

**KAILI RESOURCES LIMITED
AND CONTROLLED ENTITIES**

ARBN 077 559 525

**Half-Year Financial Report
30 June 2020**

CONTENTS

	Page
Corporate Directory	2
Review of Operations	3
Directors' Report	21
Auditor's Independence Declaration	23
Independent Auditor's Review Report	24
Directors' Declaration	26
Consolidated Statement of Profit or Loss and Other Comprehensive Income	27
Consolidated Statement of Financial Position	28
Consolidated Statement of Changes in Equity	29
Consolidated Statement of Cash Flows	30
Notes to Consolidated Financial Statements	31

CORPORATE DIRECTORY

Board of Directors

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

Company Secretary

Long Zhao

Registered Office

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Independent Auditor

John Shute
Chartered Accountant
Suite 605
321 Pitt Street
Sydney NSW 2000
Australia

Home Stock Exchange

ASX Limited
20 Bridge St
Sydney NSW 2000
Australia

ASX Code: KLR

Principal Registry and Transfer Office

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

Telephone: +441 295 1111

Branch Share Register and Transfer Office

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

Telephone: +612 8234 5222

Telephone: +612 8234 5050

Representative Office in Australia

Governor Phillip Tower
Suite 3, Level 44
1 Farrer Place,
Sydney NSW 2000
Australia

Telephone: +61 2 9241 5658

Facsimile: +61 2 9283 7166

Website

www.kailigroup.com.au

REVIEW OF OPERATIONS

EXPLORATION HIGHLIGHTS

Yilgarn (Gindalbie) Gold Project in Western Australia

- 50 drill collar and siter pegs established in June 2020 for RAB drilling planned for September 2020 at Canegrass and Holey Dam tenements.
- Heritage survey completed and the drilling program will not affect any cultural sites.

Halls Creek Gold/Cobalt/Base Metals Project in Western Australia

- The planned program for the tenements which are within the Western Australian Kimberley Biosecurity Area cannot proceed until after the COVID-19 related access restrictions to the area are lifted and the forthcoming wet season.

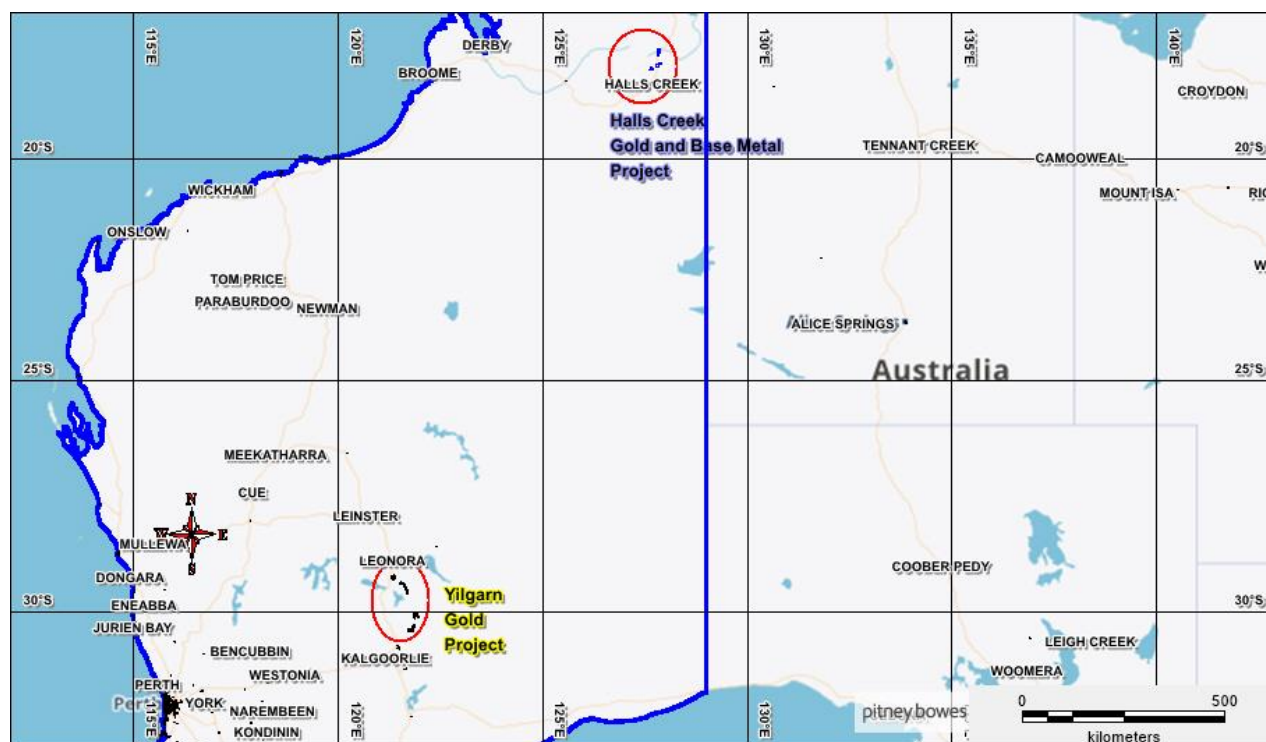


Figure 1: Kaili Resources granted project locations

PROJECT LOCATION	TENEMENT AREA IN SUB BLOCKS	TENEMENT AREA IN KM ²
Western Australia	222	710.4

Table 1: Kaili Resources granted tenement areas, all held 100%.

The km² has been calculated at approximately 3.2 km² per block.

REVIEW OF OPERATIONS (continued)

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

E40/354 (8 Mile Dam), E31/1114-I (Jungle Hill), E31/1113 (Canegrass), E27/550 (Holey Dam) and E27/549 (Gindalbie Dam) are held 100% by wholly owned subsidiary Kaili Gold Pty Ltd. All tenements are granted (Figures 2 and 3).

The Yilgarn Craton is one of the premier gold regions in the world and hosts numerous multimillion ounce gold mines and deposits. 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.

The Group's 5 tenements are at 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.

Canegrass and Holey Dam Drilling Programs



Figure 2: Kaili Resources Yilgarn Craton Projects Locations

REVIEW OF OPERATIONS (continued)

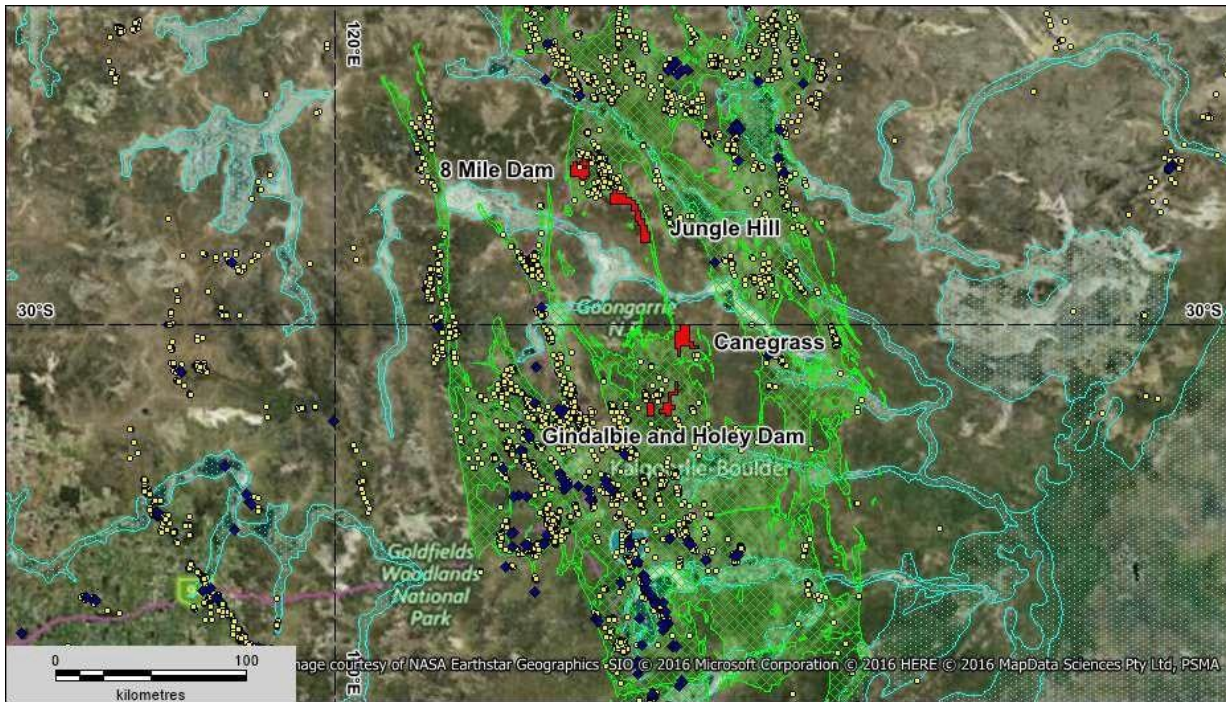


Figure 3: Satellite Image with Eastern Goldfields Superterrane (green hatching) and Kaili Gold tenements in red.
Blue diamonds are operating mines of third parties and yellow dots are gold occurrences reported by other explorers

During the second half of 2019, after completion of a heritage survey within the Canegrass (E31/1113) and Holey Dam (E27/550) tenements a shallow drilling program was carried out using a Pathfinder/Strataprobe Vacuum drilling rig representing a relatively light weight drilling solution, particularly for reliable geochemical sampling.

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. The results delineated areas of interest for RAB drilling and deeper drilling within both Holey Dam and Canegrass tenements.

The Group had planned for the RAB drilling program in the March 2020 quarter. Unfortunately, as the Covid-19 virus spread in Australia and overseas into a pandemic from March 2020 travel restrictions were imposed throughout Australia with the borders of Western Australia closed to non-residents of the State. The program had to be postponed until such time that the Group's Consultant Geologist can travel from Sydney to WA to oversee the drilling.

In early June 2020 as the WA border remained closed to non-residents of the State with no indication on timing of relaxation. In order to avoid indefinite delays in the exploration program, the Company decided to push forward by engaging a Kalgoorlie based contractor geologist assisted with local crew and a Heritage Survey team to be remotely monitored by the Company's Consultant Geologist and officers based in Sydney.

REVIEW OF OPERATIONS (continued)

On 15 June 2020, the Kalgoorlie based field crew travelled to the Yilgarn (Gindalbie) Gold Project and established collar and siter pegs for 50 proposed air core drill holes at Holey Dam (HDAC001 to HDAC023) and Canegrass (CDAC001 to CGAC027). On 24 June 2020, a Heritage Survey was completed at the Holey Dam and Canegrass tenements and the final report states that there are no cultural issues at any of the sites and that drilling can commence as planned.

The Program of Works (POW) has since been submitted to the WA Department of Mine Industry Regulation and Safety (DMIRS). Following approval the drill sites will be prepared by the Gindalbie Hampton Hill Station owners. Drilling was planned to commence in August 2020 but due to a drilling rig not being available the program is planned to commence in September 2020 subject to any unforeseen events.

The proposed drill areas are shown in **Figure 4** with areas F, B and E situated in Gindalbie Station and area A in Hampton Hill Station.

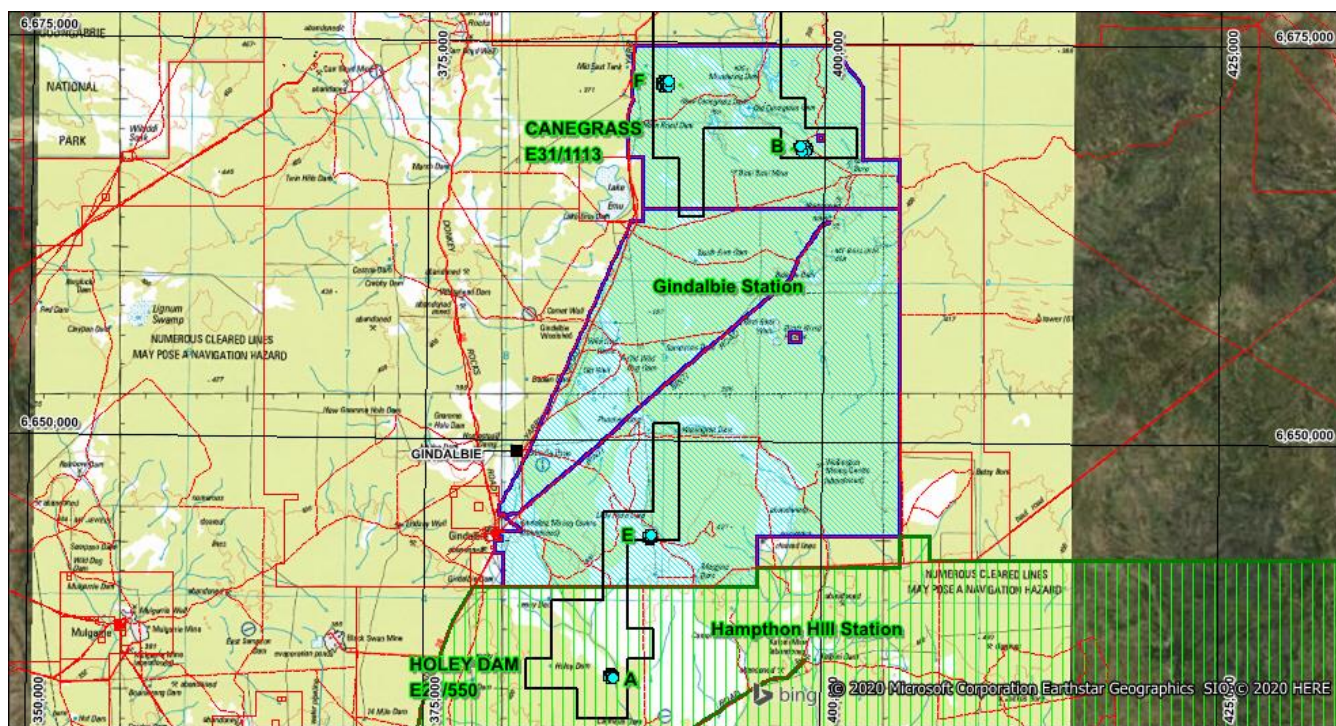


Figure 4: Locations of Holey Dam and Canegrass Proposed Drilling Areas

Canegrass

Drill testing of Area B in 2019 returned elevated gold in the range of 10 to 25 ppb in fold axis/limbs settings (**Figures 5 and 6**). The area produced the highest gold response in the Canegrass vacuum drilling program in 2019 and is one of the areas to be tested by deeper drilling. Areas B and F were highlighted for follow up by the RAB/Aircore drilling.

REVIEW OF OPERATIONS (continued)

Up to 1,000 metres of angled RAB/Aircore drilling is planned within Areas B and F.

Holy Dam

Elevated gold from vacuum drilling in 2019 has been delineated in Areas A and E. Area A is located at the intersection of 2 regional structures, both intruded by Proterozoic dolerite dykes (**Figures 7 and 8**). The intersection of NNW-SSE structures with later E-W structures is a good location for gold mineralisation in the Yilgarn Craton.

Area E is located at the nose of folded/faulted adjacent to felsic volcanics to the west. There was an elevated gold in quartz float result of 0.248 ppm Au from the vacuum drilling in 2019.

The Canegrass and Holy Dam 2019 drill results were contained in the Company's ASX Releases of 12th and 17th September 2019.

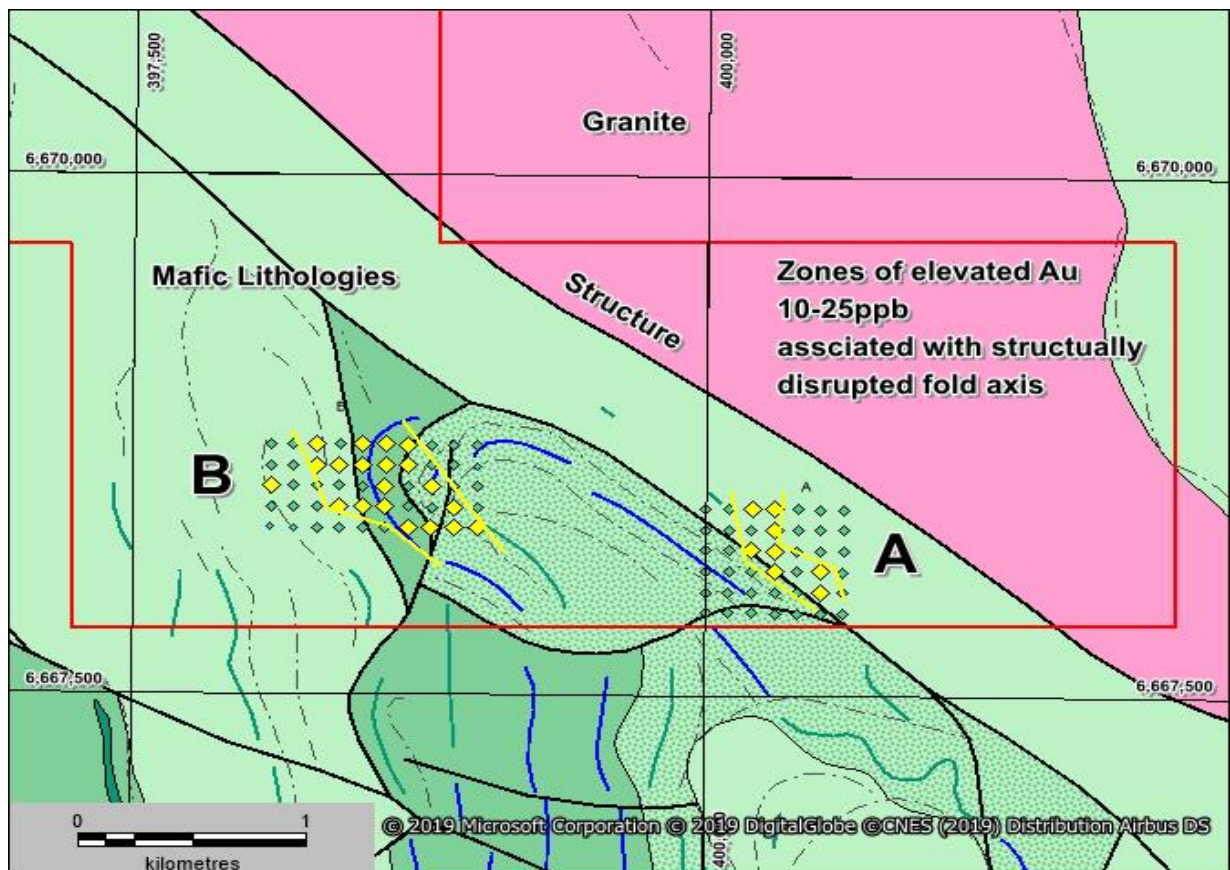


Figure 5: Canegrass Prospect – Areas A and B showing the areas of elevated Au geochemistry. Aircore drilling is planned for Area B initially

REVIEW OF OPERATIONS (continued)

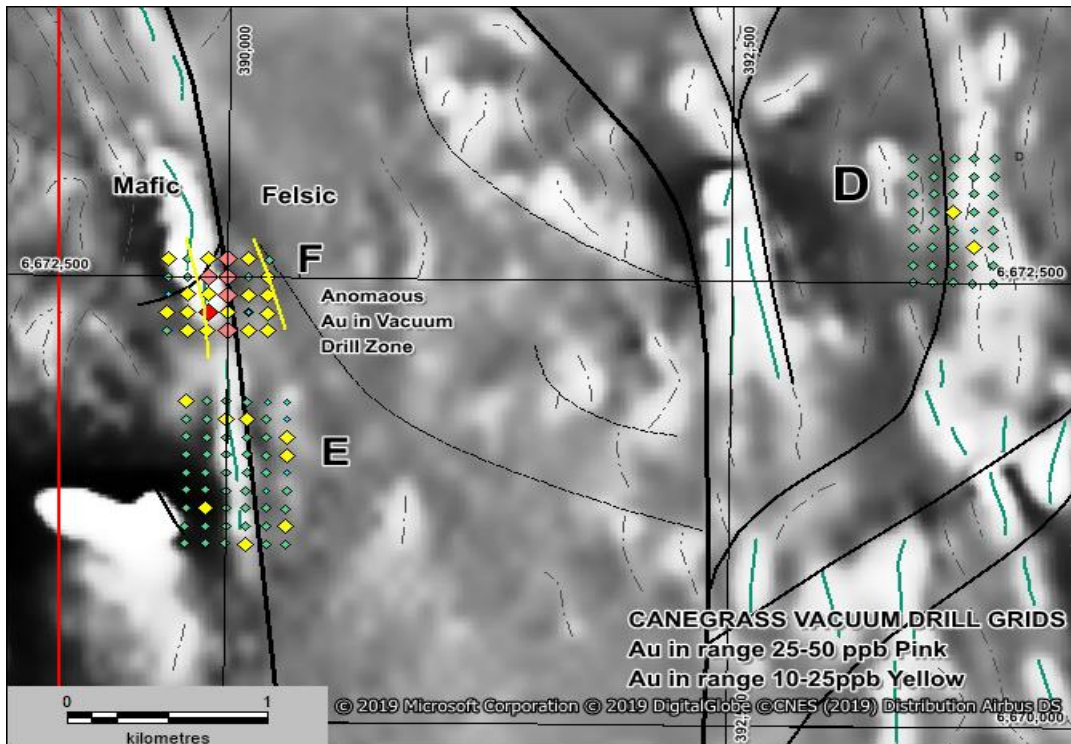


Figure 6: Canegrass Prospect – Areas E and F showing the areas of elevated Au geochemistry. Aircore drilling is planned for Area F initially

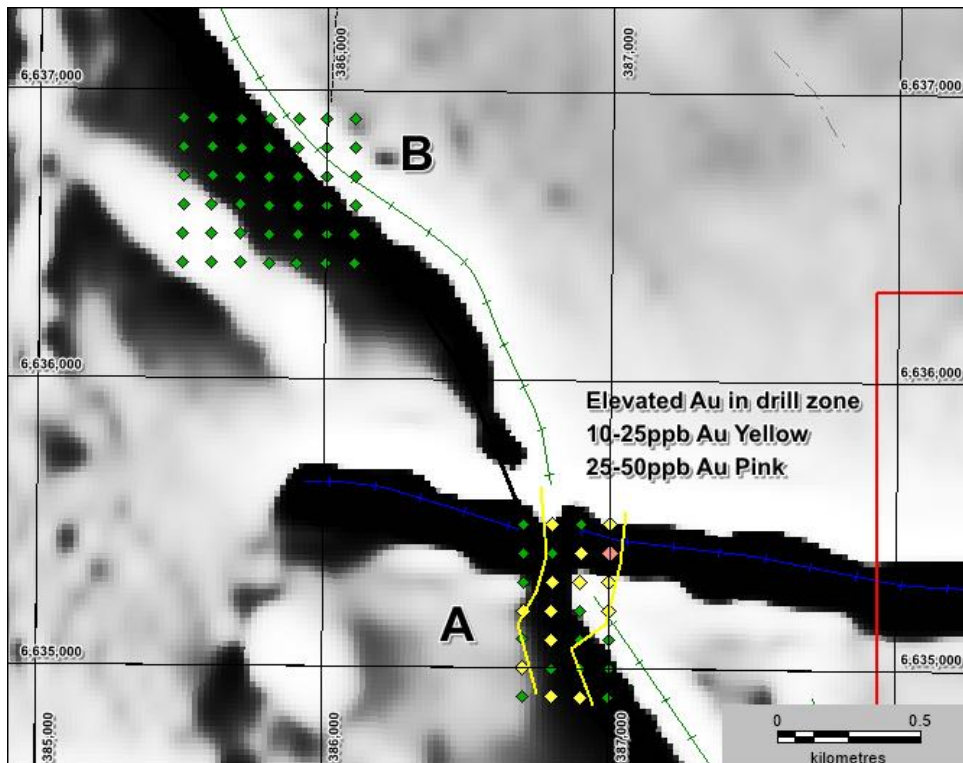


Figure 7: Holey Dam Prospect – Areas A and B showing the areas of elevated Au geochemistry. Aircore drilling is planned for Area A initially

REVIEW OF OPERATIONS (continued)

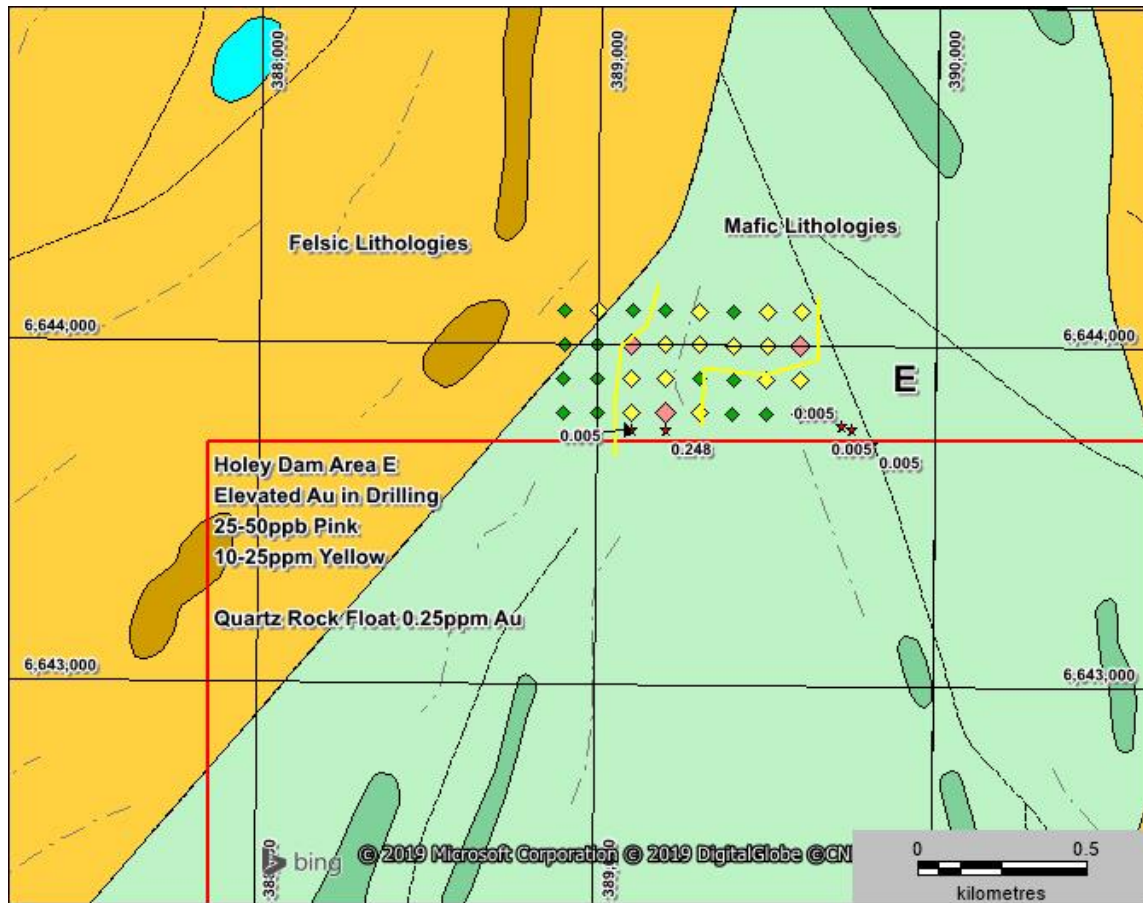


Figure 8: Holely Dam Prospect – Areas E showing the areas of elevated Au geochemistry.

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

E 08/5112, 5113, 5114 and 5115 are held 100% by wholly owned subsidiary Kaili Iron Pty Ltd.

All tenements are granted.

In 2019, geophysical consultancy Southern Geoscience Consultants (“SCG”) completed the acquisition and processing of all available airborne magnetic, radiometric, gravity and electromagnetic data covering the 4 tenements and completed lithostructural targeting for field follow up. Earth-AI has used an Artificial Intelligence approach to merge all publicly available geochemical, geological, and geophysical data to generate targets for fields follow up.

Field work was planned for the March 2020 Quarter. But on 26 March 2020, the Federal Health Minister designated a Western Australian Kimberley Biosecurity Area preventing entry to the area in order to avoid the spread of Covid-19 to the Aboriginal communities. As the tenements E 08/5112, 5113, 5114 and 5115 of the Halls Creek Project are within that area no field work could be carried out as planned. To date the area is still locked down. The timing for

REVIEW OF OPERATIONS (continued)

relaxation of access is highly uncertain and seems unlikely to be soon. Having regards to the expected next regional wet season the Company has postponed the performance of work programs in the area to the second quarter 2021, when hopefully access will be allowed.

The Halls Creek Project comprises 4 granted tenements (**Figure 9**) situated within the NE-SW trending Lamboo Province comprising 4 tectonostratigraphic terranes – Western, Central and Eastern.

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

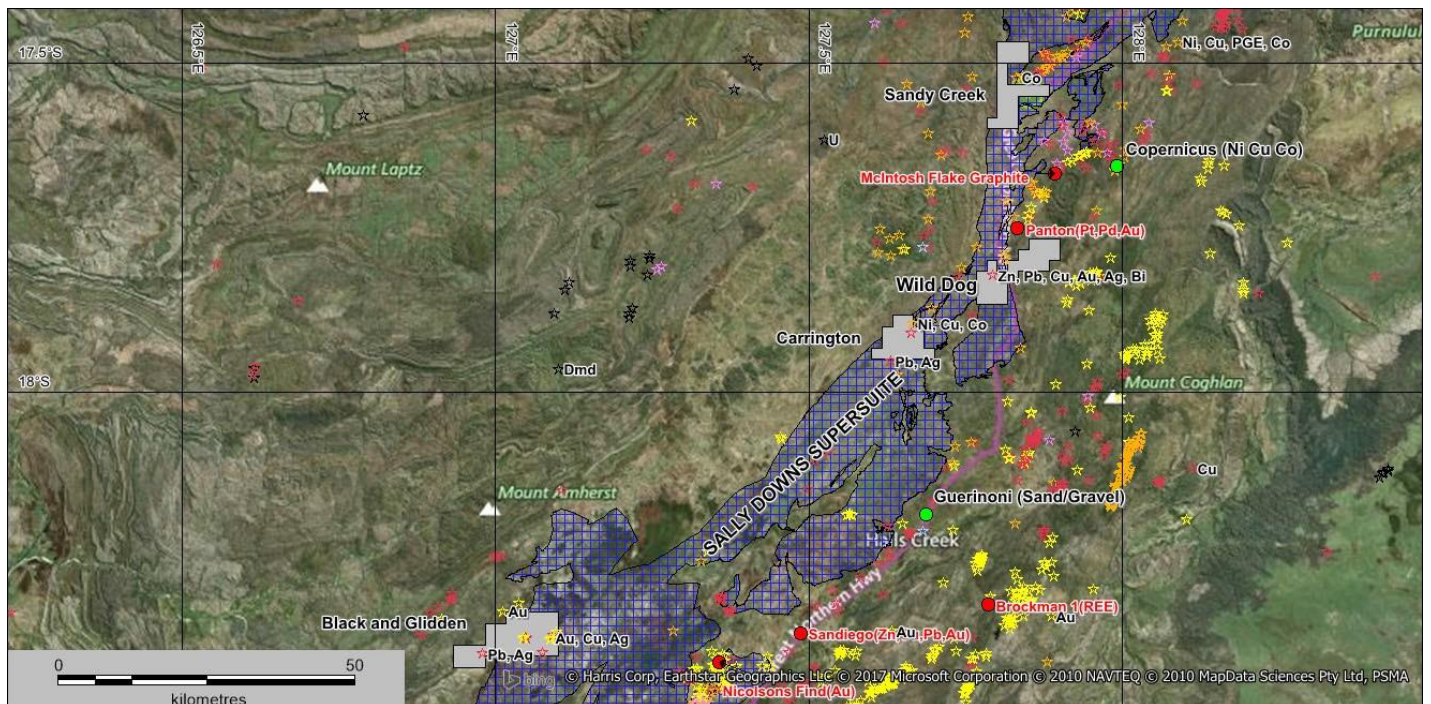


Figure 9: Halls Creek Project showing the 4 tenement applications located in the vicinity of Hall Creek

REVIEW OF OPERATIONS (continued)

Black and Glidden E08/5112

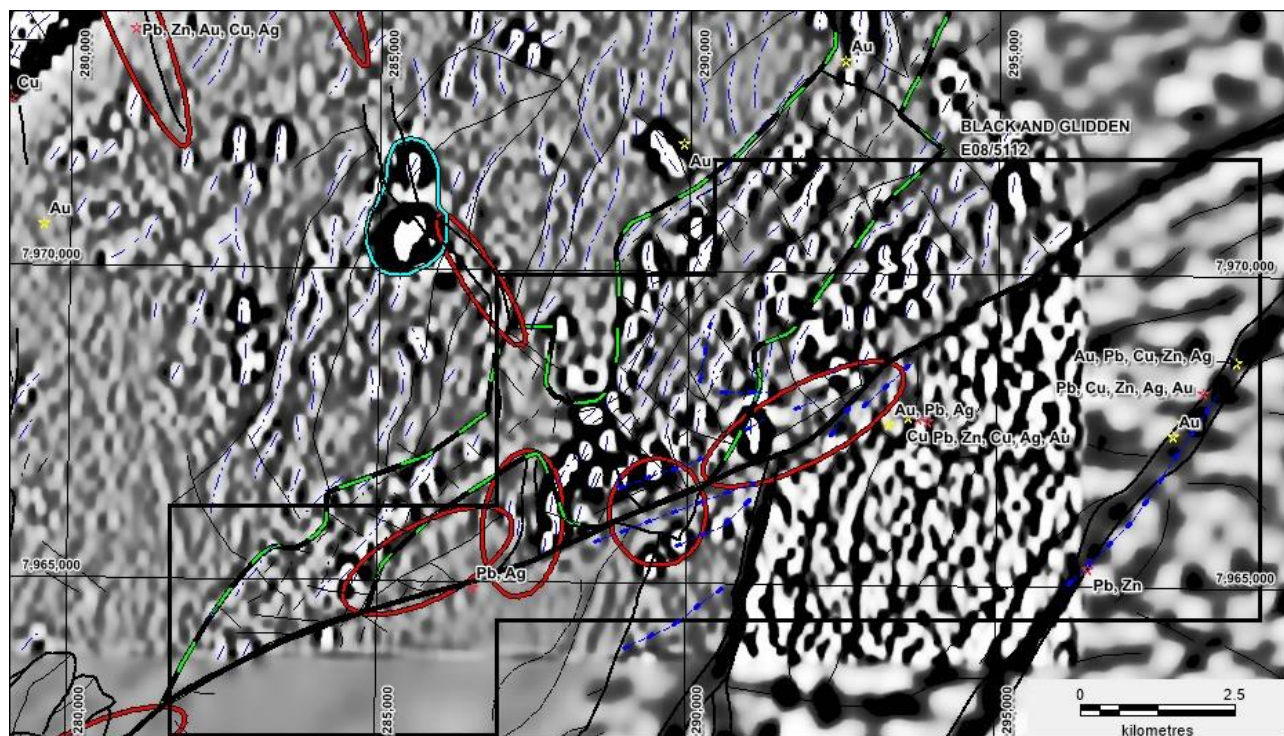


Figure 10: Black and Glidden tenement showing V2D aeromagnetics, structures and targets

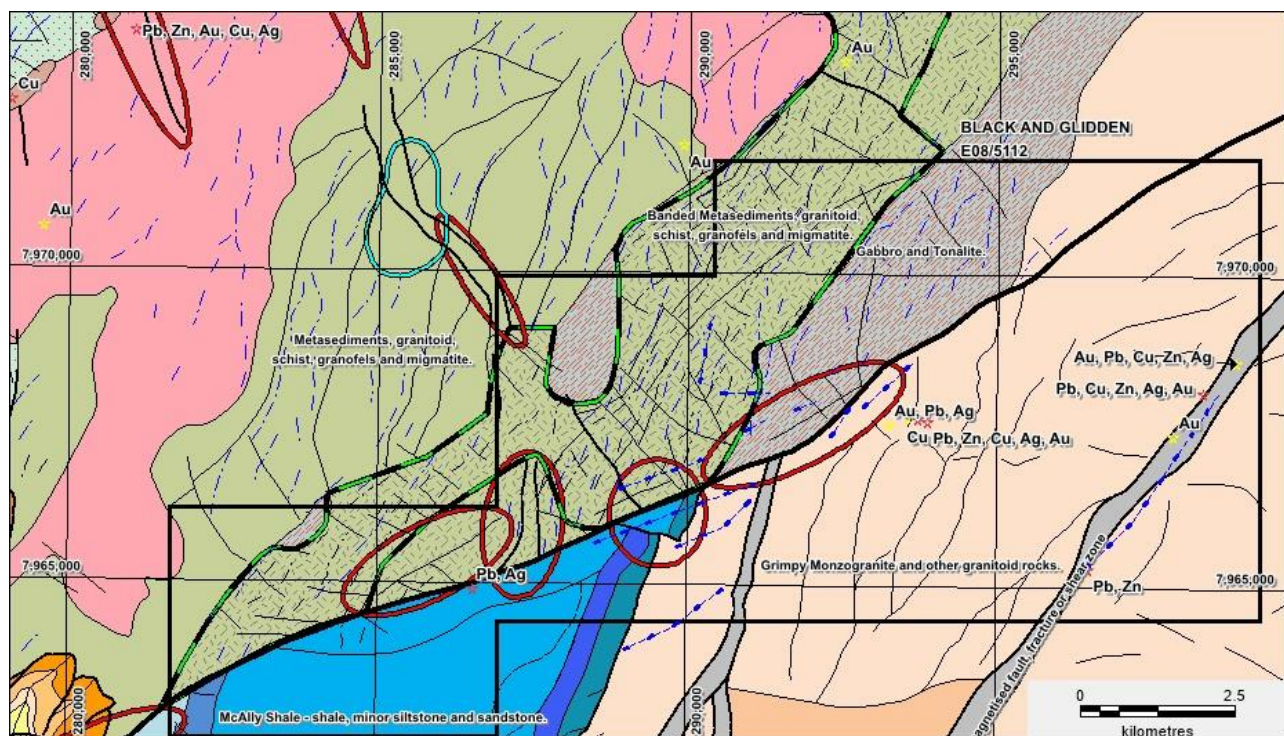


Figure 11: Black and Glidden tenement showing interpreted geology, structures and targets

REVIEW OF OPERATIONS (continued)

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 10 and 11** 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

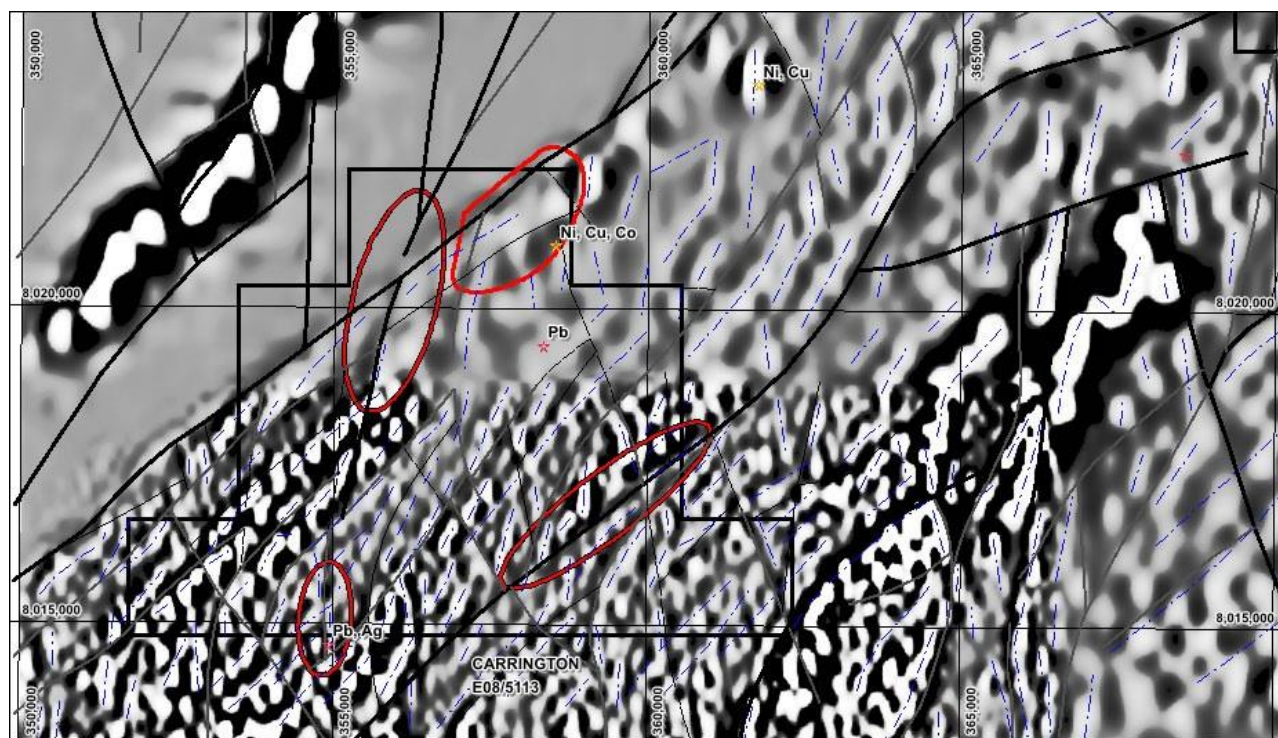


Figure 12: Carrington tenement showing 2VD aeromagnetics, structures and targets

The Carrington tenement (**Figures 12 and 13**) comprises primarily the McIntosh gabbro/norite which is the main Co/Ni target for the Company 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 14**.

REVIEW OF OPERATIONS (continued)

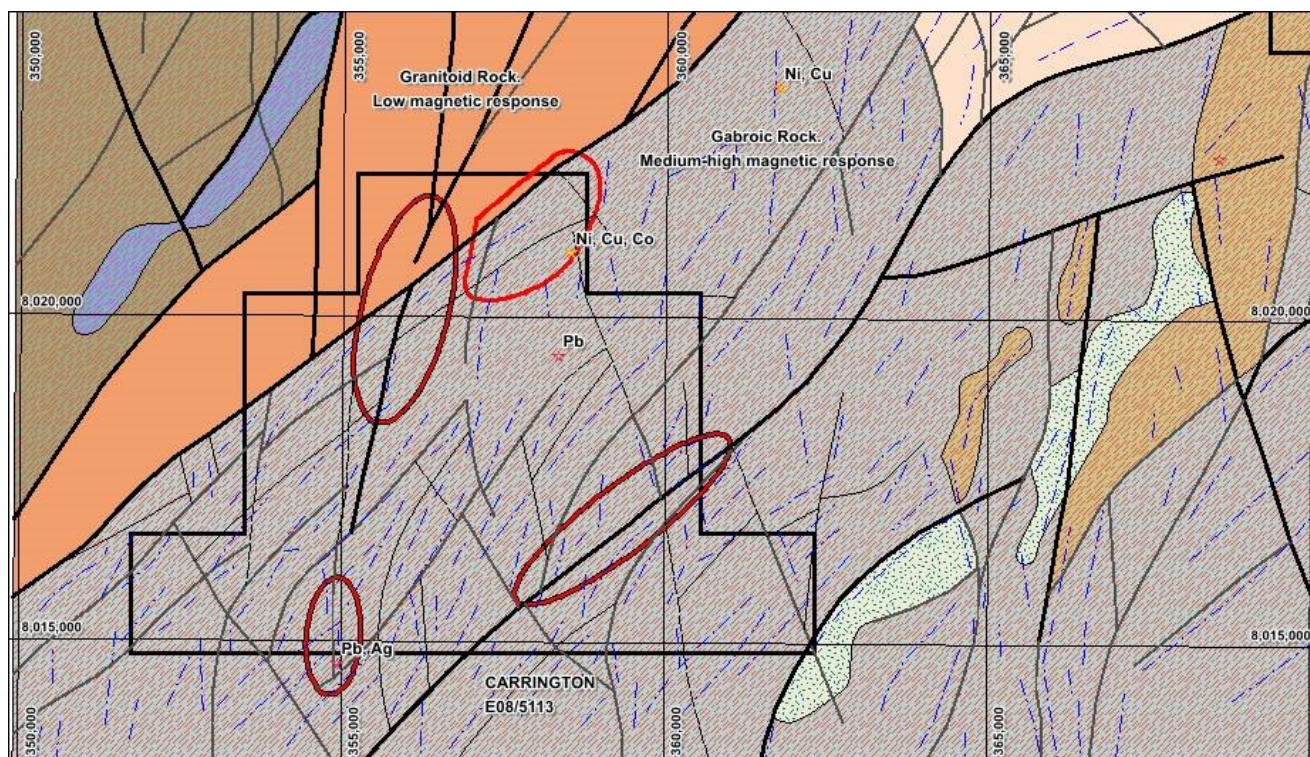


Figure 13: Carrington tenement showing interpreted geology, structures and targets

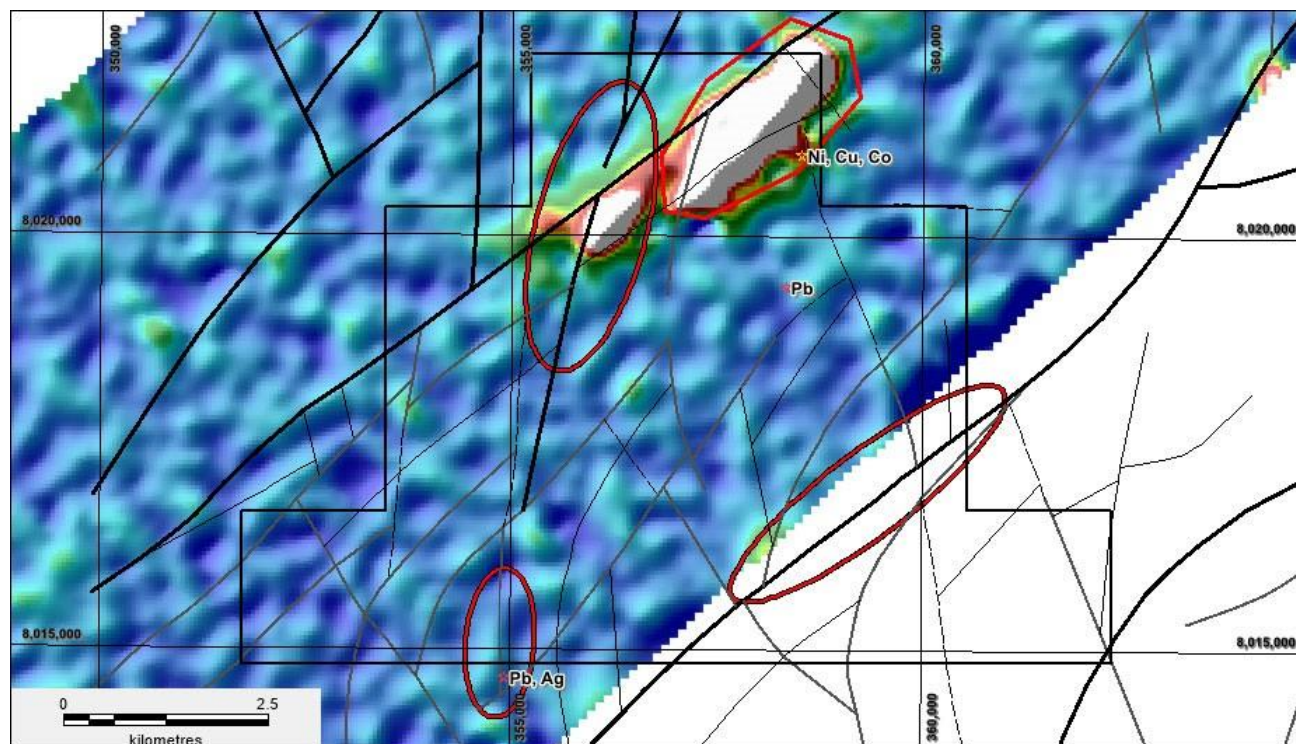


Figure 14: Carrington tenement showing airborne EM image and conductive feature in the north

REVIEW OF OPERATIONS (continued)

Wild Dog E08/5114/Sandy Creek E08/5115

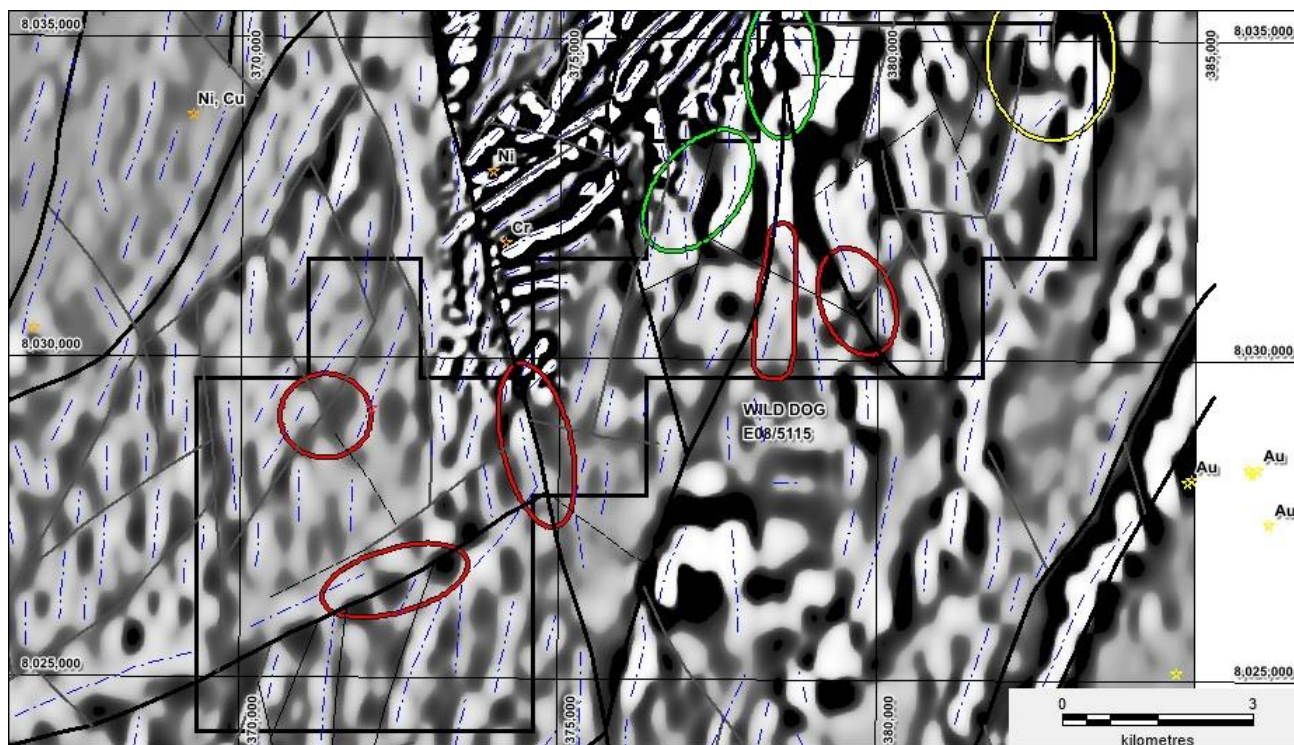


Figure 15: Wild Dog tenement showing 2VD aeromagnetics and target areas

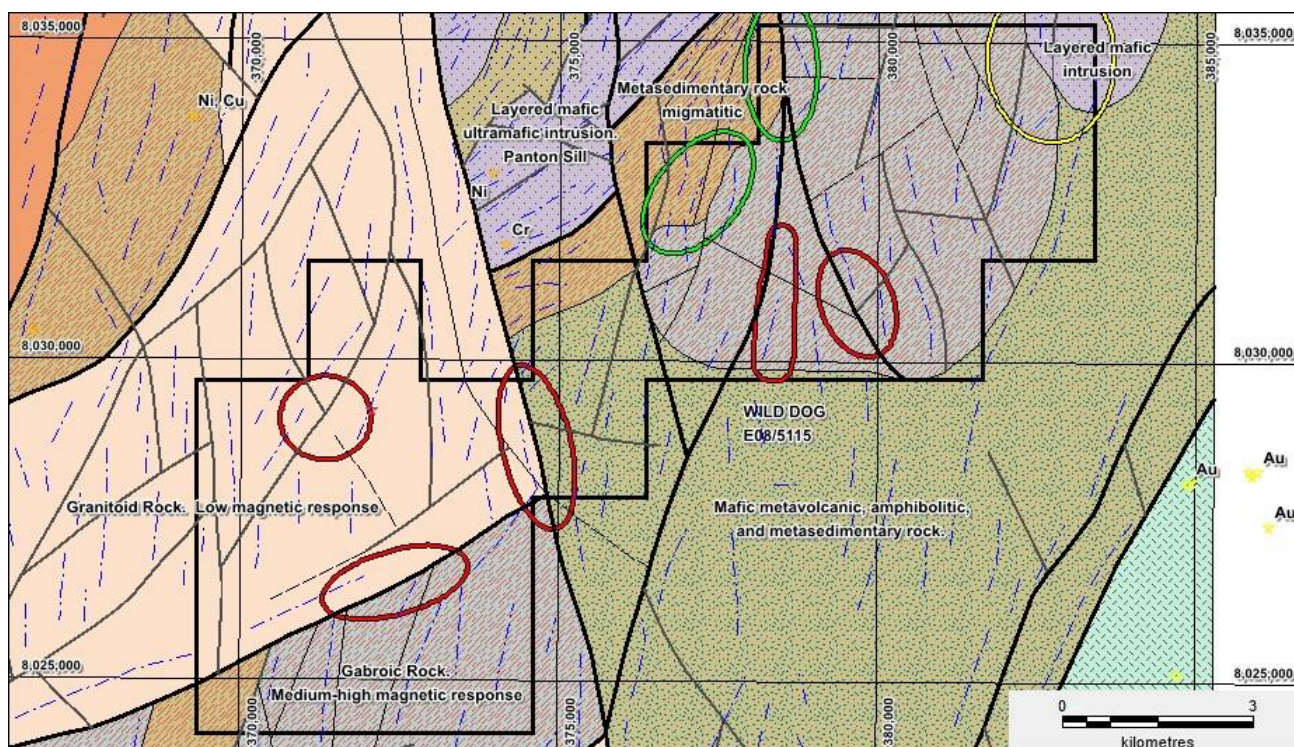


Figure 16: Wild Dog tenement showing interpreted solid geology, structures and target areas

REVIEW OF OPERATIONS (continued)

The Wild Dog and Sandy Creek tenements (**Figures 15 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 tenement with the same lithostructural contact extending into the Sandy Creek tenement and associated with a linear EM conductor.

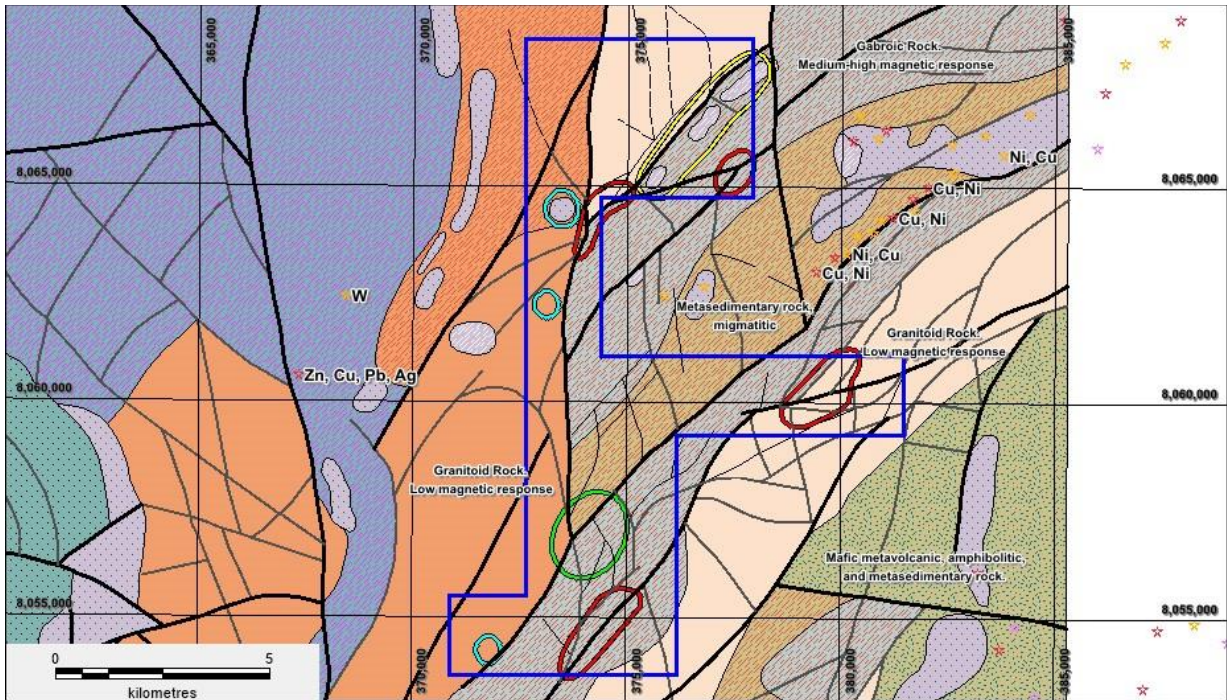


Figure 17: Sandy Creek tenement showing interpreted solid geology, structures and target areas

Planned Field Exploration

- The Phase 1 exploration program for the Halls Creek Project is planned to comprise a combination of helicopter, vehicle and foot traverse field surveys based out of Halls Creek.
- A combination of rock, stream and soil samples is planned to 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.

Pilbara Craton (Darnell Hill, Bustlers' Bore and Bea Bea Creek) Iron Projects - Western Australia

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

Due to access difficulties with local community for Bea Bea Creek and disappointing results from surficial geochemical sampling and geological mapping in conjunction with likely thin development of

REVIEW OF OPERATIONS (continued)

BIF layer from historical drilling results at the Bustler Bore project, the Company had decided to relinquish the three(3) Pilbara Craton Iron tenements in late 2019.

The relinquishment was approved by the Department of Mines Industry Regulation and Safety (DMIRS) on 15 January 2020.

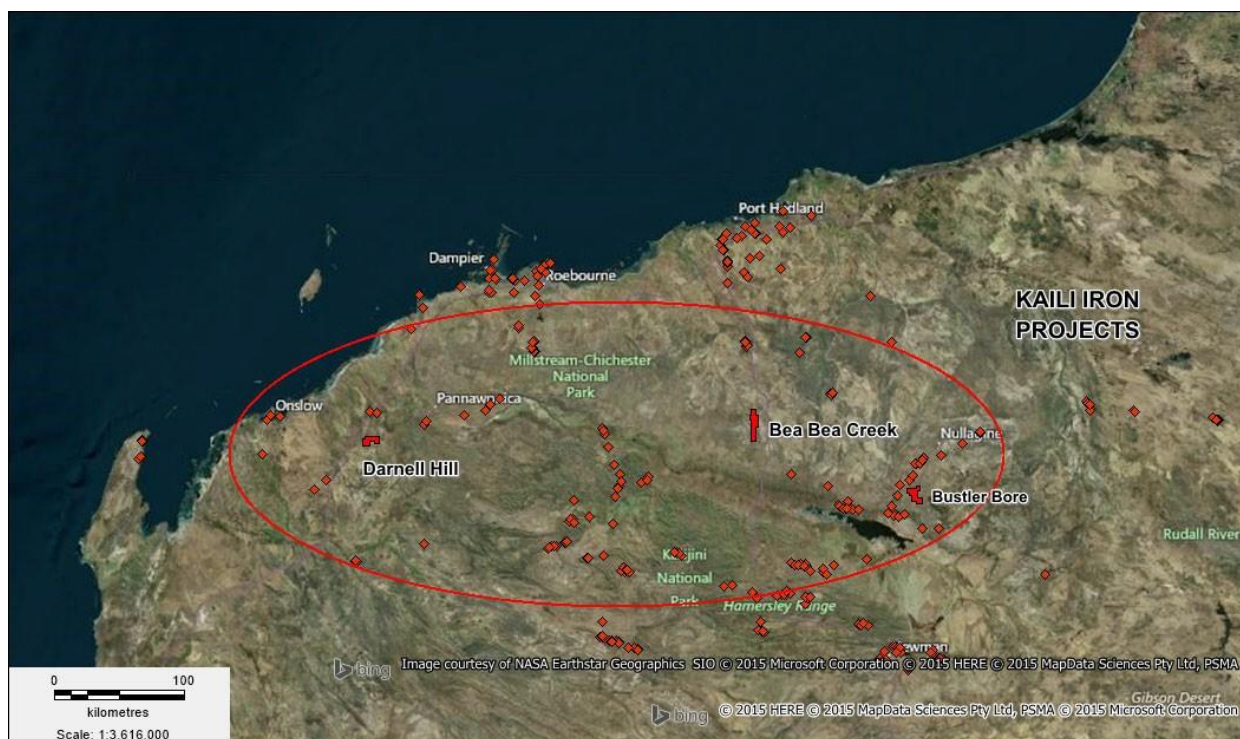


Figure 18: Kaili Resources iron projects showing iron ore mines of third parties as brown diamond

REVIEW OF OPERATIONS (continued)

Clarence Moreton Basin (Maryvale) Coal Project - Queensland

EPC1506 was held 100% by wholly owned subsidiary APEC Coal Pty Ltd. Relinquished.

The Project is strategically located in the Clarence Moreton Basin, 222 km from the Port of Brisbane, 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 through the Port of Brisbane for 145km (**Figure 19**).

In the December 2019 Quarter, based on drill analyses and landholder constraints, the Company had decided to relinquish the tenement. The relinquishment documents were lodged in January 2020 and approval was received in May 2020.

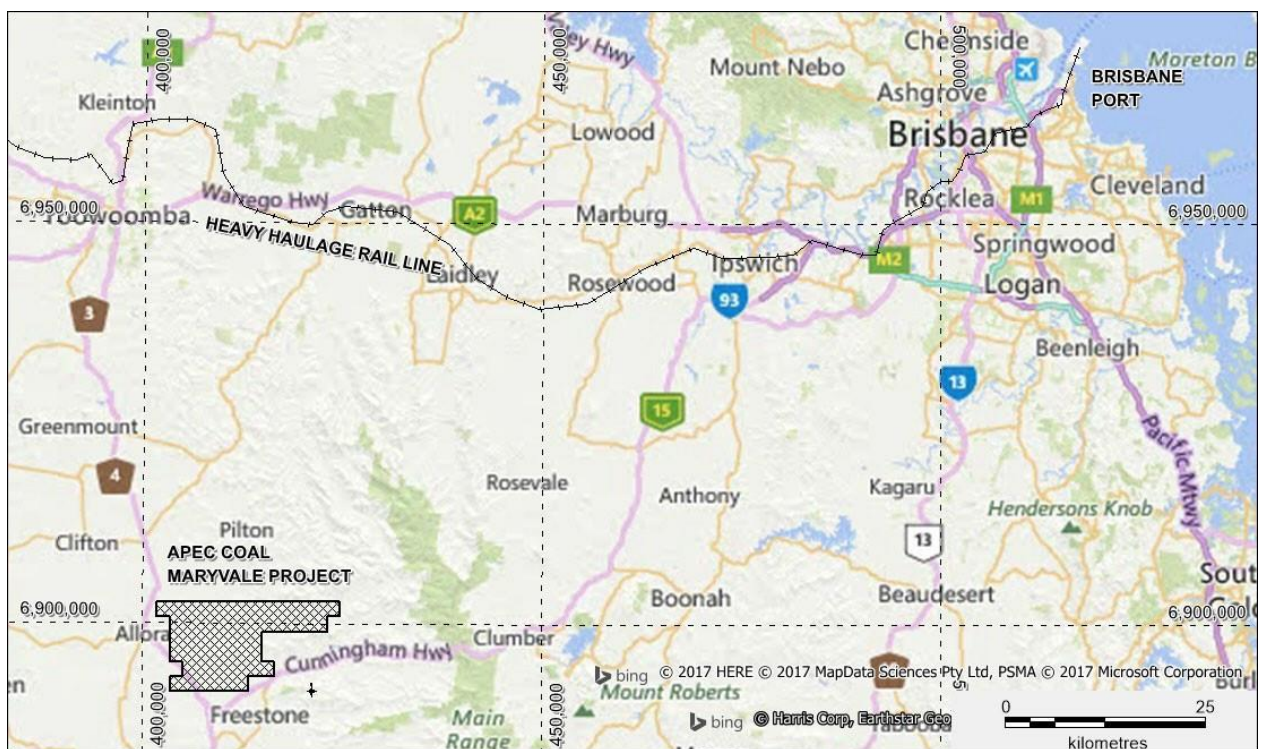


Figure 19: Maryvale Project Location Map

REVIEW OF OPERATIONS (continued)

LICENCES STATUS

Minerals tenements held at 30 June 2020 and their locations are set out below:

Tenement	Name	Commodity	Region	Registered Holder	Beneficial Interest	Area km ²	Expiry
E40/354	8 Mile Dam	Gold	WA - Yilgarn	Kaili Gold Pty Ltd	100%	70.4	7/07/2021
E31/1114	Jungle Hill	Gold	WA - Yilgarn	Kaili Gold Pty Ltd	100%	150.4	29/05/2021
E31/1113	Canegrass	Gold	WA - Yilgarn	Kaili Gold Pty Ltd	100%	108.8	29/05/2021
E27/550	Holey Dam	Gold	WA - Yilgarn	Kaili Gold Pty Ltd	100%	67.2	30/06/2021
E27/549	Gindalbie Dam	Gold	WA - Yilgarn	Kaili Gold Pty Ltd	100%	25.6	30/06/2021
E80/5112	Black and Glidden	Cobalt/Gold	WA - Lamboo	Kaili Iron Pty Ltd	100%	103.0	31/08/2023
E80/5113	Carrington	Cobalt/Gold	WA - Lamboo	Kaili Iron Pty Ltd	100%	51.2	31/08/2023
E80/5114	Sandy Creek	Cobalt/Gold	WA - Lamboo	Kaili Iron Pty Ltd	100%	64.0	31/08/2023
E80/5115	Wild Dog	Cobalt/Gold	WA - Lamboo	Kaili Iron Pty Ltd	100%	70.4	31/08/2023
						711.0	

Tenements E08/2770-I, E45/4619-I, E46/1084-I and EPC 1506 were relinquished during the half-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

REVIEW OF OPERATIONS (continued)

OPERATING AND FINANCIAL REVIEW

Performance

During the half-year the Group incurred net losses of \$974,368 (2019: losses \$694,561) which included the impairment of accumulated exploration and evaluation expenditure of \$493,228 (2019: nil) on tenements relinquished during the period.

Financial Position

Cash and cash equivalents at 30 June 2020 were \$865,120 (2019: \$249,816) with total current assets of \$886,653 (2019: \$292,605) made up substantially of cash.

Current liabilities at 30 June 2020 were \$733,372 (2019: \$1,172,394) with borrowings of \$500,000 from a related party previously included in current liabilities at 31 December 2019 were now included in non-current borrowings. Non-current borrowings at balance date of \$1.6 million are under a loan agreement with the related party and are not due for repayment until 1 October 2021 at the Group's discretion. In addition, the Group has a remaining financial support facility from the related party of \$900,000 that can be drawn until 1 April 2021.

Total equity decreased from \$1,249,234 at 31 December 2019 to \$274,866 at 30 June 2020 as a result of impairment of accumulated exploration and evaluation expenditure and operating expenses during the period.

Cash Flows

Operating activities resulted in net outflow of \$293,436 (2019: \$390,916) as the Group is still in the exploration phase with no revenue. This outflow was funded from existing cash on hand and borrowings.

CORPORATE

The Australian Securities Exchange ("ASX"), following their review of the March 2020 Quarter Activities Report and Appendix 5B lodged on 22 April 2020, has advised the Company of the following:

"ASX Listing Rule 12.1 provides that the level of an entity's operations must, in ASX's opinion, be sufficient to warrant the continued quotation of the entity's securities and its continued listing. It is ASX's opinion that the KLR's operations are not sufficient to warrant the continued quotation of its securities."

ASX will afford KLR a period of 6 months from the date of this letter to demonstrate to ASX that it is compliant with Listing Rule 12.1. If KLR does not demonstrate compliance with this rule to ASX's satisfaction by 23 October 2020, ASX may suspend KLR's securities from official quotation."

The Company believes that the implementation, subject to access restrictions that has forced deferral of field operations, being lifted by the Governments of NSW and WA and Federal Government as applicable, of its proposed field exploration work program within its 9 mineral tenements at Canegrass and Holey Dam in the Yilgarn Craton and at Halls Creek should demonstrate that its activities are sufficient to satisfy the ASX's concern. However, in spite of the WA borders remaining closed during the period the Company has taken proactive actions to commence its drilling program in June 2020 at Canegrass and Holey Dam by engaging Kalgoorlie based contractors to carry out the program with the Company's Consultant Geologist monitoring the operations remotely from Sydney.

REVIEW OF OPERATIONS (continued)

STRATEGIES AND PROSPECTS FOR FUTURE

The Group will continue its mineral exploration program and search for new projects in the resources sector and already has funding in place to finance such activities. However, no indication as to likely results in the future can be given due to the uncertainties usually associated with exploration activities and new projects. Future financial performance will depend on the success of exploration in its existing tenements and new projects.

DIRECTORS' REPORT

The Directors of Kaili Resources Limited submit the financial report of the consolidated group for the half-year ended 30 June 2020.

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

Operating Results

Total comprehensive loss for the half-year ended 30 June 2020 was \$974,368 (2019: loss \$694,561).

Review of Operations

A review of operations for the half-year ended 30 June 2020 is set out on pages 3 to 20.

Covid-19

The Covid-19 outbreak has developed rapidly in 2020, with a significant number of infections. Measures taken by various governments to contain the virus have affected economic activity. The Group has taken a number of measures to monitor and prevent the effects of the Covid-19 virus, such as safety and health measures for its employees and contractors (like social distancing and working from home).

At this stage, the impact on the Group's business has been the following:

- field exploration activities to prepare the RAB drilling program that was planned for March 2020 in WA at Canegrass (EL31/113) and Holy Dam (EL27/550) had been deferred until access restrictions are eased. These were able to be completed during June/July 2020 using a contracted local crew from Kalgoorlie;
- proposed field activities at Halls Creek (E08/5112, 5113, 5114 and 5115) for sampling have been deferred until access restrictions are lifted to the Kimberley Biosecurity Area;
- the Group received Government cash flow boost of \$17,260 during the half-year; and
- there has been no other financial effect on the Group's operations including the ability to obtain financial support from a related party;

The Group will continue to follow the various government policies and advice and will do its utmost to continue its operations in the best and safest way possible without jeopardizing the health of employees and contractors.

Auditor's Independence Declaration

The auditor's independence declaration under section 307C of the Corporations Act 2001 is set out on page 23, and forms part of this Directors' Report.

DIRECTORS' REPORT (continued)

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

A handwritten signature in dark ink, appearing to be 'Long Zhao', written in a cursive style.

Long Zhao
Director

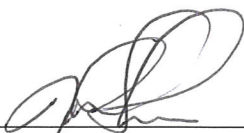
Dated this 30th day of July 2020

**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 2020 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.



John F Shute
Chartered Accountant

Dated this 30th July 2020

Independent Auditors' Report on Review of Condensed Consolidated Interim Financial Statements to the Members 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 27 to 35, which comprises the consolidated statement of financial position as of 30 June 2020, 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 2020, 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.

Emphasis of matter

We draw attention to Note 4 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.

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 2020 are not prepared, in all material respects, in accordance with IAS 34 "Interim Financial Reporting".


.....
JOHN F SHUTE
Chartered Accountant

Dated 30th July 2020

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 2020 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 30th day of July 2020

**Consolidated Statement of Profit or Loss
and Other Comprehensive Income
For The Half-Year Ended 30 June 2020**

	Note	30 June 2020 \$	30 June 2019 \$
Revenue			
Interest		5,835	1,673
Other	6	17,260	48,250
		<u>23,095</u>	<u>49,923</u>
Expenses			
Depreciation		(169,214)	(141,179)
Employee benefits		(65,917)	(118,706)
Directors' remuneration	8	(53,500)	(43,800)
Finance costs		(35,968)	(42,358)
Impairment of exploration and evaluation expenditure		(493,228)	-
Other	7	(179,636)	(398,441)
Loss before income tax expense		(974,368)	(694,561)
Income tax		-	-
Loss for the period		<u>(974,368)</u>	<u>(694,561)</u>
Other comprehensive income		-	-
Other comprehensive income for the period, net of tax		-	-
Total comprehensive loss for the period		<u>(974,368)</u>	<u>(694,561)</u>
Loss attributable to:			
- members of the Parent Entity		<u>(974,368)</u>	<u>(694,561)</u>
Total comprehensive loss attributable to:			
- members of the Parent Entity		<u>(974,368)</u>	<u>(694,561)</u>
		Cents	Cents
Earnings per share			
Basic and diluted loss per share		<u>(0.66)</u>	<u>(0.47)</u>

The accompanying notes form part of this financial report.

Consolidated Statement of Financial Position**As At 30 June 2020**

		30 June 2020	31 December 2019
		\$	\$
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		865,120	249,816
Trade and other receivables		11,798	11,784
Prepayments		9,235	30,505
Financial assets		500	500
TOTAL CURRENT ASSETS		886,653	292,605
NON-CURRENT ASSETS			
Property, plant and equipment		618,344	787,559
Financial assets		233,314	235,814
Exploration and evaluation expenditure	9	1,105,384	1,530,252
TOTAL NON-CURRENT ASSETS		1,957,042	2,553,625
TOTAL ASSETS		2,843,695	2,846,230
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	10	355,899	318,558
Provisions		15,737	19,045
Borrowings	11	-	500,000
Lease liabilities		361,636	334,791
TOTAL CURRENT LIABILITIES		733,272	1,172,394
NON-CURRENT LIABILITIES			
Borrowings	11	1,600,000	-
Lease liabilities		235,557	424,602
TOTAL NON-CURRENT LIABILITIES		1,835,557	424,602
TOTAL LIABILITIES		2,568,829	1,596,996
NET ASSETS		274,866	1,249,234
EQUITY			
Issued capital		1,474,004	1,474,004
Reserves		(1,199,138)	(224,770)
TOTAL EQUITY		274,866	1,249,234

The accompanying notes form part of this financial report.

Consolidated Statement of Changes in Equity

For the Half-Year Ended 30 June 2020

	Share capital \$	Share premium \$	Accumulated losses \$	Total \$
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
Balance at 1 January 2020	1,474,004	24,475,363	(24,700,133)	1,249,234
Total comprehensive loss for the period	-	-	(974,368)	(974,368)
Balance at 30 June 2020	1,474,004	24,475,363	(25,674,501)	274,866

The accompanying notes form part of this financial report.

Consolidated Statement of Cash Flows

For the Half-Year Ended 30 June 2020

	30 June 2020 \$	30 June 2019 \$
CASH FLOWS FROM OPERATING ACTIVITIES		
Payments to suppliers and employees	(280,103)	(356,720)
Interest paid	(30,593)	(34,196)
Receipts under Government cash flow boost	17,260	-
Net cash outflow from operating activities	<u>(293,436)</u>	<u>(390,916)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for exploration and evaluation expenditure	(65,457)	(183,058)
Receipt from Exploration Incentive Scheme (WA) co-funding	-	48,250
Receipt from security deposits	2,500	(222,919)
Purchase of plant and equipment	-	(153,987)
Interest received	5,835	1,673
Net cash outflow from investing activities	<u>(57,122)</u>	<u>(510,041)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments for lease liabilities	(134,334)	(45,710)
Proceeds from borrowings	1,100,000	-
Capital raising costs	-	(15,187)
Net cash inflow/(outflow) from financing activities	<u>965,666</u>	<u>(60,897)</u>
Net increase/(decrease) in cash held	615,108	(961,854)
Cash and cash equivalents at the beginning of period	249,816	1,977,022
Effect of exchange rates on cash holding in foreign currencies	196	22
Cash and cash equivalents at the end of period	<u>865,120</u>	<u>1,015,190</u>

The accompanying notes form part of this financial report.

Notes to Financial Statements For the Half-Year Ended 30 June 2020

Note 1 – Nature of operations

Kaili Resources Limited and subsidiaries' (the Group) principal activities are investment in the coal, energy and resources industry.

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 2020 and 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 2019 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 30 July 2020.

Note 3 – Significant accounting policies

The same accounting policies and methods of computation have been followed in this interim financial report as were applied in the most recent financial statements.

The Group has reviewed all the new and amended Accounting Standards and Interpretations that are relevant to its operations and effective for annual reporting periods beginning on or after 1 January 2020. It has been determined that there is no material impact of the new and revised Accounting Standards and Interpretations on its business.

The Group has not early adopted new Accounting Standards and Interpretations that are not yet mandatory in this reporting period. No significant impact on the Group's financial performance or position is expected when they are adopted.

Note 4 – Going Concern

At balance date the Group had current assets of \$886,653 including cash and cash equivalents of \$865,120, current liabilities of \$733,272 (including current lease liabilities under AASB 16 of \$361,636) and has incurred a net loss of \$974,368 mainly due to the impairment of \$493,228 of exploration and evaluation expenditure in the period. In addition, the Group has an unfulfilled expenditure requirement under its exploration licences of \$243,000 and lease commitment of \$122,500 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 having regards to the financial support commitment provided by its ultimate parent company (see below).

Notes to Financial Statements For the Half-Year Ended 30 June 2020 (continued)

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. \$1,100,000 have been drawn under this financial support during the period which together with an advance of \$500,000 received in prior period represent a total amount of \$1,600,000 at 30 June 2020 that is the subject of a loan agreement and that is due for repayment on 1 October 2021 or earlier at the Company's election. \$900,000 available under the financial support remains undrawn at balance date. The funds advanced under the financial support and loan are unsecured and interest free. 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.

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 2019.

	30 June 2020	30 June 2019
	\$	\$
Note 6 – Other income		
Government cash flow boost	17,260	-
Exploration Incentive Scheme (WA) co-funding	-	48,250
	<u>17,260</u>	<u>48,250</u>

Note 7 – Other expenses from ordinary activities

Audit fees	5,760	4,950
Consulting fees	32,388	41,396
Share registry	4,708	4,935
Legal and professional fees	38,985	48,240
Rental expenses	11,531	181,443
Registration fees and charges	32,521	24,868
Office services charges	38,823	1,764
Travel & accommodation	-	33,607
Other	14,920	57,238
	<u>179,636</u>	<u>398,441</u>

Notes to Financial Statements For the Half-Year Ended 30 June 2020 (continued)**Note 8 – Directors’ remuneration**

	Short-term benefits	Post- employment benefits	Total
	Cash salary and fees	Superannuation	
	\$	\$	\$
30 June 2020			
Donghai Zhang	-	-	-
Chunlin Liu	-	-	-
Jing Li	-	-	-
Jianzhong Yang	13,605	2,656	16,261
Long Zhao	34,008	3,231	37,239
	<u>47,613</u>	<u>5,887</u>	<u>53,500</u>
30 June 2019			
Donghai Zhang	-	-	-
Chunlin Liu	-	-	-
Jing Li	-	-	-
Jianzhong Yang	31,302	12,498	43,800
	<u>31,302</u>	<u>12,498</u>	<u>43,800</u>

As part of the process of containing cash burn in operations, the existing service agreement between Mr Jianzhong Yang and the Company’s wholly owned subsidiary Kaili Minerals Management Pty Ltd (formerly ASF Kaili Resource Pty Ltd) ceased effectively on 9 February 2020 by mutual agreement.

Mr Yang had a three year service agreement with ASF Kaili Resource Pty Ltd dated 14 August 2012 for a salary of \$250,000 per year (incorrectly quoted as \$240,000 in the 2014 and 2015 Annual Reports) plus statutory superannuation and leave entitlements when that company was acquired by the Group on 11 April 2014. In October 2014, Mr Yang as the then largest and controlling shareholder and Managing Director of the Company proceeded to raise new equity capital and prepared for the reinstatement of the Company’s shares for quotation on the Australian Securities Exchange. For a chance of success for the Company, Mr Yang agreed to a reduction of his remuneration from \$250,000 to \$80,000 per year plus statutory superannuation and leave entitlements effective from 1 October 2014 to demonstrate a lower management cost in keeping with the then stage of development. He had an expectation of performance bonus, not documented and subject to shareholders’ approval, at later time after the Company is successful to make up for his sacrifice in the remuneration cut.

Mr Yang’s remuneration has remained at \$80,000 salary plus statutory superannuation and leave entitlements following extension of the service agreement until 9 February 2020. He remains as a non-executive Director for no remuneration to support the Group’s business continuity and he also continues to be a substantial shareholder of the Company.

Notes to Financial Statements For the Half-Year Ended 30 June 2020 (continued)

	30 June 2020	31 December 2019
	\$	\$
Note 9 –Exploration and evaluation expenditure		
At cost		
Balance at beginning of year	1,530,252	1,355,100
Additions	67,853	339,582
Impairment	(492,721)	(164,430)
Balance at end of year	<u>1,105,384</u>	<u>1,530,252</u>

Exploration and evaluation expenditures are capitalised in respect of each identifiable area of interest. 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 Licences Status shown on page 18.

Impairment indicators in AASB 6 are considered on a project by project basis at each balance date. Impairment has been recognised during the half-year on licences relinquished

Note 10 – Trade and other payables - Current

Trade and other payables	71,414	15,108
Amount owing to director ¹	186,378	186,378
Accrued expenses	98,107	117,072
	<u>355,899</u>	<u>318,558</u>

¹ In 2019, Director Jianzhong Yang made payments for the short-term lease of accommodation and related expenses on behalf of the Group and has not yet been fully reimbursed.

Note 11 – Borrowings

Unsecured loan from a related party	<u>1,600,000</u>	<u>500,000</u>
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In February 2020, Yitai Group (Hongkong) Co., Ltd, a related company of the ultimate parent company Inner Mongolia Yitai Investment Co., Limited, agreed to provide financial support facility to fund operations of the Group up to \$2.5 million until 1 April 2021. \$1,100,000 have been drawn under this financial support during the period which together with an advance of \$500,000 received in prior period represent a total amount of \$1,600,000 at 30 June 2020 that is the subject of a loan agreement and that is due for repayment on 1 October 2021 or earlier at the Company's election. The funds advanced under the financial support and loan are unsecured and interest free.

At balance date the Group can draw up to \$900,000 until 1 April 2021 under the financial support facility.

Notes to Financial Statements For the Half-Year Ended 30 June 2020 (continued)**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.

Note 13 – Commitments**Exploration Expenditure Commitments**

The Group holds nine 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 2020 \$	31 December 2019 \$
Within twelve months	243,000	415,000
Twelve months or longer and not longer than 5 years	409,000	715,000
	<u>652,000</u>	<u>1,130,000</u>

The Group has obligations to restore land and rehabilitate areas disturbed during exploration.. At balance date, the Group has given guarantees totalling \$45,000 (2019: \$60,000) for compliance with the conditions of the exploration licences granted in Western Australia.

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	77,500	78,500
Twelve months or longer and not longer than 5 years	45,000	84,100
	<u>122,500</u>	<u>162,600</u>

Note 14– 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.