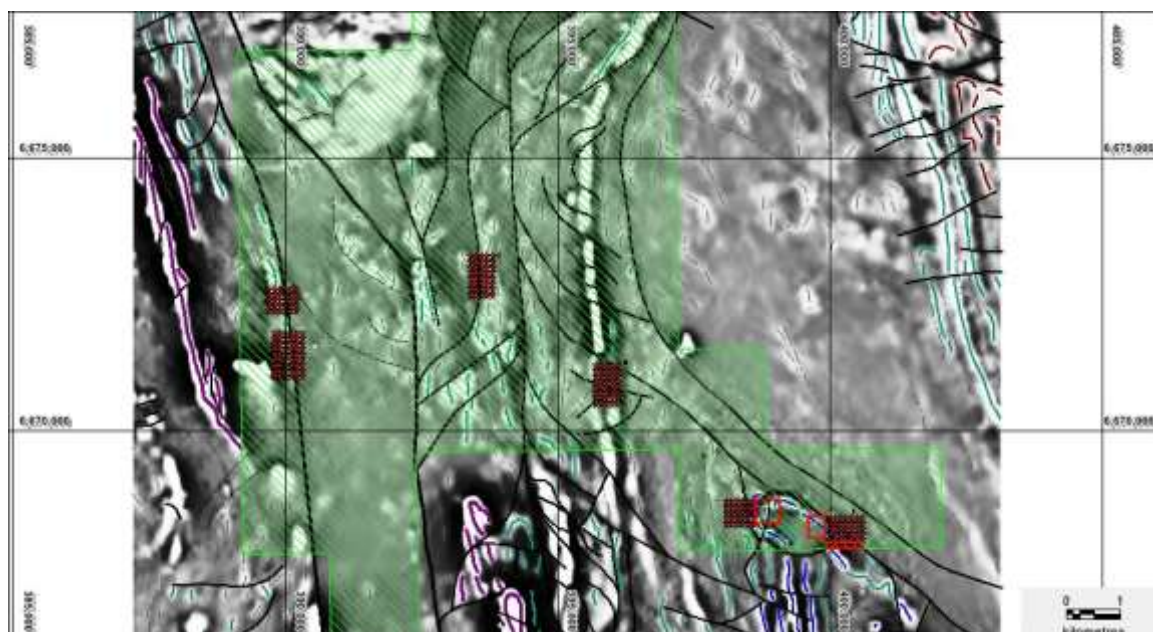


Figure 5: *Canegrass Tenement – Aeromagnetic image showing structure and proposed vacuum drill traverses. The red boxes are drill areas recently added to the POW*

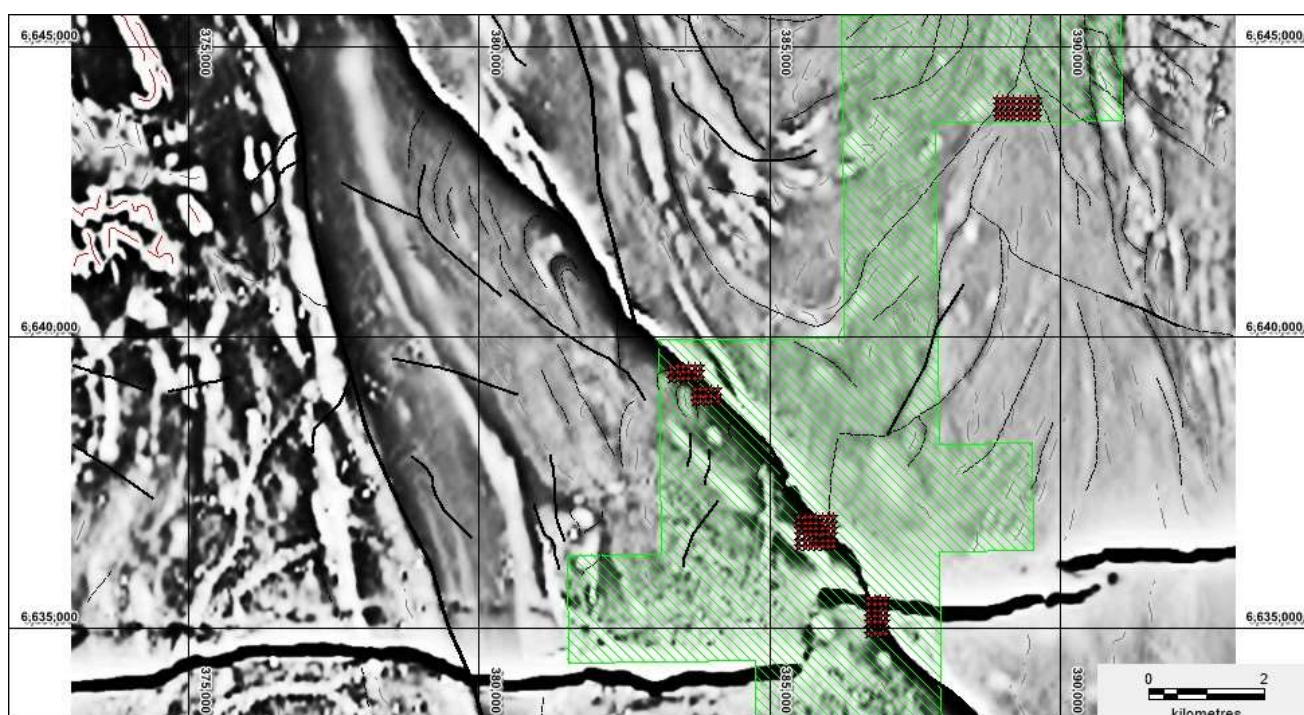


Figure 6: *Holey Dam Tenement – Aerial image structure and proposed air core drill traverses*

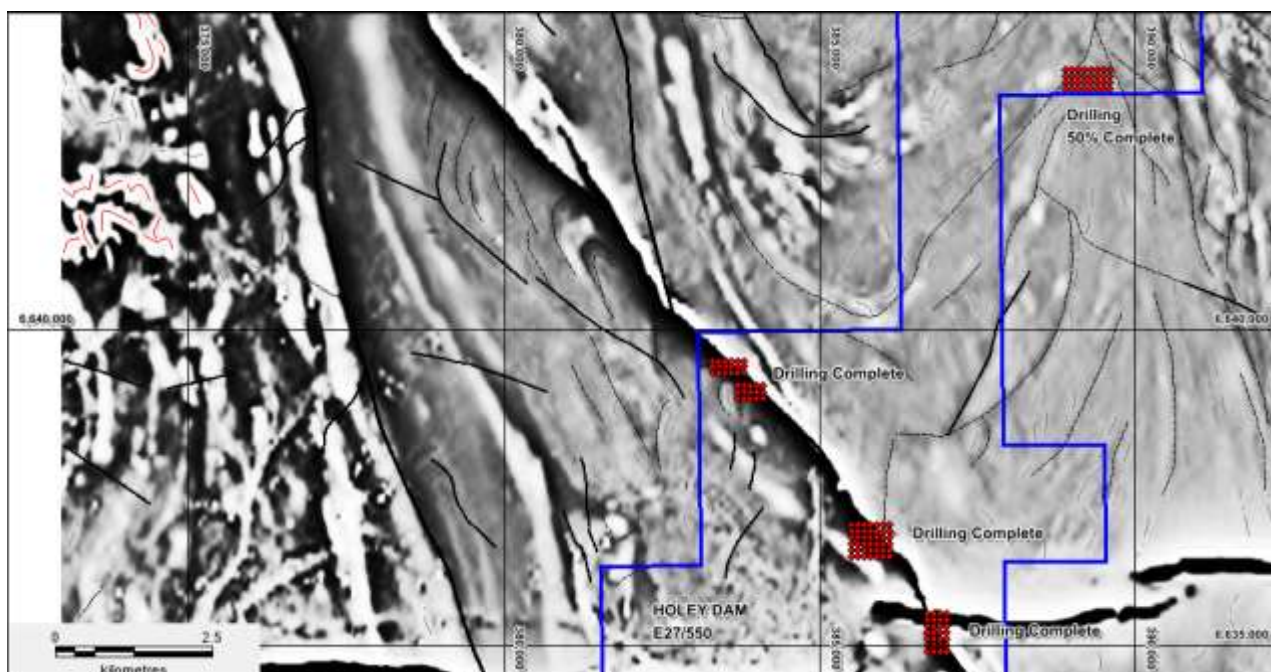


Figure 7: *Holey Dam Tenement – Proposed vacuum drill holes showing completion status*

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

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.

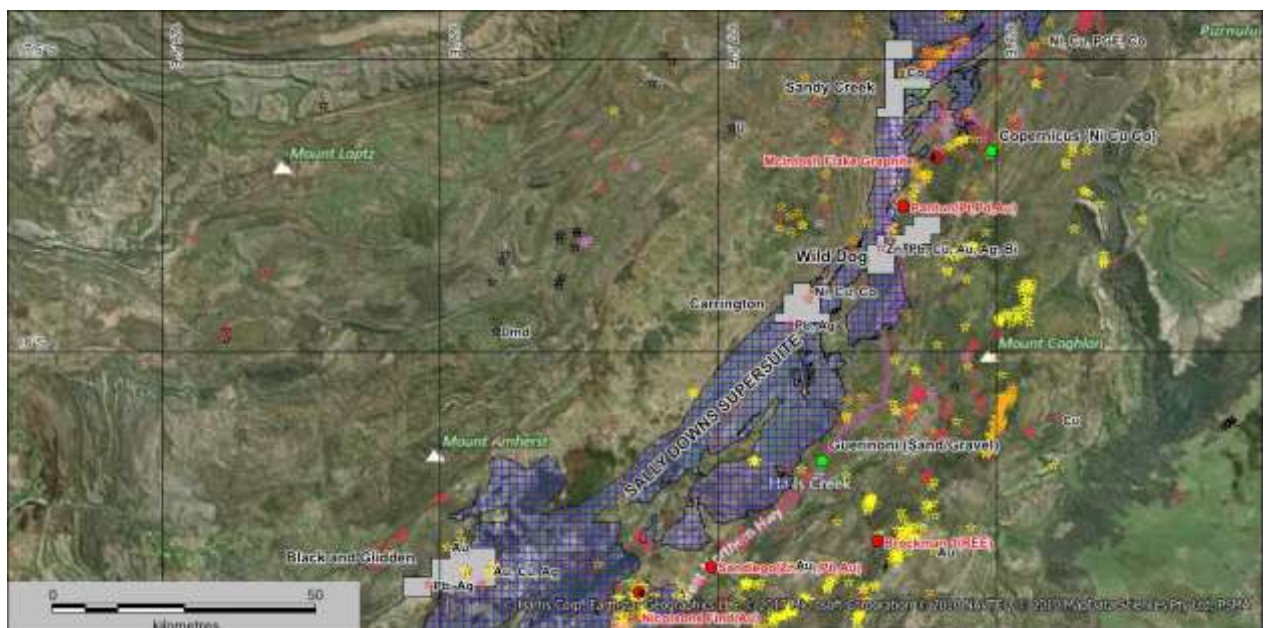
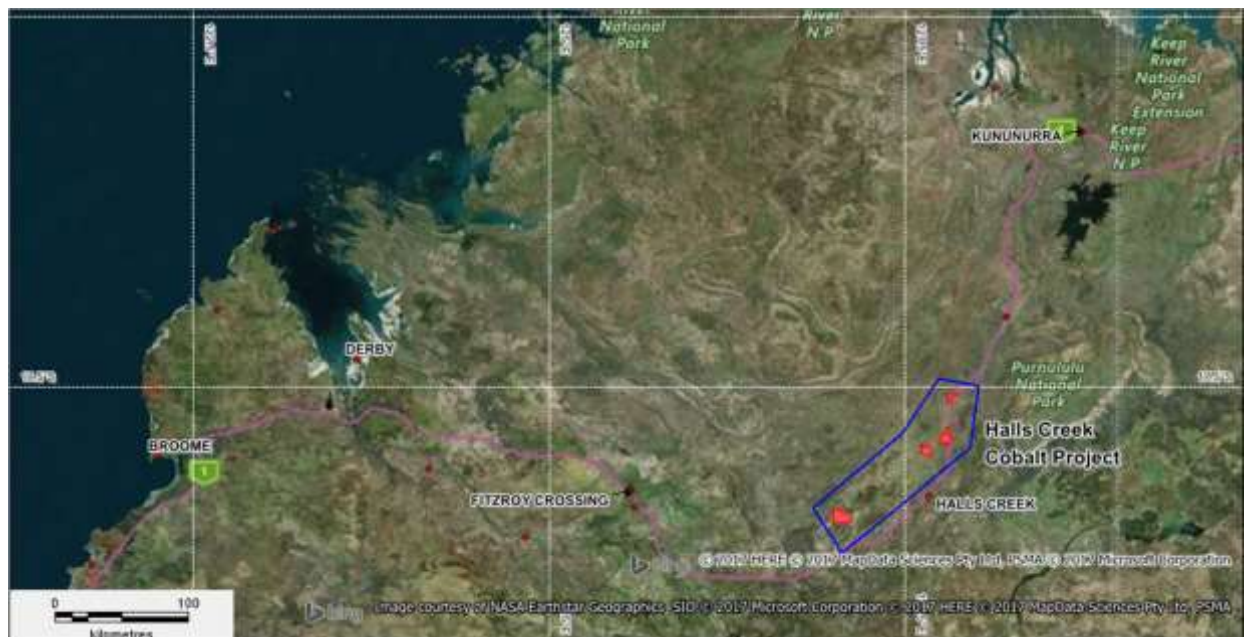


Figure 8: Halls Creek project showing the 4 tenements located adjacent to the town of Halls Creek.

The Halls Creek Project comprises 4 granted tenements (**Figure 8**) situated within the NE-SW trending Lamboo Province comprising 4 tectonostratigraphic terranes – Western, Central and Eastern. The western terrane is postulated to be an exotic crustal fragment that was accreted to the Kimberley Craton before 1900 Ma via north- westerly directed subduction. Easterly directed subduction led to the development of an oceanic arc at c. 1865 Ma, outboard of the Kimberley Craton; this initiated the formation of the Central Zone. Eastern Zone rocks are associated with a passive continental margin linked to the North Australian Craton. The Central

Terrane comprises a broad suite of felsic to lesser mafic rocks, the Sally Downs Supersuite within which occurs a subsuite of gabbro to norite dominated rocks known as the Sally Malay and McIntosh Suites. The Sally Malay nickel-copper sulphide deposit lies at the base of a small layered intrusion enclosed within granulite facies garnet-cordierite paramigmatites and mafic granulates norite which host most of the mineralization are interpreted as a chilled border zone to the intrusion, into which settled an early separated sulphide liquid. The Hall Creek Project is situated primarily within gabbro to norite rocks of the McIntosh Suite.

Highly regarded WA based geophysical consultancy Southern Geoscience Consultants (“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.

Black and Glidden E08/5112

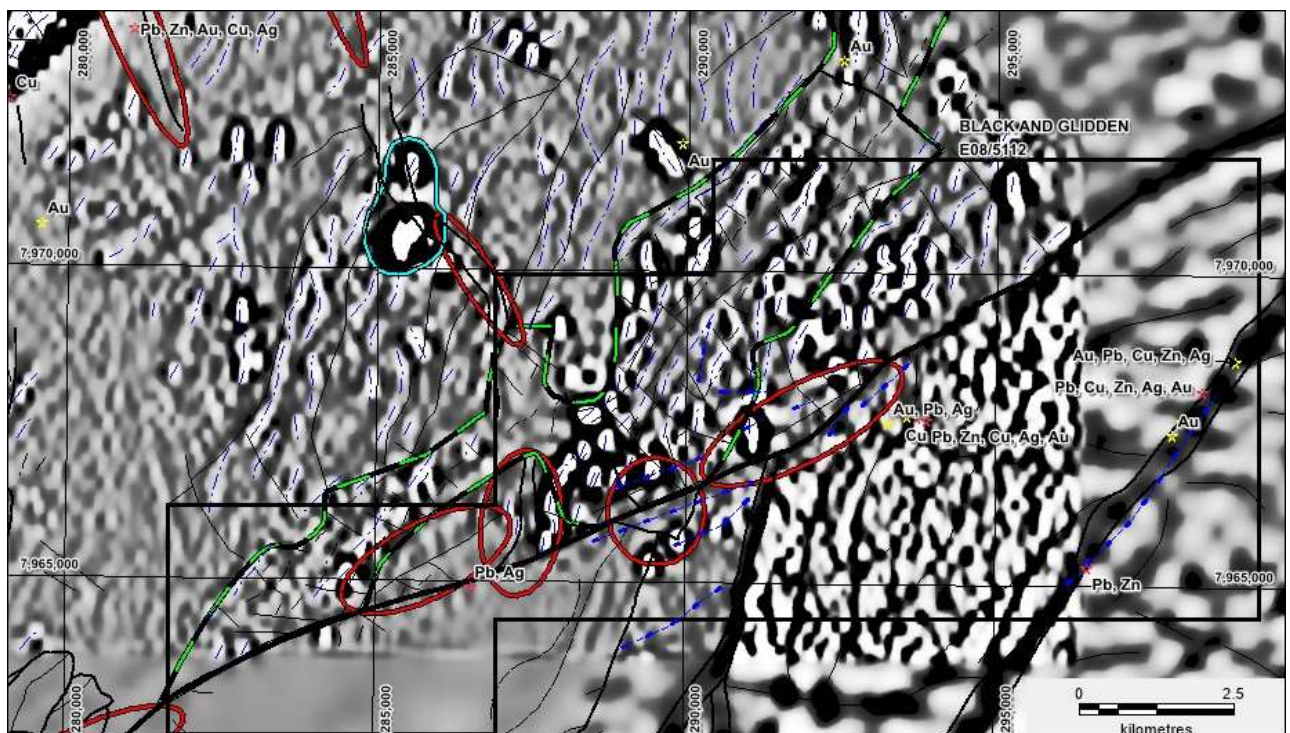


Figure 9: Black and Glidden tenement showing 2VD aeromagnetics, structures and targets

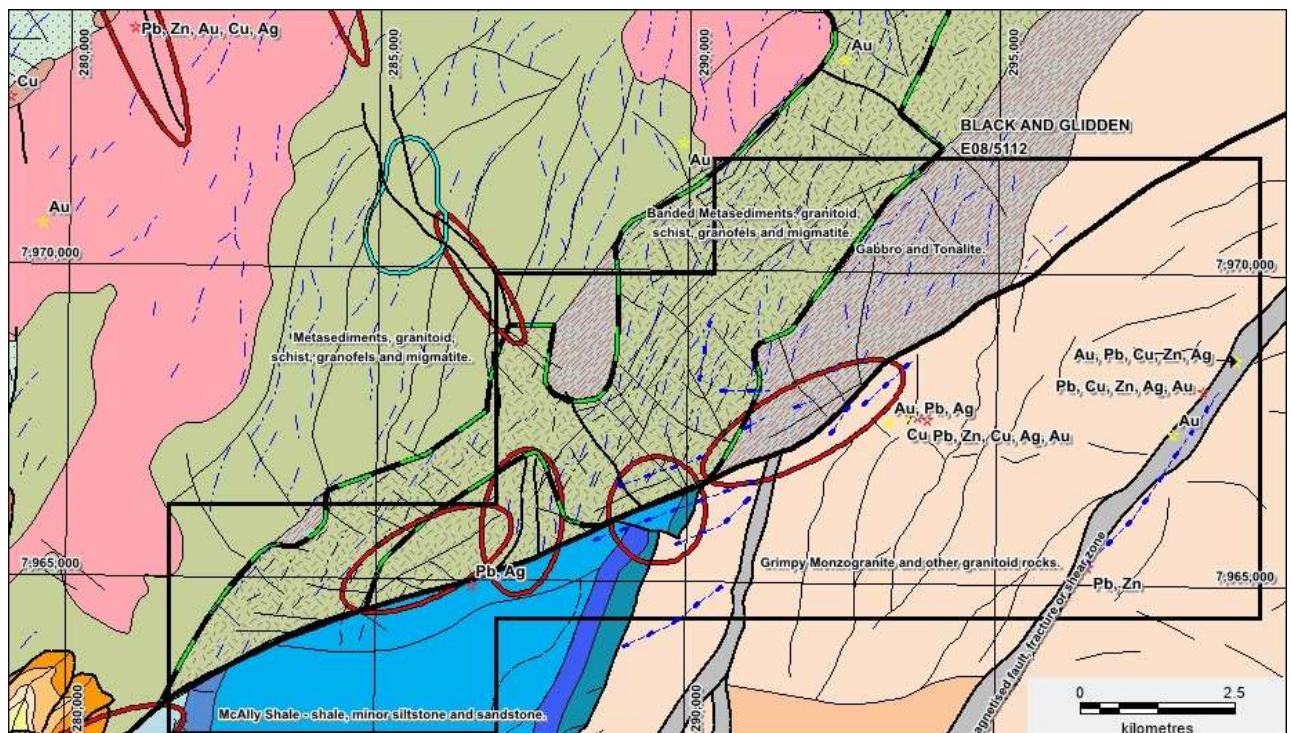


Figure 10: Black and Glidden tenement showing interpreted geology, structures and targets

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 9 and 10** with the main focus being structurally hosted Au mineralisation. There has been no historical drill testing of the Black and Glidden tenement.

Carrington E08/5113

The Carrington tenement (**Figures 11 and 12**) comprises primarily the McIntosh gabbro/norite which is the main Co/Ni target for the Group 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 13**.

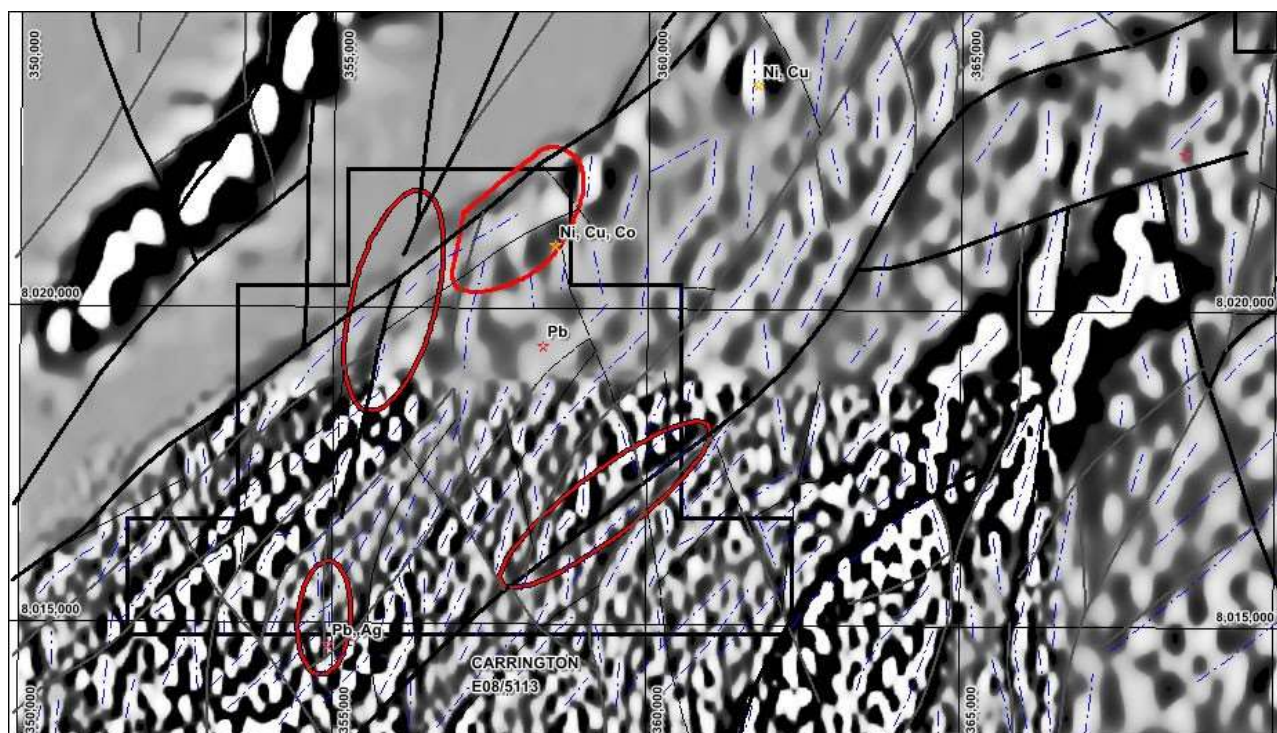


Figure 11: Carrington tenement showing 2VD aeromagnetics, structures and targets

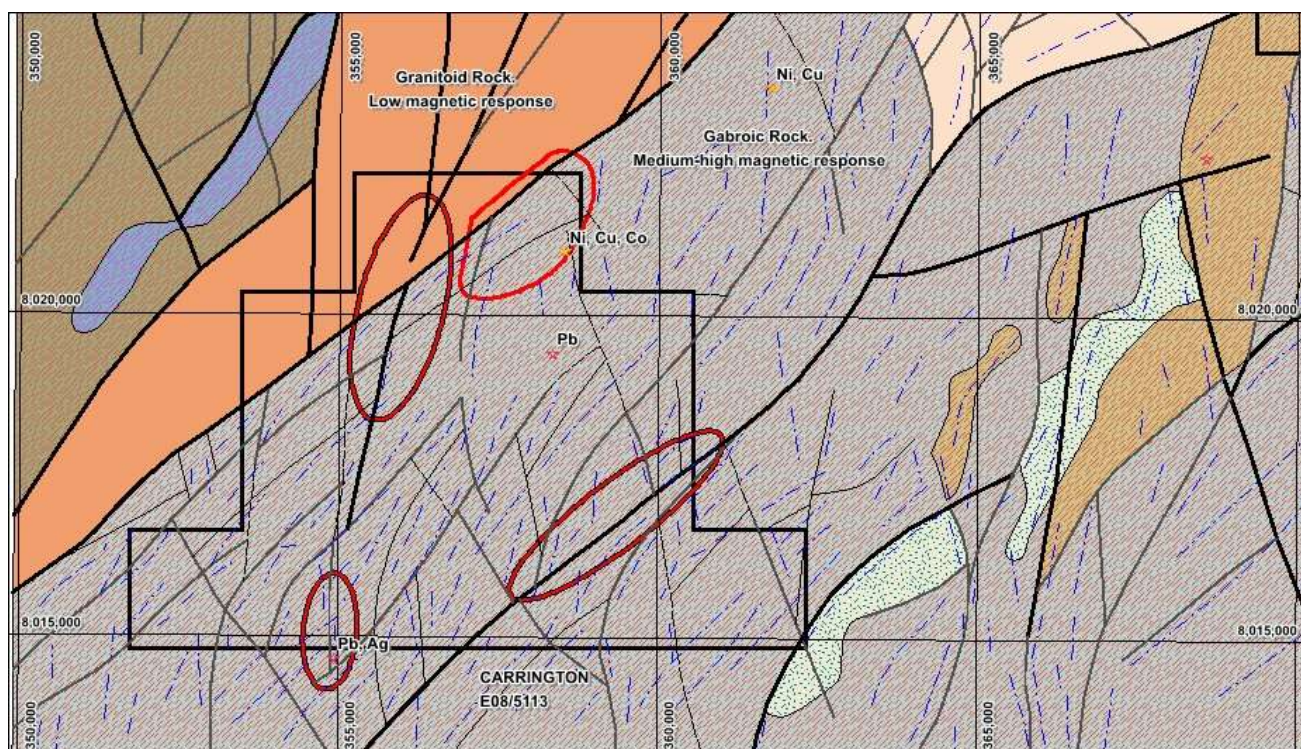


Figure 12: Carrington tenement showing interpreted geology, structures and targets

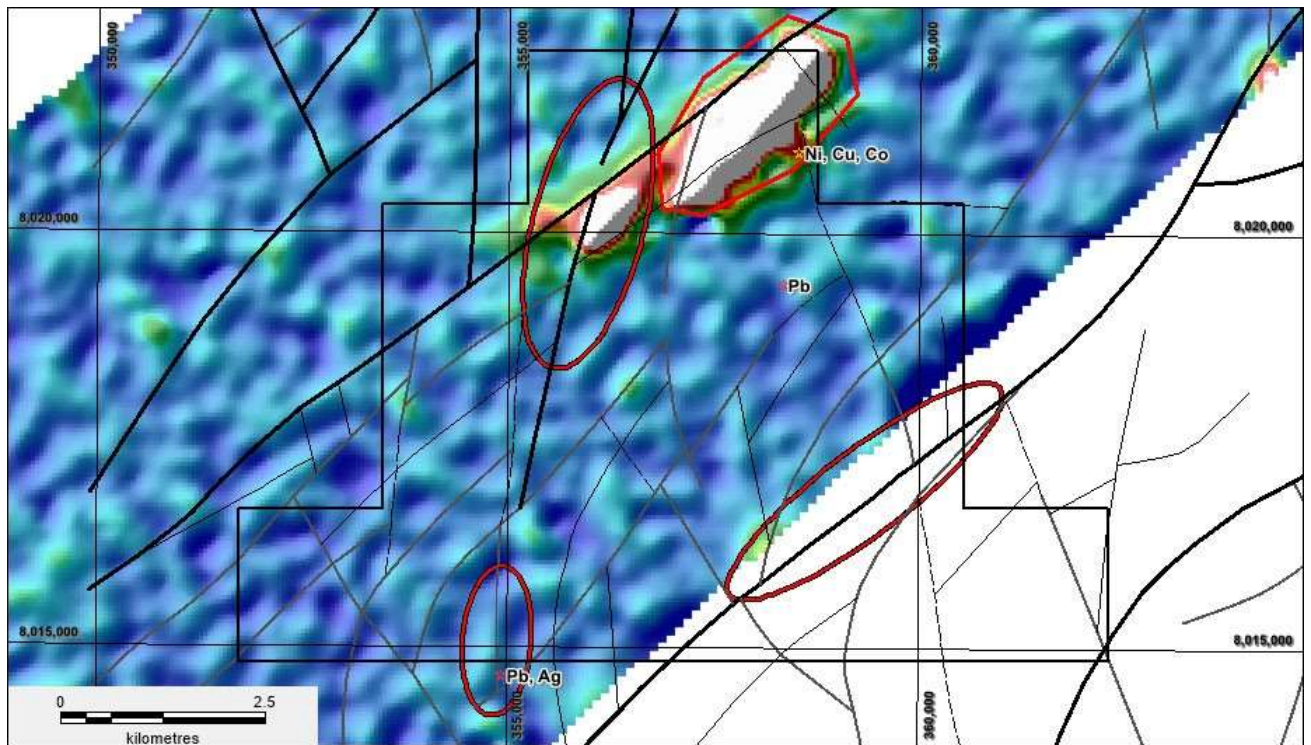


Figure 13: Carrington tenement showing airborne EM image and conductive feature in the north

Wild Dog E08/5114/Sandy Creek E08/5115

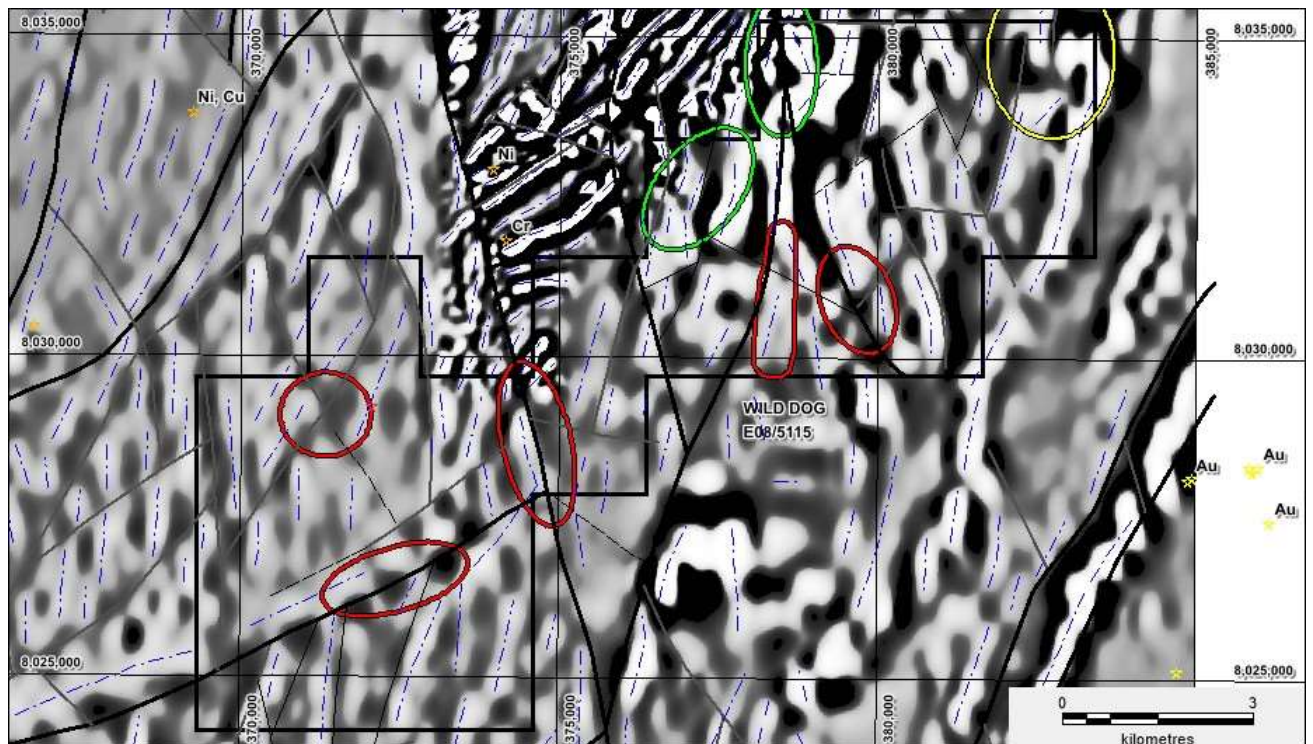


Figure 14: Wild Dog tenement showing 2VD aeromagnetics and target areas

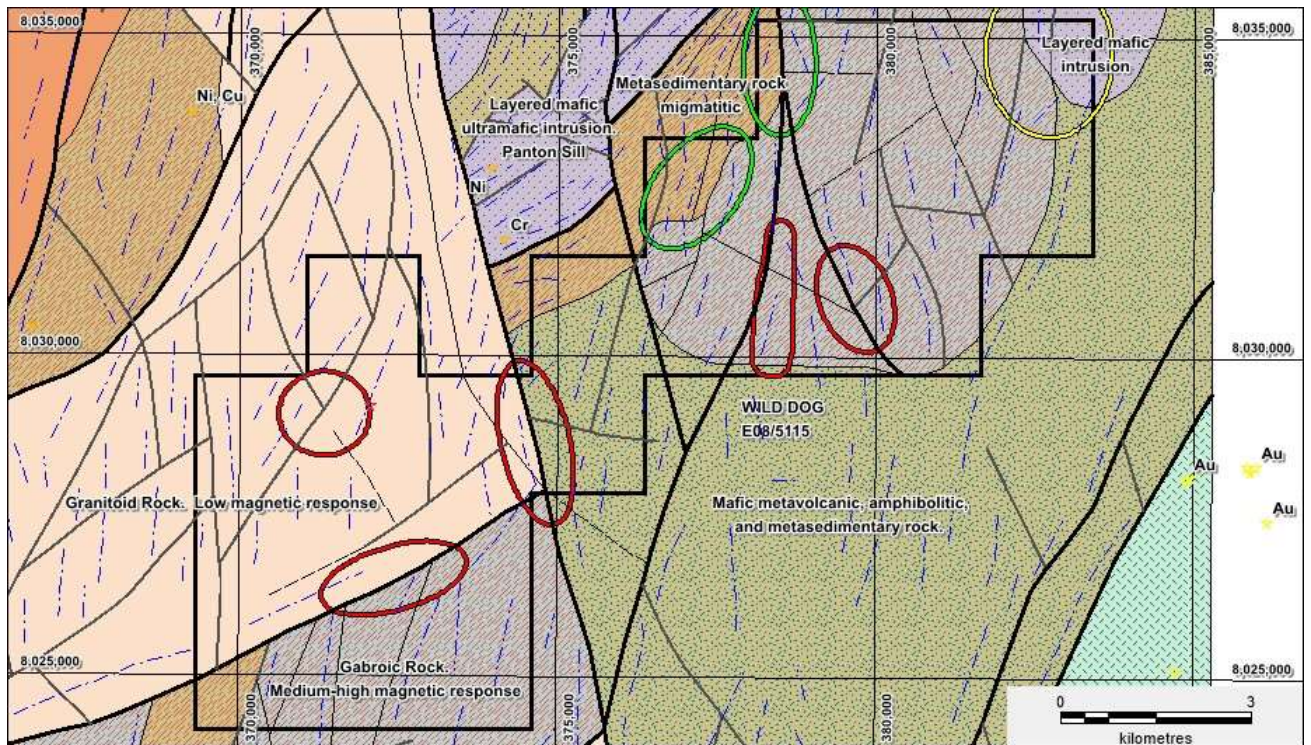


Figure 15: Wild Dog tenement showing interpreted solid geology, structures and target areas

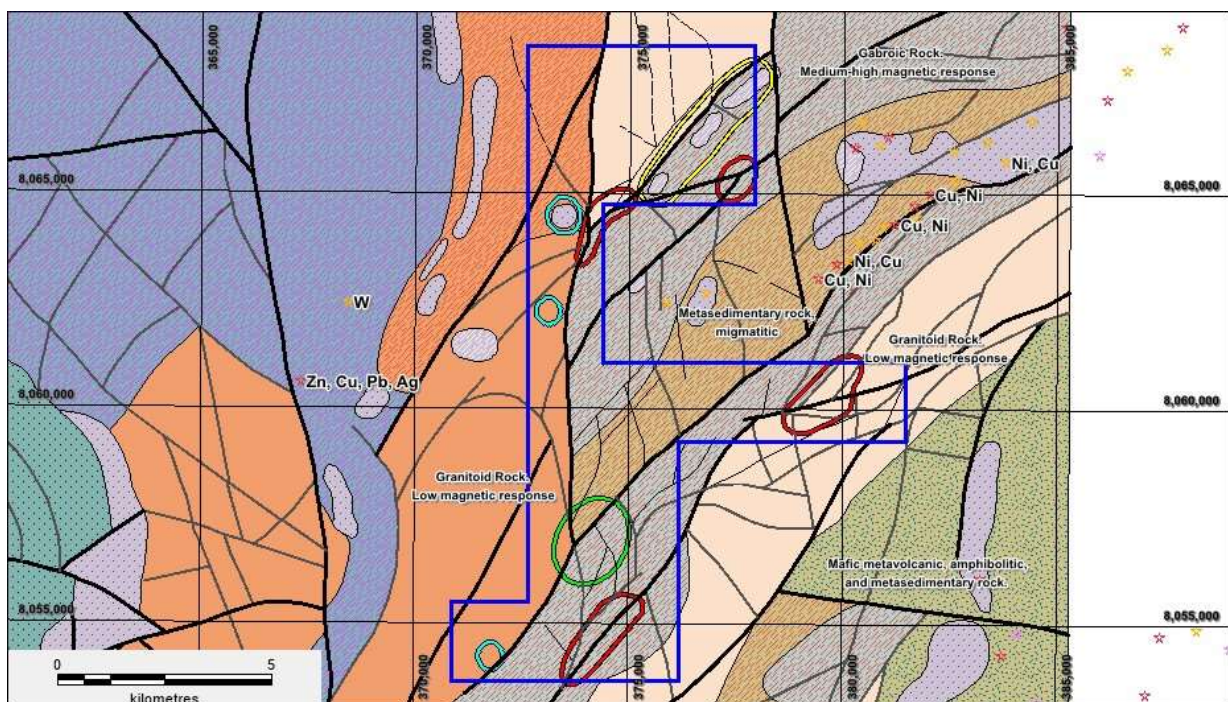


Figure 16: Sandy Creek tenement showing interpreted solid geology, structures and target areas

The Wild Dog and Sandy Creek tenements (**Figures 14 to 16**) 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.

The Phase 1 exploration program will comprise helicopter supported surficial geochemical sampling and geological mapping of the 4 Halls Creek tenements

QUEENSLAND

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 77km and from there the heavy haulage rail system can transport coal for export through the Port of Brisbane for 145km (**Figure 17**).



Figure 17: Maryvale Project Location Map

TABLE 2: INFERRED (ISG) RESOURCE ESTIMATE

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

TABLE 3: EXPLORATION TARGET OPEN-CUT AND ISG ESTIMATES

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

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.

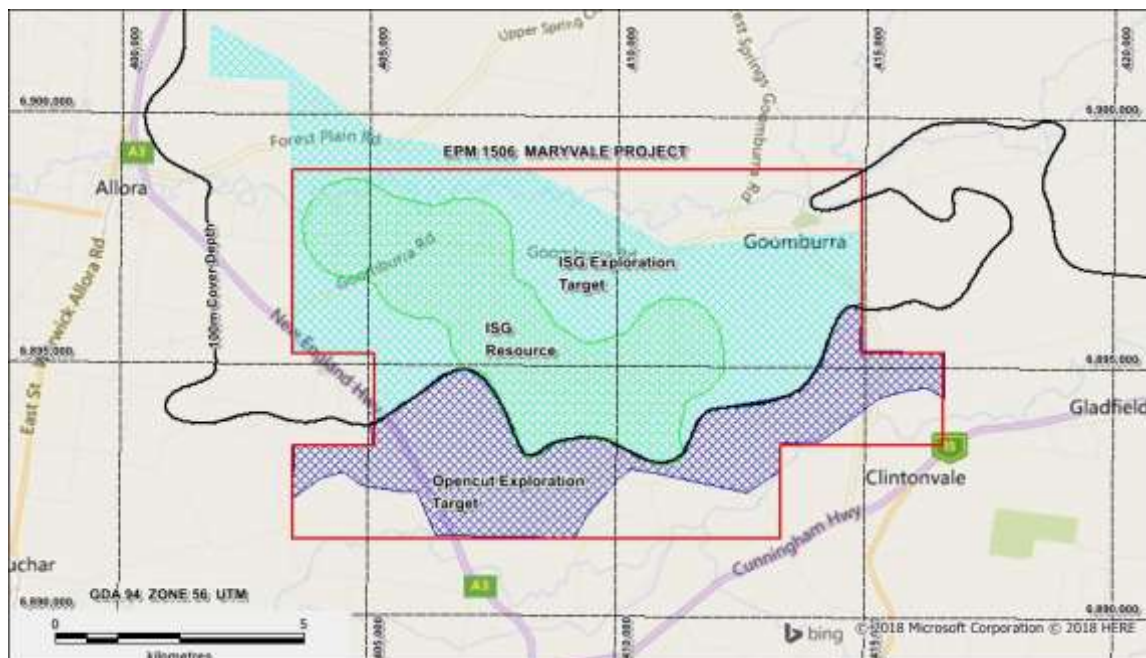


Figure 18: Maryvale Project showing the ISG Resource and Exploration Targets

There was no field based exploration in the half 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 Kaili 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”

LICENCES STATUS

Minerals tenements and their locations held at the end of the Half Year 2019 are set out in Table 4 below. There was no acquisition or disposal or change in beneficial interests under farm-in or farm-out agreements during the half year.

| 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 | |

Table 4: Tenement schedule

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.

CORPORATE AND FINANCIAL

Corporate

On 9 August 2019, the Company appointed Mr Long Zhao as an executive director.

Performance

The operating loss of the Group for the half-year ended 30 June 2019 was \$694,561 (2018: \$402,844).

Financial Position

Cash at 30 June 2019 was \$1,015,190 (31 December 2018: \$1,977,022). Current assets, held mainly in cash, decreased from \$2,085,315 at 31 December 2018 to \$1,097,813 at 30 June 2019 with the Group funding operations for the period from its cash resources.

Total liabilities increased by \$972,392 to \$1,746,744 at 30 June 2019 mainly due to the application of the new accounting standard AASB 16 Leases effective 1 January 2019.

Net assets decreased from \$2,771,835 at 31 December 2018 to \$2,077,274 at 30 June 2019.

Cash Flows

Operating activities resulted in net outflow of \$390,916 (2018: outflow \$407,745) as the Group is still in the exploration phase with no revenue from its principal activities. Net cash used in investing activities was \$510,041 (2018: \$93,954) with the Group spending on exploration and evaluation projects and plant and equipment.

STRATEGY AND PROSPECTS FOR FUTURE

The Company's plan is to continue to focus on resources exploration in its granted tenements, in particular coal, gold and iron tenements. The future prospects of the Company are dependent on the exploration success within its tenements. However, no indication as to likely results in the future can be given due to the uncertainties usually associated with exploration activities.

The Company will also be seeking new ventures for investment to spur growth and with potential to generate cash flows early.

DIRECTORS' REPORT

The Directors of Kaili Resources Limited submit the financial report of the consolidated group for the half-year ended 30 June 2019.

Directors

The names of Directors who held office during or since the end of the half-year are:

Donghai Zhang - Chairman
Chunlin Liu
Jing Li
Jianzhong Yang
Long Zhao (appointed on 12 August 2019)

Operating Results

Total comprehensive loss for the half-year ended 30 June 2019 was \$694,561 (2018: loss \$402,844).

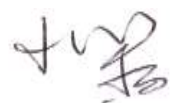
Review of Operations

A review of operations for the half-year ended 30 June 2019 is set out on pages 3 to 19.

Auditor's Independence Declaration

The auditor's independence declaration under section 307C of the Corporations Act 2001 is set out on page 21, and forms part of this Directors' Report.

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



Long Zhao
Director

Dated this 12th day of September 2019

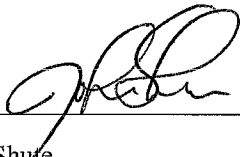
**Kaili Resources Limited
And Controlled Entities**

**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 and Controlled Entities for the half year ended 30 June 2019 there has been:

- a) no contraventions of the 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 6th September 2019

**Independent Auditors' Report on Review of Condensed Consolidated
Interim Financial Statements
to the Board of Directors of
Kaili Resources Limited And Controlled Entities
(Incorporated in Bermuda with limited liability)**

Introduction

We have reviewed the condensed financial report of Kaili Resources Limited (the "Company") and the subsidiaries (together "the Group") set out on pages **24 to 32**, which comprises the consolidated statement of financial position as of 30 June 2019, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of financial position, the consolidated statement of cash flows, the consolidated statement of changes in equity, for the six-months period ended 30 June 2019, and notes to the interim financial statements. The directors of the Company are responsible for the preparation and fair presentation of these interim financial statements in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on these interim financial statements based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements as at 30 June 2019 are not prepared, in all material respects, in accordance with IAS 34 "Interim Financial Reporting".


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JOHN F SHUTE
Chartered Accountant

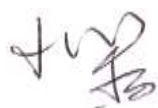
Dated 12th September 2019

DIRECTORS' DECLARATION

In the opinion of the Directors of Kaili Resources Limited:

- a. The consolidated financial statements and notes of Kaili Resources Limited are in accordance with the Corporations Act 2001, including:
 - i Giving a true and fair view of its financial position as at 30 June 2019 and of its performance for the half-year ended on that date; and
 - ii Complying with Accounting Standard AASB 134 Interim Financial Reporting; and
- b. There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors.



Long Zhao
Director

Dated this 12th day of September 2019

**Consolidated Statement of Profit or Loss
and Other Comprehensive Income
For The Half-Year Ended 30 June 2019**

| | Note | 30 June 2019 \$ | 30 June 2018 \$ |
|--|------|--------------------|--------------------|
| Revenue | | | |
| Interest income | | 1,673 | 939 |
| Other income | 6 | 48,250 | - |
| | | <u>49,923</u> | <u>939</u> |
| Expenses | | | |
| Depreciation expense | | (141,179) | (193) |
| Employee benefits expense | | (162,506) | (270,449) |
| Other expenses | 7 | (440,799) | (133,141) |
| Loss before income tax expense | | (694,561) | (402,844) |
| Income tax expense | | - | - |
| Loss for the period | | <u>(694,561)</u> | <u>(402,844)</u> |
| Other comprehensive income | | - | - |
| Other comprehensive income for the period, net of tax | | - | - |
| Total comprehensive loss for the period | | <u>(694,561)</u> | <u>(402,844)</u> |
| Loss attributable to: | | | |
| - members of the Parent Entity | | <u>(694,561)</u> | <u>(402,844)</u> |
| Total comprehensive loss attributable to: | | | |
| - members of the Parent Entity | | <u>(694,561)</u> | <u>(402,844)</u> |
| | | Cents | Cents |
| Earnings per share | | | |
| Basic and diluted loss per share | | <u>(0.47)</u> | <u>(0.41)</u> |

The accompanying notes form part of this financial report.

Consolidated Statement of Financial Position**As At 30 June 2019**

| | | 30 June 2019 | 31 December 2018 |
|---|----|-------------------------|-----------------------------|
| | | \$ | \$ |
| ASSETS | | | |
| CURRENT ASSETS | | | |
| Cash and cash equivalents | | 1,015,190 | 1,977,022 |
| Trade and other receivables | | 21,132 | 43,812 |
| Prepayments | | 36,991 | 53,586 |
| Financial assets | | 24,500 | 10,895 |
| TOTAL CURRENT ASSETS | | 1,097,813 | 2,085,315 |
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | | 143,742 | 103,272 |
| Financial assets | | 235,814 | 2,500 |
| Right-of-use assets | 8 | 813,195 | - |
| Exploration and evaluation expenditure | | 1,533,454 | 1,355,100 |
| TOTAL NON-CURRENT ASSETS | | 2,726,205 | 1,460,872 |
| TOTAL ASSETS | | 3,824,018 | 3,546,187 |
| LIABILITIES | | | |
| CURRENT LIABILITIES | | | |
| Trade and other payables | 9 | 329,645 | 274,352 |
| Provisions | | 10,293 | - |
| Borrowings | 10 | 500,000 | 500,000 |
| Lease liabilities – right-of-use assets | | 309,613 | - |
| TOTAL CURRENT LIABILITIES | | 1,149,551 | 774,352 |
| NON-CURRENT LIABILITIES | | | |
| Lease liabilities – right-of-use assets | | 597,193 | - |
| TOTAL NON-CURRENT LIABILITIES | | 597,193 | - |
| TOTAL LIABILITIES | | 1,746,744 | 774,352 |
| NET ASSETS | | 2,077,274 | 2,771,835 |
| EQUITY | | | |
| Issued capital | | 1,474,004 | 1,474,004 |
| Reserves | | 603,270 | 1,297,831 |
| TOTAL EQUITY | | 2,077,274 | 2,771,835 |

The accompanying notes form part of this financial report.

Consolidated Statement of Changes in Equity

For the Half-Year Ended 30 June 2019

| | Share capital \$ | Share premium \$ | Accumulated losses \$ | Total \$ |
|---|------------------------|---------------------|-----------------------------|-------------|
| Balance at 1 January 2018 | 982,669 | 23,321,106 | (22,344,849) | 1,958,926 |
| Total comprehensive loss for the period | - | - | (402,844) | (402,844) |
| Balance at 30 June 2018 | 982,669 | 23,321,106 | (22,747,693) | 1,556,082 |
| Balance at 1 January 2019 | 1,474,004 | 24,475,363 | (23,177,532) | 2,771,835 |
| Total comprehensive loss for the period | - | - | (694,561) | (694,561) |
| Balance at 30 June 2019 | 1,474,004 | 24,475,363 | (23,872,093) | 2,077,274 |

The accompanying notes form part of this financial report.

Consolidated Statement of Cash Flows

For the Half-Year Ended 30 June 2019

| | 30 June 2019 \$ | 30 June 2018 \$ |
|--|--------------------|--------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Payments to suppliers and employees | (390,916) | (407,745) |
| Net cash outflow from operating activities | <u>(390,916)</u> | <u>(407,745)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Payments for exploration and evaluation expenditure | (183,058) | (94,893) |
| Receipt from Exploration Incentive Scheme (WA) co-funding | 48,250 | - |
| Payments for security deposits | (222,919) | - |
| Purchase of plant and equipment | (153,987) | - |
| Interest received | 1,673 | 939 |
| Net cash outflow from investing activities | <u>(510,041)</u> | <u>(93,954)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Payments for lease liabilities | (45,710) | - |
| Capital raising costs | (15,187) | - |
| Net cash outflow from financing activities | <u>(60,897)</u> | <u>-</u> |
| Net decrease in cash held | (961,854) | (501,699) |
| Cash and cash equivalents at the beginning of period | 1,977,022 | 1,135,682 |
| Effect of exchange rates on cash holding in foreign currencies | 22 | 544 |
| Cash and cash equivalents at the end of period | <u>1,015,190</u> | <u>634,527</u> |

The accompanying notes form part of this financial report.

Notes to Financial Statements For the Half-Year Ended 30 June 2019

Note 1 – Nature of operations

Kaili Resources Limited and subsidiaries' (the Group) principal activities consisted of investment in exploration for coal, energy, gold, iron and other resources.

Note 2 – General information and basis of preparation

The condensed interim consolidated financial statements ('the interim financial statements') of the Group are for the six months ended 30 June 2019 are presented in Australian dollar (\$), which is the functional currency of the Parent Company. These general purpose interim financial statements have been prepared in accordance with the requirements of the *Corporations Act 2001* and AASB 134: *Interim Financial Reporting*. They do not include all of the information required in annual financial statements in accordance with Australian Accounting Standards, and should be read in conjunction with the consolidated financial statements of the Group for the year ended 31 December 2018 and any public announcements made by the Group during the half-year in accordance with continuous disclosure requirements arising under the Australian Securities Exchange Listing Rules and the *Corporations Act 2001*.

The interim financial statements have been approved and authorised for issue by the Board of Directors on 12 September 2019.

Note 3 – Significant accounting policies

The interim financial statements have been prepared in accordance with the same accounting policies adopted in the Group's last annual financial statements for the year ended 31 December 2018.

New or amended Accounting Standards and Interpretations adopted

The Group has adopted all of the new and amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ("AASB") that are mandatory for the current reporting period.

AASB 16 Leases

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

Notes to Financial Statements For the Half-Year Ended 30 June 2019

Right-of-use assets

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the Group expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of-use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

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.

Lease liabilities

A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that cannot be readily determined, the Group's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of-use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

Note 4 – Going Concern

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. At balance date the Group had current assets of \$1,097,813 including total cash of \$1,015,190, current liabilities of \$1,149,551 (including current lease liabilities under AASB 16 of \$309,613) and has incurred a net loss of \$694,561 in the period. In addition, the Group has an unfulfilled expenditure requirement under its exploration licences of \$490,000 for the next 12 months.

Notwithstanding the net loss for the period, 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.

Although the Group is still planning to undertake exploration activities on its various licences, it has currently budgeted for those amounts that satisfy the committed exploration expenditure and that the financial position of the Group allows. Consistent with the nature of the Group's activities, the

Notes to Financial Statements For the Half-Year Ended 30 June 2019

continuing viability of the Group and its ability to continue as a going concern, its ongoing investment of funds into exploration projects and ability to meet its commitments as and when they fall due is dependent upon one or a combination of the following alternatives:

- undertake further capital raisings
- entering into joint ventures for the potential development of the projects
- obtaining debt.

Note 5 – Estimates

When preparing the interim financial statements, management undertakes a number of judgements, estimates and assumptions about recognition and measurement of assets, liabilities, income and expenses. The actual results may differ from the judgements, estimates and assumptions made by management, and will seldom equal the estimated results.

The judgements, estimates and assumptions applied in the interim financial statements, including the key sources of estimation uncertainty were the same as those applied in the Group's last annual financial statements for the year ended 31 December 2018.

| | 30 June 2019 | 30 June 2018 |
|--|---------------------|---------------------|
| | \$ | \$ |
| Note 6 – Other income | | |
| Exploration Incentive Scheme (WA) co-funding | 48,250 | - |

Note 7 – Other expenses from ordinary activities

| | | |
|---|----------------|----------------|
| Accounting and tax fees | 45,952 | 31,865 |
| Audit fees | 4,950 | 5,700 |
| Bank charges | 5,697 | 1,122 |
| Share registry | 4,935 | 4,325 |
| Legal, professional and consulting fees | 42,996 | 23,640 |
| Lease interest | 42,358 | - |
| Rental expenses | 181,443 | 22,239 |
| Fees and charges | 24,868 | 17,149 |
| Printing and stationery | 4,551 | 276 |
| Travel & accommodation | 33,607 | 6,699 |
| Other | 49,442 | 20,126 |
| | <u>440,799</u> | <u>133,141</u> |

Notes to Financial Statements For the Half-Year Ended 30 June 2019 (continued)

| | 30 June 2019 | 31 December 2018 |
|--|-------------------------|-----------------------------|
| | \$ | \$ |
| Note 8 –Right-of-use assets - Non-current | | |
| Land and buildings – right-of-use | 944,355 | - |
| Less: Accumulated depreciation | (131,160) | - |
| | <u>813,195</u> | <u>-</u> |

During the half-year the Company contracted a lease of office premises for a term of 3 years.

Note 9 – Trade and other payables - Current

| | | |
|---------------------------------------|----------------|----------------|
| Trade and other payables | 14,345 | 41,199 |
| Amount owing to director ¹ | 203,778 | 110,000 |
| Accrued expenses | 111,522 | 123,153 |
| | <u>329,645</u> | <u>274,352</u> |

¹ During the period, Director Jianzhong Yang made payments of \$203,778 for the short-term lease of accommodation and related expenses on behalf of the Company. The amount has not been reimbursed at balance date.

Note 10 – Borrowings - Current

| | | |
|-------------------------------------|----------------|----------------|
| Unsecured loan from a related party | <u>500,000</u> | <u>500,000</u> |
|-------------------------------------|----------------|----------------|

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

Note 11 – Earnings per share

Both the basic and diluted earnings per share have been calculated using the loss attributable to shareholders of the Parent Company as the numerator i.e. no adjustments to profits were necessary for the six month period to 30 June 2019 and 2018.

Note 12 – Operating segments

The Group has identified its operating segments based on internal reports that are reviewed and used by the Board of Directors in assessing performance and determining the allocation of resources. The Group has identified its operating segment as the Mining Sector in Australia. All segments assets, segment liabilities and segment results relate to the one business segment and therefore no segment analysis has been prepared. This position has not changed from the prior period.

Notes to Financial Statements For the Half-Year Ended 30 June 2019(continued)**Note 13 – Commitments****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 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:

| | 30 June 2019 | 30 June 2018 |
|---|---------------------|---------------------|
| | \$ | \$ |
| Within twelve months | 490,000 | 263,000 |
| Twelve months or longer and not longer than 5 years | 659,000 | 797,000 |
| | <u>1,149,000</u> | <u>1,060,000</u> |

The Group has obligations to restore land and rehabilitate areas disturbed during exploration. Cash deposit of \$2,500 (2018: \$2,500) has been provided as security for compliance with the conditions of the tenements.

Note 14 - Contingent Liabilities

At balance date, the Group has given guarantees totalling \$40,000 for compliance with the conditions of the exploration licences granted in Western Australia.

Note 15 – Events after Balance Date

In the opinion of the Directors, no items, transactions or events of a material or unusual nature have arisen in the interval between the end of the financial period and the date of this report which have significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in subsequent financial years.