KAILI RESOURCES LIMITED

(Incorporated in Bermuda with limited liability)

ARBN 077 559 525

Annual Report – 2020

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CHAIRMAN'S REPORT

Dear Shareholders,

I am pleased to present you the 2020 Annual Report.

2020 has been exceptionally difficult for the business worldwide with the impact of global travel restrictions because of the Covid-19 pandemic, effectively shutting down many operations for a large part of the year. Our overseas-based Directors have been unable to travel to Australia and had to contend with remote monitoring of operations and place reliance on Sydney based Directors and management.

However, we have been able to manage satisfactorily our operations, albeit with some delays, within our tenements in the Yilgarn Craton in Western Australia. We were able to complete a 50 holes Aircore drilling program by engaging WA based technical staff and crew. The results from Holey Dam Area E and Canegrass Area F were encouraging and we have therefore planned a follow up drilling of deeper holes in 2021.

Our field exploration plan for 2020 within the 4 tenements in the Halls Creek area, with potential for cobalt, nickel, copper and gold mineralisation, has been totally disrupted with Government imposed access restrictions to contain the spread of Covid-19. We had to postpone all field work to the 2021 dry season that starts in April 2021.

In February 2021, our Consultant Geologist identified some interesting areas with historic gold production near Tennant Creek in the gold and base metal prospective Warramunga Province of the Northern Territory. We have lodged 2 new exploration licence applications registered as ELA 32665 Gidyea and ELA 32666 Kovacs and will go through the usual process for grant. We will also continue to look for new areas to expand our portfolio of tenements.

I thank the Yitai Group for its continued financial support that has assisted the Company to continue operations in the period when raising capital for exploration is difficult.

I would also like to thank the shareholders, Board members, staff and consultants for their continued support during the year that has been severely impacted by the Covid-19 pandemic.

Donghai Zhang
Chairman
31st March, 2021

REVIEW OF OPERATIONS

EXPLORATION HIGHLIGHTS

Yilgarn (Gindalbie) Gold Project in Western Australia

- Timing for a 50 hole RAB follow up drilling within the Canegrass and Holey Dam tenements has been significantly impacted by travel restrictions imposed in WA due to the COVID-19 pandemic, originally planned for the March 2020 quarter but eventually completed in September 2020.
- 50 Aircore drillholes completed at Canegrass and Holey Dam prospects for 1,866 m with an average hole depth of 37 m. Analysis results from laboratory received in December 2020 with undue delays at the laboratory affected by high volume of work associated with an upturn in mineral exploration in WA.
- Significant results from the Aircore drillholes include 1 m @ 3.96 ppm Au from 48m - 49 m and 1m @ 0.88 ppm Au from 49 m - 50 m downhole and 1m @ 1.08 ppm Au from 49 m - 50 m downhole.
- An RC follow up drill program at Canegrass and Holey Dam is planned for 2021 based on the results of the Aircore drilling.

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

- Lithostructural targeting completed however, State and region access and travel restrictions due to the COVID-19 pandemic and wet season have totally prevented the 2020 planned field work at the tenements which are within the Western Australian Kimberley Biosecurity area.
- All 2020 planned field work has been deferred to mid-2021 after the area wet season and is subject to free access to the region.

Tennant Creek Gold/Base Metals Exploration Licence Applications in Northern Territory

- In February 2021, the Group applied for 2 new tenements near Tennant Creek in the gold and base metal prospective Warramunga Province of the Northern Territory. ELA 32665 Gidyea and ELA 32666 Kovacs exploration licence applications were registered.

REVIEW OF OPERATIONS

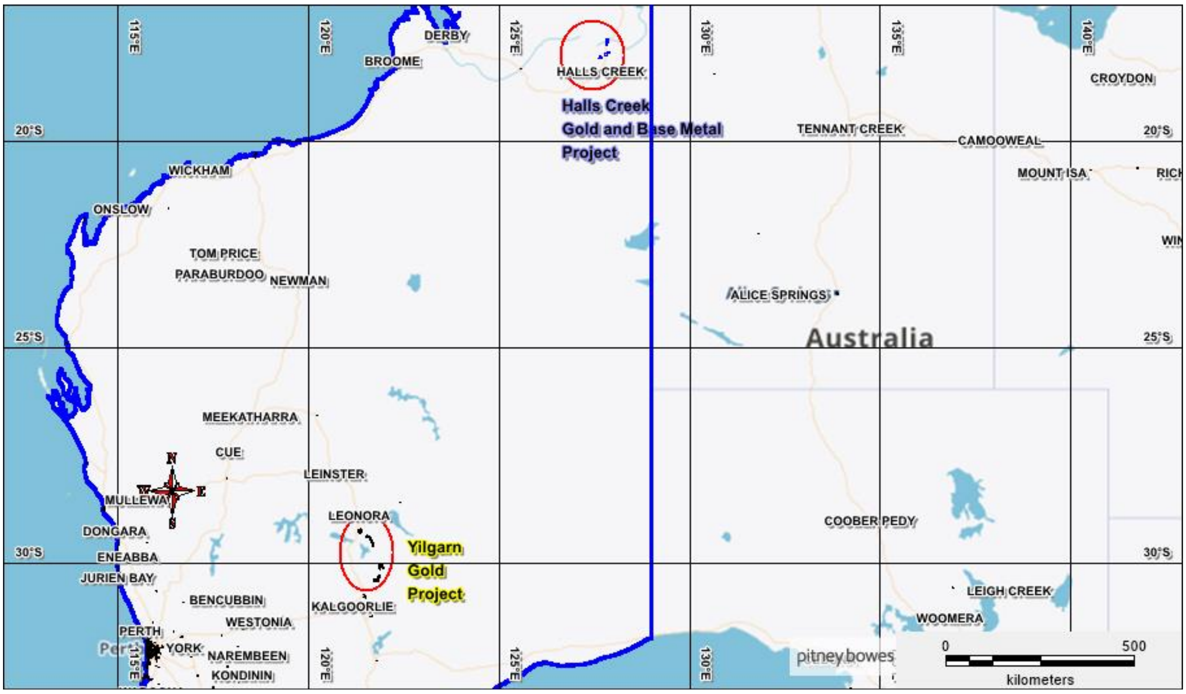


Figure 1: Location of the Yilgarn (Gindalbie) and Halls Creek Projects in WA Australia

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.

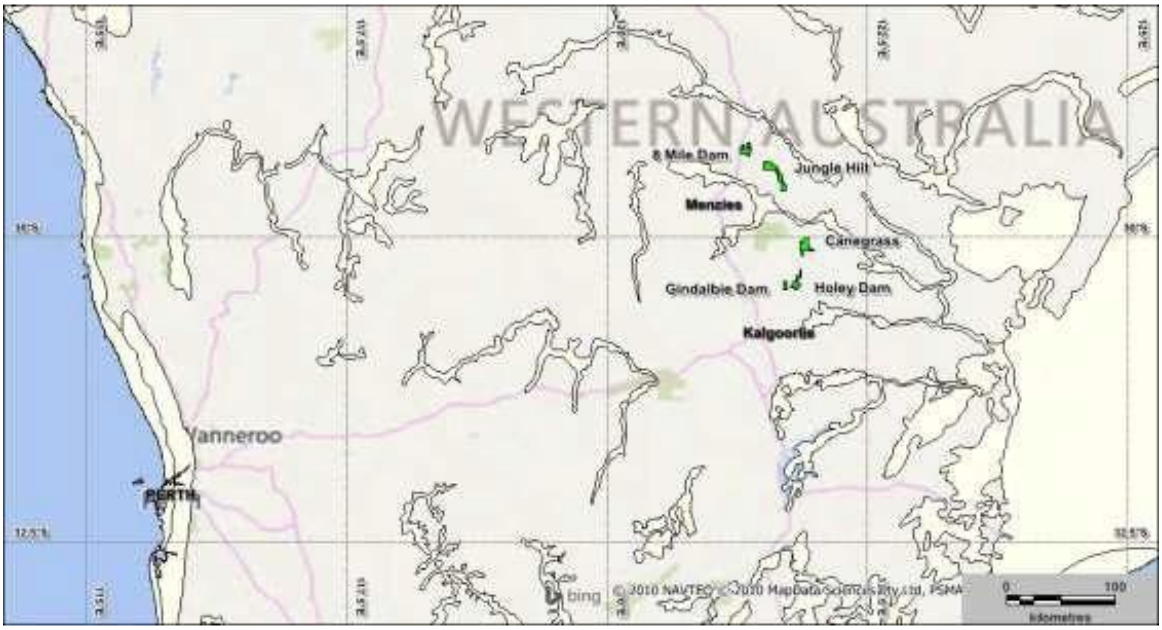


Figure 2: Yilgarn Craton Projects Locations

REVIEW OF OPERATIONS

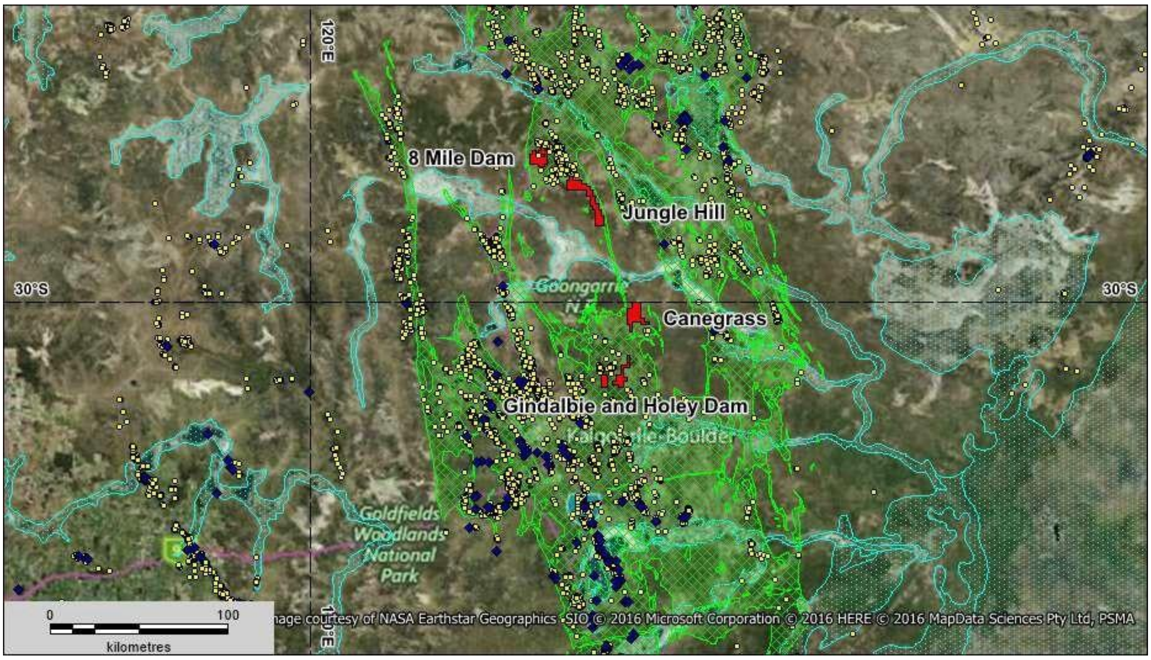


Figure 3: Satellite Image with Eastern Goldfields Superterrane (green hatching)

Kaili tenements in red. Blue diamonds are operating mines of third parties and yellow dots are gold occurrences reported by other explorers

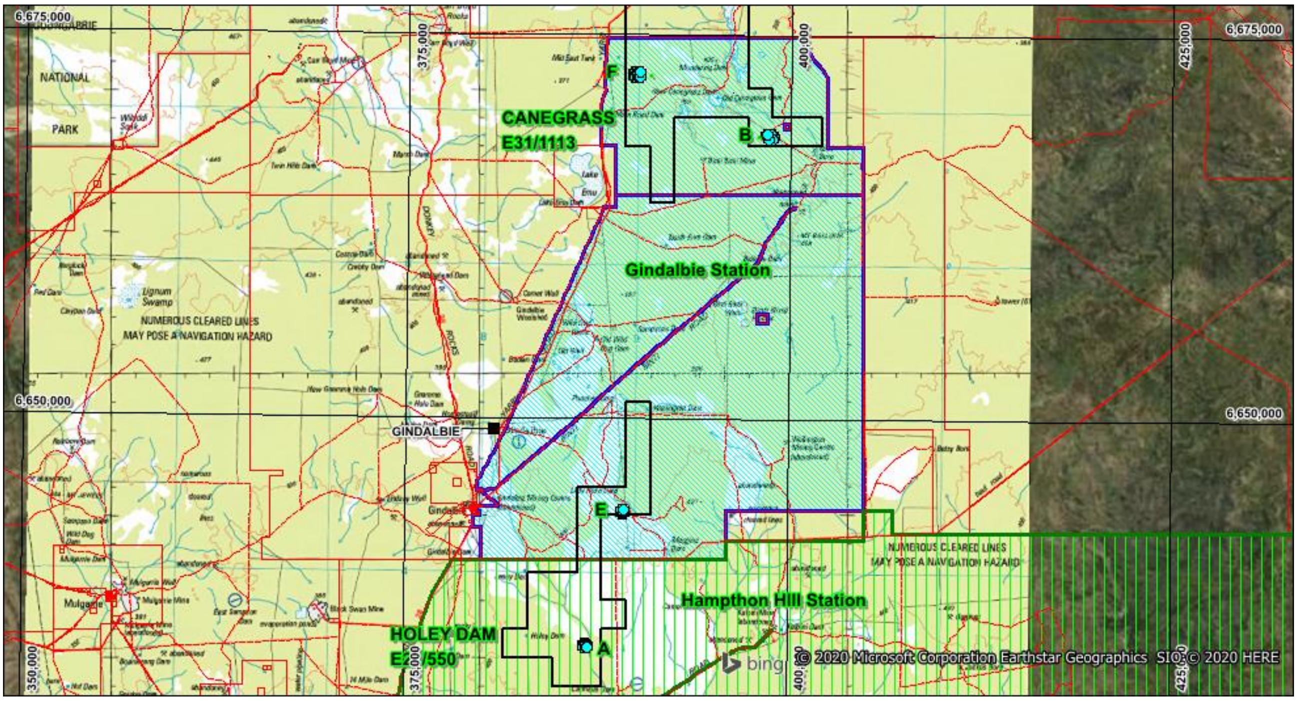


Figure 4: Locations of Holey Dam and Canegrass Drill Areas

REVIEW OF OPERATIONS

Aircore Drilling at Canegrass and Holey Dam

The drilling program planned to be carried out in the March quarter 2020 had to be suspended because of the travel restrictions imposed by the WA Government to contain the spread of Covid-19 and it was successfully completed on 20th September 2020 after the Company decided in June 2020 to engage Kalgoorlie based geological consultancy BMGS to manage the program. The results of that drilling program were received in December 2020 with undue delays at the laboratory that was impacted by high volume of work associated with an upturn in mineral exploration in WA. See ASX announcement of 3rd December 2020.

2,000 m Aircore drilling was planned to commence in the first half of August 2020 at the Canegrass (E31/1113) and Holy Dam (EL27/550) tenements. However, due to unavailability of a drilling rig the drilling operations commenced in mid-September 2020 and were finalised on the 20th September 2020. 1,866 m for 50 drill holes of Aircore drilling, 25 holes at Canegrass and 25 holes at Holey Dam gold prospects, was achieved with an average hole depth of 37 m. The completed drill areas are shown in Figure 4 with areas F, B and E situated in Gindalbie Station and area A in Hampton Hill Station.

The Aircore drilling program follows from the shallow Vacuum Drilling program that was carried out in July and August 2019 and completed at Holey Dam (HDAC001 to HDAC023) and Canegrass (CDAC001 to CGAC027). See ASX announcement of 12th September 2019 for the results of the Vacuum Drilling.

The sampling of the drilling comprised the collection of 4 m composites from each of the 50 drill holes. A PVC tube was inserted into each of the 4 m samples and the 4 samples were placed into a prenumbered calico bag. The bags were then placed into larger polywoven bags and transported to the ALS Geochemical Laboratory in Kalgoorlie for gold and multi element geochemical analyses.

Au was analysed by the Atomic Absorption method AA23 and Ca, As, Cr, Cu, Fe, Mn, Ni, Pb, Zn and S were analysed by the Portable XFX method pXRF-30. In addition, 107 selected composite samples were scanned by Spectral Mineralogy method HYP-PKG and interpreted for their mineralogical make up. A total of 530 composite samples were submitted for gold and multi-element geochemistry and 100 samples were submitted for spectral mineralogy. A total of 54 samples were collected as sub sampling of the 4 m composites with the same analytical methods as the 4 m composite sampling.

The key elevated geochemical results of the drill sampling were as follows:

Gold (Au) – Seven (7) samples > 0.1 ppm to a maximum of 3.96 ppm.
Copper (Cu) – Five (5) samples > 200 ppm to a maximum of 620 ppm.
Zinc (Zn) – Six (6) samples > 300 ppm to a maximum of 420 ppm.
Sulphur (S) – Six (6) samples > 2% to a maximum of 4.1%.

The high Au result of 3.96 ppm was associated with 5,400 ppm Cr (Chromium) and 700 ppm Ni (Nickel).

The aim of the Aircore drilling was to drill the holes to a depth of at least the unweathered bedrock and this was achieved for all drill holes.

REVIEW OF OPERATIONS

Holey Dam - Area A

The drilling intersected primarily dolerite with depths to the base of saprolite of between 23 m and 50 m and was targeting the intersection of NW-SW and E-W linear magnetic highs which were both interpreted to be dolerite filled structures. There are several examples in the Yilgarn Craton of significant gold mineralisation exploited by open method adjacent and the south of E-W dolerite dykes and in this location the E-W dolerite dyke has been intersected by a known regional NW-SE mineralised structure. In two holes HDAC 007 and 012, quartz veining was noted in the dolerite and dolerite dominated in all drill holes however, there was no significant gold mineralisation.

Holey Dam - Area E

The drilling intersected primarily dolerite and ultramafic rocks at similar depths to Area A (**Figures 4 and 5**). Quartz veining was noted in HDC 0016 and 018. With 4 m @ 0.29 ppm Au from 25 m to 29 m and 4 m @ 0.42 ppm Au from 48 m to 52 m including 1 m @ 1.08 ppm Au from 49 m to 50m in a quartz veined dolerite. The target was a folded mafic sequence adjacent to a faulted contact to the west with a felsic sequence. A float sample of ferruginous vein quartz was collected within the folded mafic sequence and returned 2.48 ppm Au. Follow up RC drilling is planned for Holey Dam Area E (**Figure 5**).

Holey Dam Area E was drilled in an interpreted fold closure comprising mafic lithologies with the limbs of the fold being possible faulted contacts (**Figure 5**). The drilling resulted in gold assays generally <0.1 ppm over 4 m composites apart from HDAC016 having an intercept of 4 m @ 0.42 ppm Au including 1 m @ 1.08 ppm from 49 m - 50 m and 1 m @ 0.15 ppm Au from 51 m - 52 m (EOH 53 m). The drilling encountered mainly dolerite with local quartz veining in some drill intercepts. Selected samples were submitted for spectral mineralogy with a clear trend of tourmaline and white mica noted in the samples (**Figure 6**). Both tourmaline and white mica are common alteration products in some Yilgarn Systems and not primary mineralogy in an unaltered dolerite.

Canegrass - Area B

A variably altered gabbro with local disseminated pyrite and quartz veining was intersected in all drill holes. There was alteration noted in the drill chips and from the spectral mineralogy clays such as kaolinite, nontronite and montmorillonite were noted in abundance which are likely the saprolite weathering products of the gabbro. Chlorite was also noted in several samples up to about 20% and may be a weathering product or it could be an alteration product. There were no significant gold results, and no further drilling is warranted.

Canegrass - Area F

A similarly altered and mineralised gabbro was intersected in this area as was intersected in Area B in addition to basalt and ultramafic lithologies. Again, kaolinite and montmorillonite clays and chlorite dominate as they did in Area B. White mica was slightly more dominant than in Area B however, there was a small amount of carbonate noted in a few samples and this is likely an alteration effect as is the white mica which forms a distinct N-S zone adjacent to the Emu Fault in association with a linear magnetic high. The drilling in Area F targeted the regionally gold mineralised Emu Fault (**Figure 7**) and at the Area F location a linear magnetic high is adjacent and to the west of the interpreted position of the Emu Fault. Significant Au assays were returned from all three drill traverses including 1 m @ 0.48 ppm Au, 1 m @ 0.88 ppm Au and 1 m @ 3.96 ppm Au. Follow up RC drilling is planned for Canegrass Area F. The interpreted geology shows Area F as being located at the contact of mafic and felsic lithologies that marks the interpreted location of the Emu Fault which will be the target of the next round of drilling (**Figure 8**).

REVIEW OF OPERATIONS

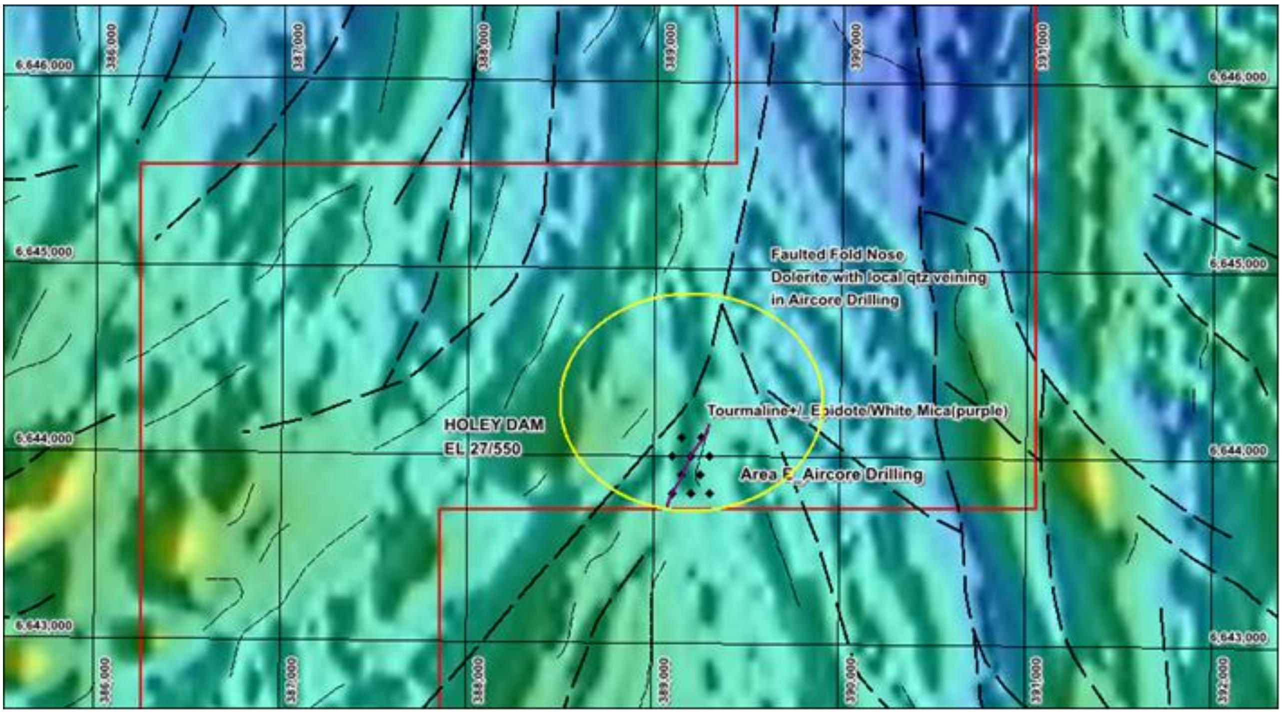


Figure 5: Holey Dam Drilling Area E showing a zone of tourmaline and white mica alteration in purple

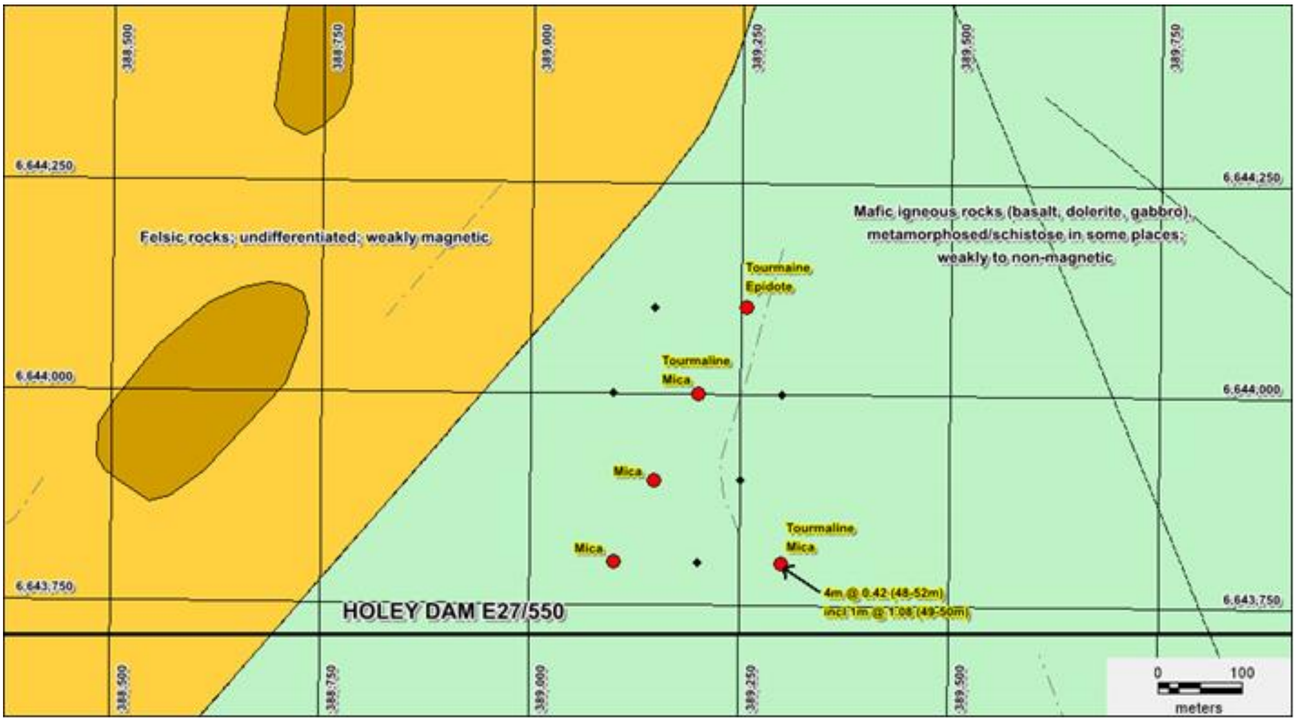


Figure 6: Holey Dam Drilling Area E the tourmaline/mica trend within mafic volcanic rocks and the elevated Au results

REVIEW OF OPERATIONS

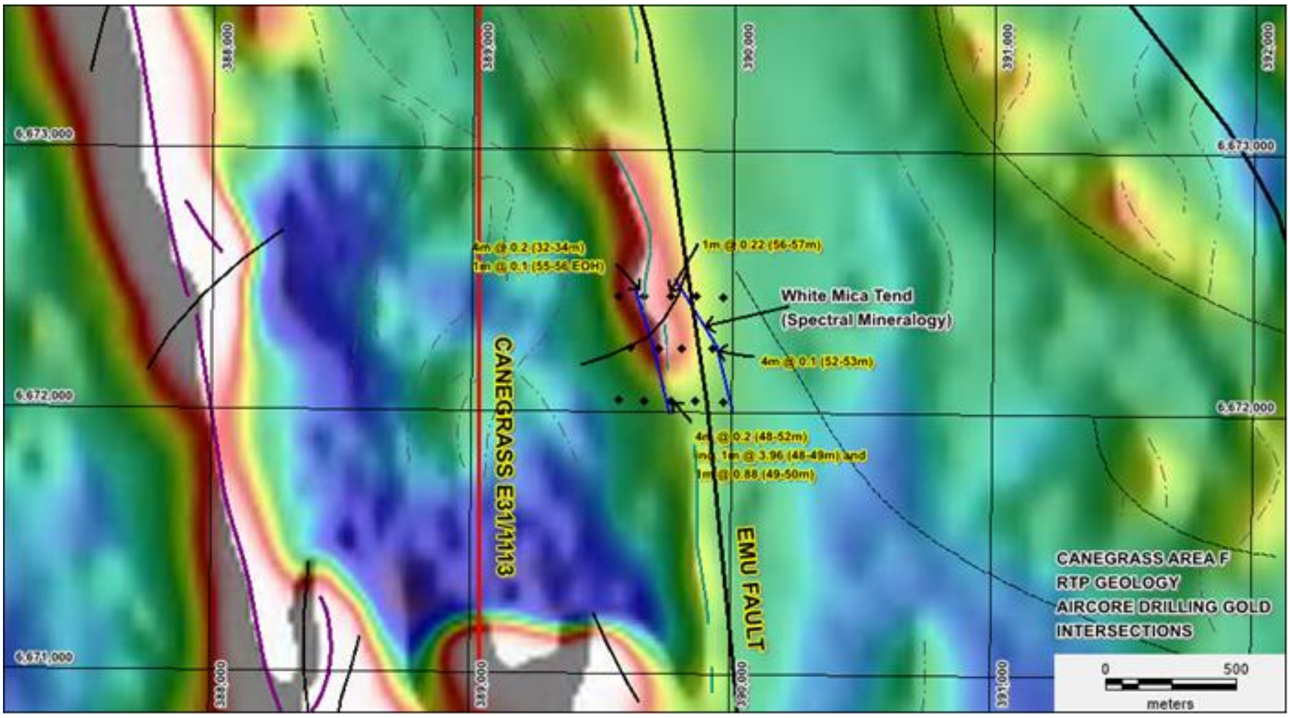


Figure 7: Holey Dam Drilling Area F on a magnetic image showing the regional Emu Fault, elevated gold geochemistry and the white mica alteration trend

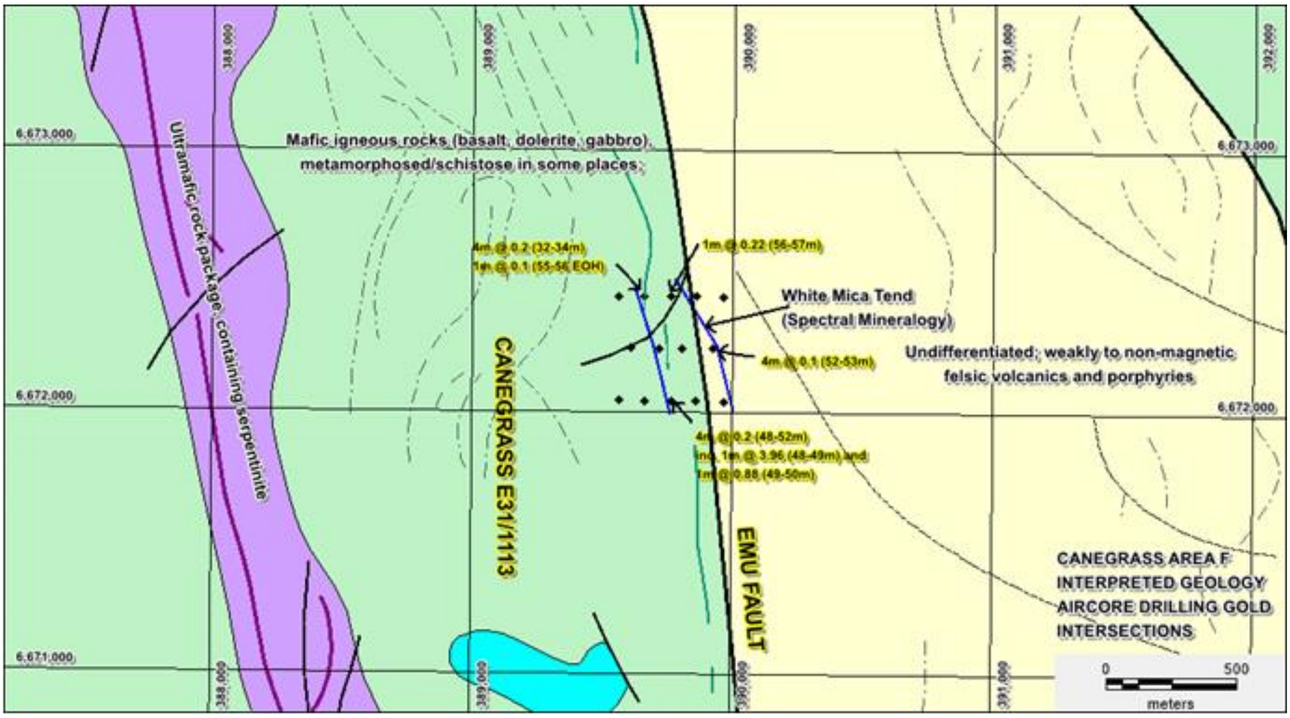


Figure 8: Holey Dam Drilling Area F on interpreted geology and the location of the mineralised trend at the contact of mafic and felsic volcanics

REVIEW OF OPERATIONS

Forthcoming Field Exploration

In March 2021, the Company has applied with the WA Department of Mines Industry Regulation and Safety (DMIRS) for a 20 drillholes program for 2,000 m of RC drilling to follow up the Aircore drill results within Canegrass Area F and Holey Dam Area E. It is planned to engage a drilling company and a field crew based in Kalgoorlie having regards to restrictions on access and travel that may arise in Western Australia due to the COVID-19 pandemic.

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

E 80/5112, 5113,5114 and 5115 are held 100% by wholly owned subsidiary Kaili Iron Pty Ltd.

The Halls Creek tenements are within the Western Australian Kimberley Biosecurity Area which has been locked down from March 2020 by order of the Federal Health Minister to protect the Aboriginal communities from the COVID-19 infection. Consequently, the field program that was planned for March to October 2020, the annual field season outside the wet season, for the Halls Creek tenements was suspended. Therefore, the Company has to wait for the 2021 field season starting April 2021 to carry out the program prepared since March 2020 quarter, subject to any access restrictions that may be imposed by the Government.

Since the grant of the tenements, the Company has 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. The Company has also engaged Earth-AI to use an Artificial Intelligence approach to merge all publicly available geochemical, geological, and geophysical data to generate targets for field follow up.

The planned Phase 1 exploration program comprises 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

Geology of the Tenements

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 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.

REVIEW OF OPERATIONS

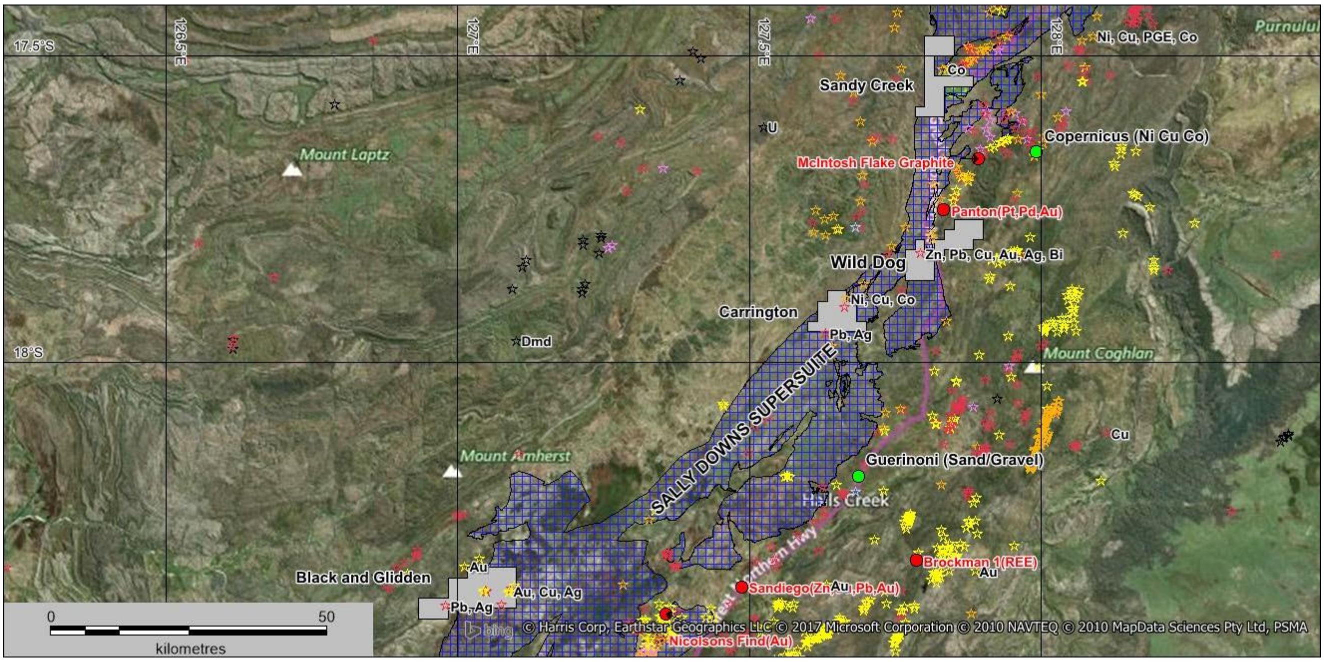


Figure 9: Halls Creek Project showing the 4 tenements located in the vicinity of Halls Creek

Black and Glidden E80/5112

The Black and Glidden tenement is located 100 km west of Halls Creek with the dominant structure being the NE/SW trending Black and Glidden fault which forms a liner 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.

REVIEW OF OPERATIONS

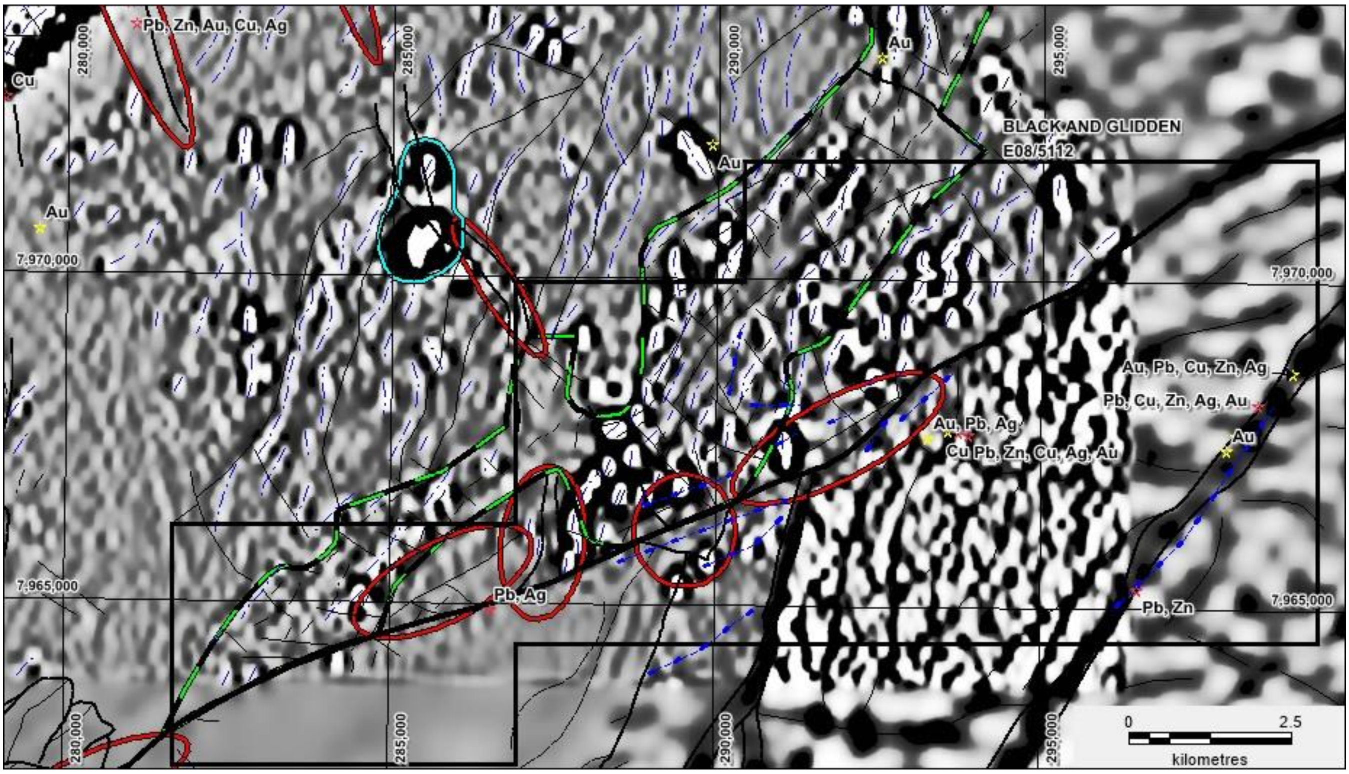


Figure 10: Black and Glidden tenement showing 2VD aeromagnetics, structures and targ

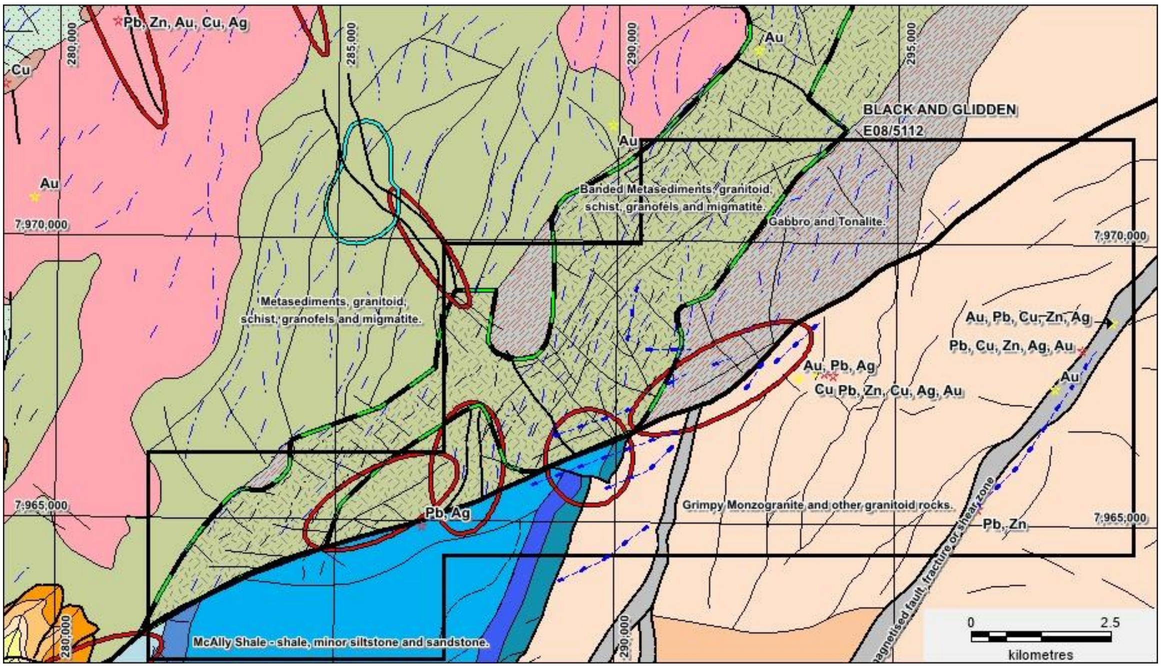


Figure 11: Black and Glidden tenement showing interpreted geology, structures and target

REVIEW OF OPERATIONS

Carrington E80/5113

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**.

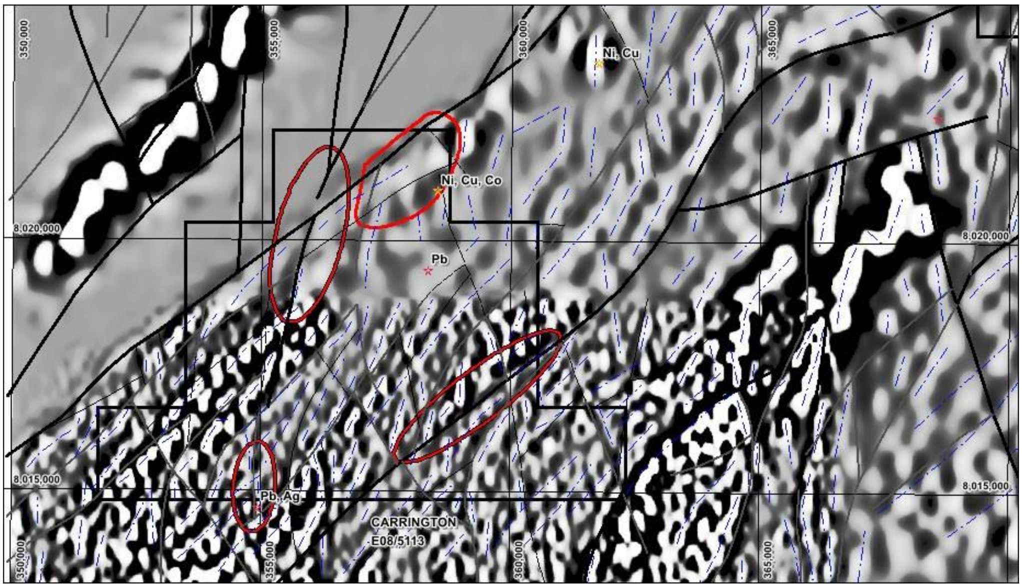


Figure 12: Carrington tenement showing 2VD aeromagnetics, structures and target

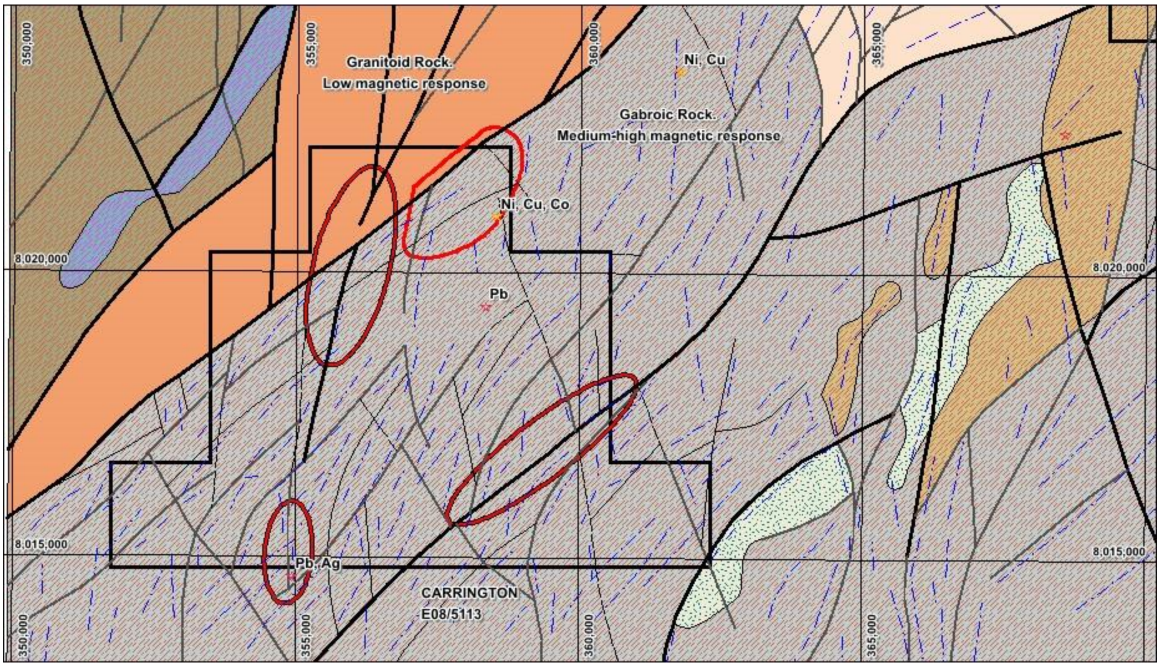


Figure 13: Carrington tenement showing interpreted geology, structures and targets

REVIEW OF OPERATIONS

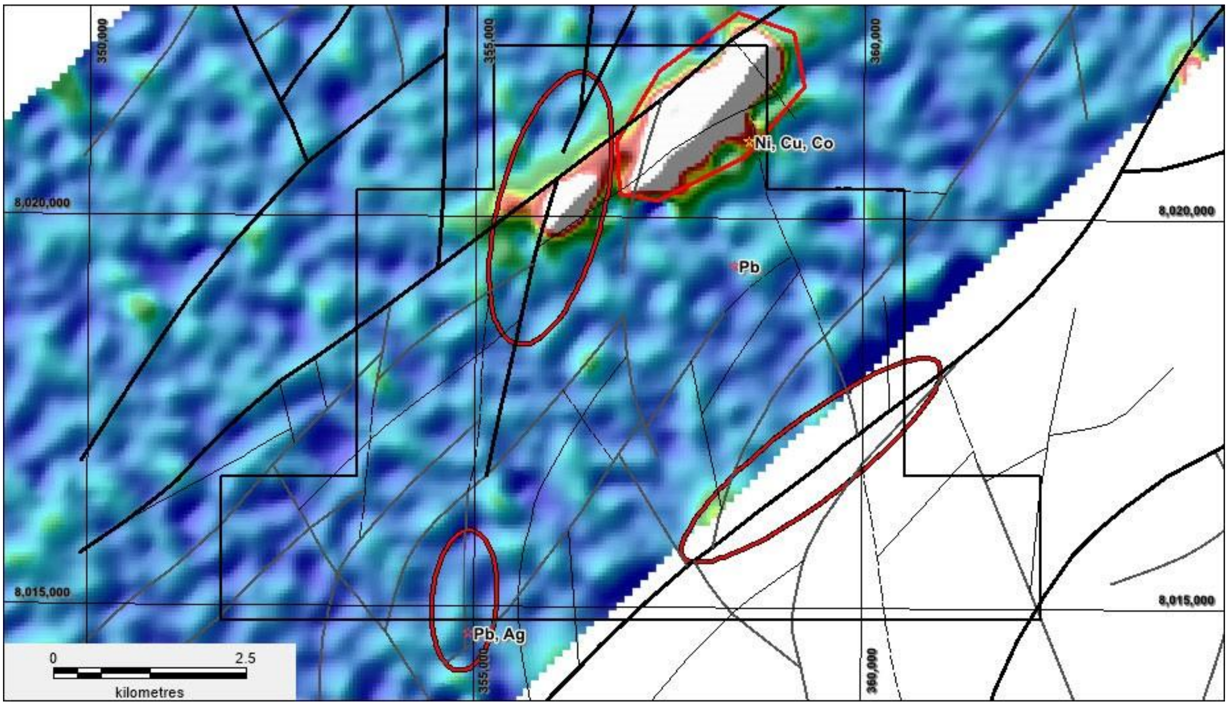


Figure 14: Carrington tenement showing airborne EM image and conductive feature in the north

Wild Dog E80/5114 and Sandy Creek E80/5115

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 with the same lithostructural contact extending into the Sandy Creek tenement and associated with a linear EM conductor.

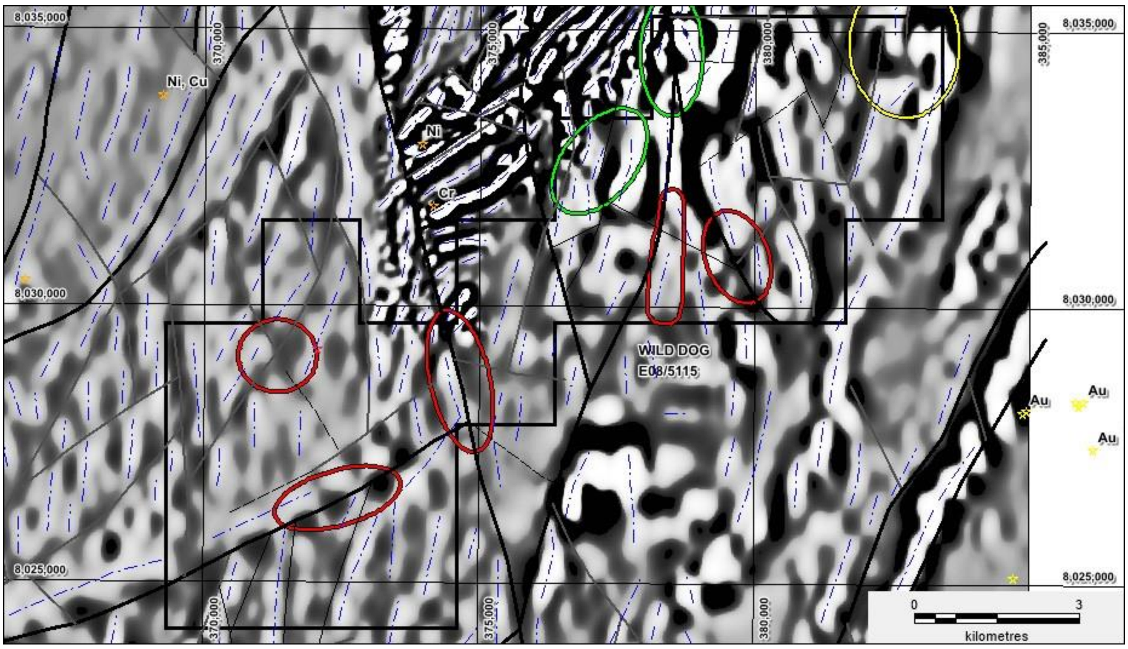


Figure 15: Wild Dog tenement showing 2VD aeromagnetics and target areas

REVIEW OF OPERATIONS

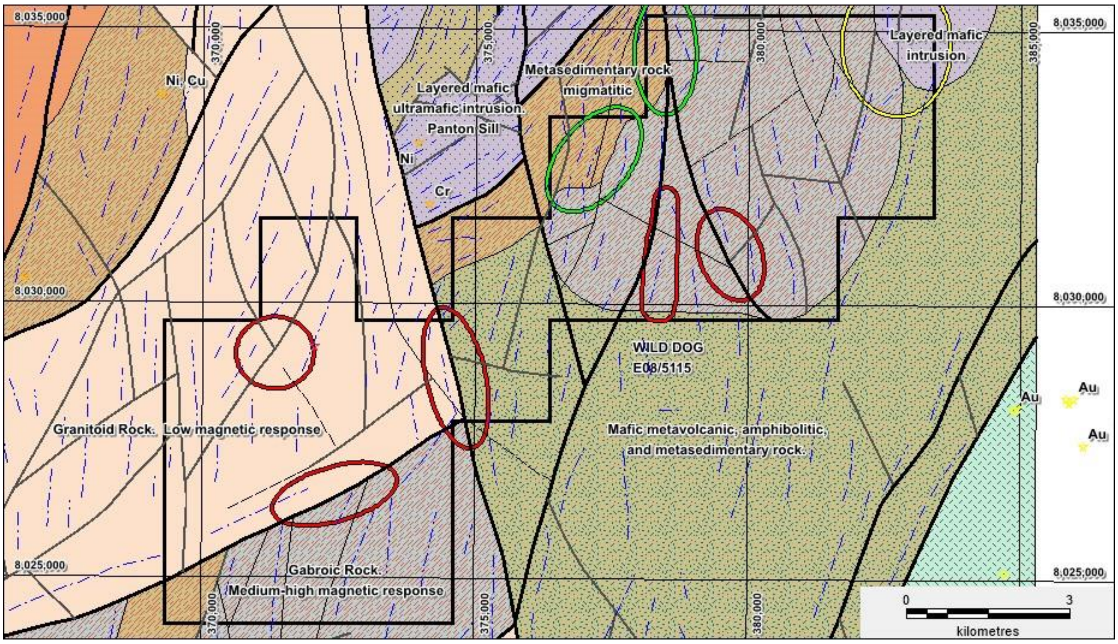


Figure 16: Wild Dog tenement showing interpreted solid geology, structures and target

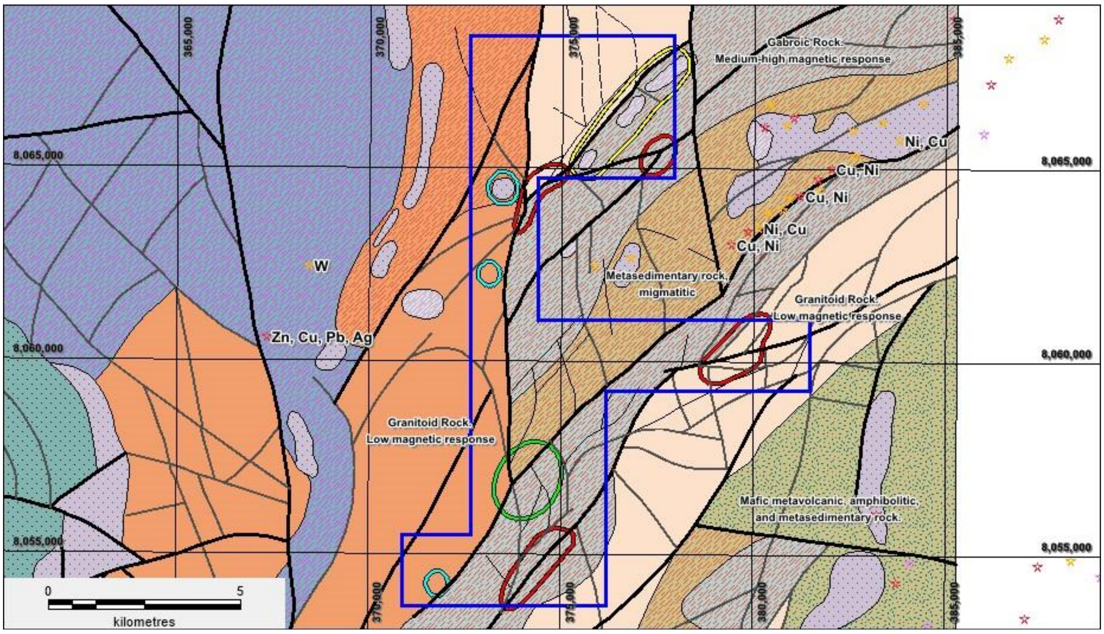


Figure 17: Sandy Creek tenement showing interpreted solid geology, structures and target areas

REVIEW OF OPERATIONS

Tennant Creek – Exploration Licence Applications ELA 32665 Gidyea and ELA 32666 Kovacs – Northern Territory

In February 2021, wholly owned subsidiary Kaili Gold Pty Ltd 100% applied for two Exploration Licences ELA 32665 Gidyea and ELA 32666 Kovacs located to the south and south east of Tennant Creek (**Figure 18**).

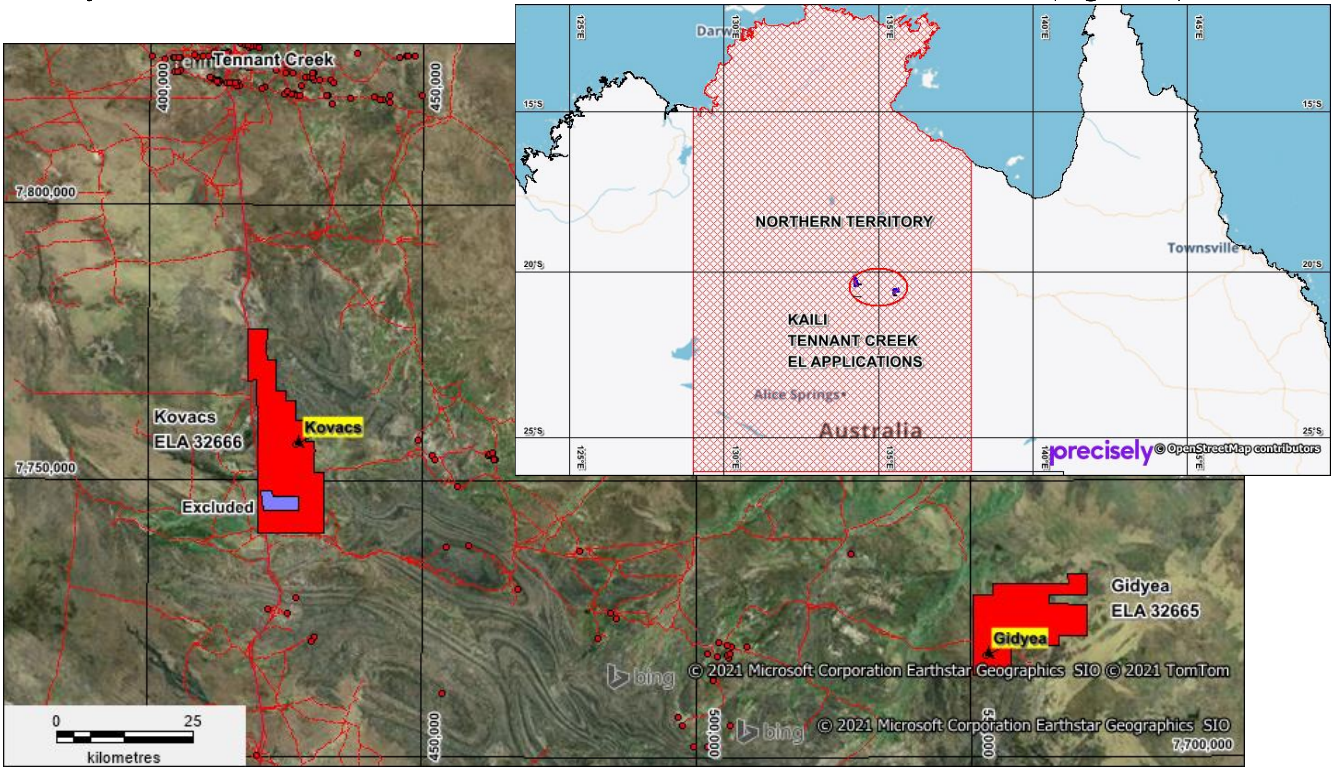


Figure 18: Regional Tenement Location SE of Tennant Creek – Kovacs and Gidyea

Geology of the Region

The tenements are located in the mineral rich Paleoproterozoic Warramunga Province (shaded brown) and flanked by the younger Palaeoproterozoic Davenport Province (shaded green) (**Figure 19**). The Provinces are flanked by the Cambrian Wiso and Georgina Basins to the west and east respectively.

REVIEW OF OPERATIONS

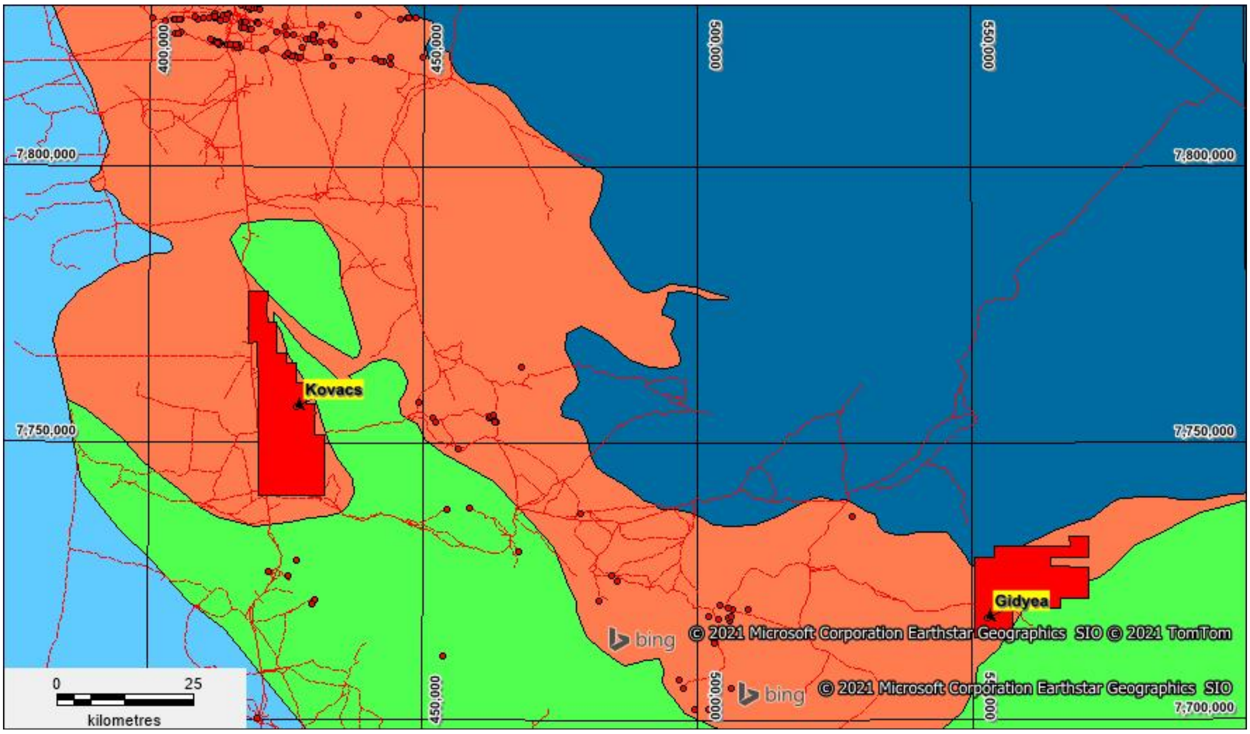


Figure 19: Regional Geological Location SE of Tennant Creek – Kovacs and Gidyea
Warramunga Province (Shaded Brown), Davenport Province (Shaded Green), Georgina Basin (Shaded Dark Blue) and Wiso Basin (Shaded Light Blue)

The Warramunga is represented by the Ooradidgee Group and the Davenport by the Hatches Creek Group; both comprise various sedimentary units including sandstone, siltstone, limestone and dolostone as well as felsic to mafic volcanics. Very low-grade regional greenschist metamorphism associated with folding and faulting has affected the Paleoproterozoic rocks. Locally there are indications of lower amphibolites facies metamorphism in the volcanics.

The Cambrian age sediments include sandstone, conglomerate, dolostone and chert. Fossiliferous units occur in the younger Cambrian stratigraphy.

Intrusive igneous rocks include sills of granophyre, microgranite and feldspar porphyry, sills, dikes and irregular bodies of dolerite and gabbro and, granites of varying ages. The igneous suites both pre and postdate the various deformational episodes.

The placement of the Ooradidgee Group into the Warramunga Province has opened up new economic implications for the region, given the world class Tennant Creek copper-gold-bismuth deposit style occurs in similar aged rocks. In the case of Gidyea, the presence of anomalous gold in ferruginous sediments of what have been mapped as Ooradidgee Group is very encouraging.

REVIEW OF OPERATIONS

Historic Production of the Region

Since 1932 the Tennant Creek goldfield has produced in excess of 5 M ounces of gold (156 tonnes), 345,000 tonnes copper, 1.8 M ounces of silver (56 tonnes), 14,000 tonnes bismuth and 220 tonnes of selenium. Although production has come from over a hundred small to medium-sized deposits, the bulk of the historical production has come from 12 main orebodies, including Peko, Warrego, Nobles Nob and Juno. Gold and copper grades are variable, but the deposits typically have high gold grades. Mineralisation is generally related to ironstones, which have formed in structural 'traps' within the sedimentary pile and is not associated with quartz veining, which is typical of many Proterozoic goldfields.

Gold has been reported at two locations just west of Gidyea: at Kurinelli, approximately 50 km due west and in several small mines near the Hatches Creek Wolfram (Tungsten) Field, 30 km to the southwest. Reports are that the Kurinelli goldfield produced an estimated 2,600 ounces of gold since about 1900.

Magnetics and Radiometrics

The regional stratigraphy is quite convoluted as shown by **Figure 20** and is particularly evident on the Gidyea Prospect (east). The images indicate the stratigraphy at Gidyea is highly folded and magnetic with historical sampling at the Gidyea Prospect returning elevated Gold and Cobalt results. The convoluted magnetic stratigraphy at Kovacs (east) hosts some small gold workings that have had no exploration since the 1980's. **Figure 21** shows a uranium radiometric image which clearly outlines the Warramunga Province.

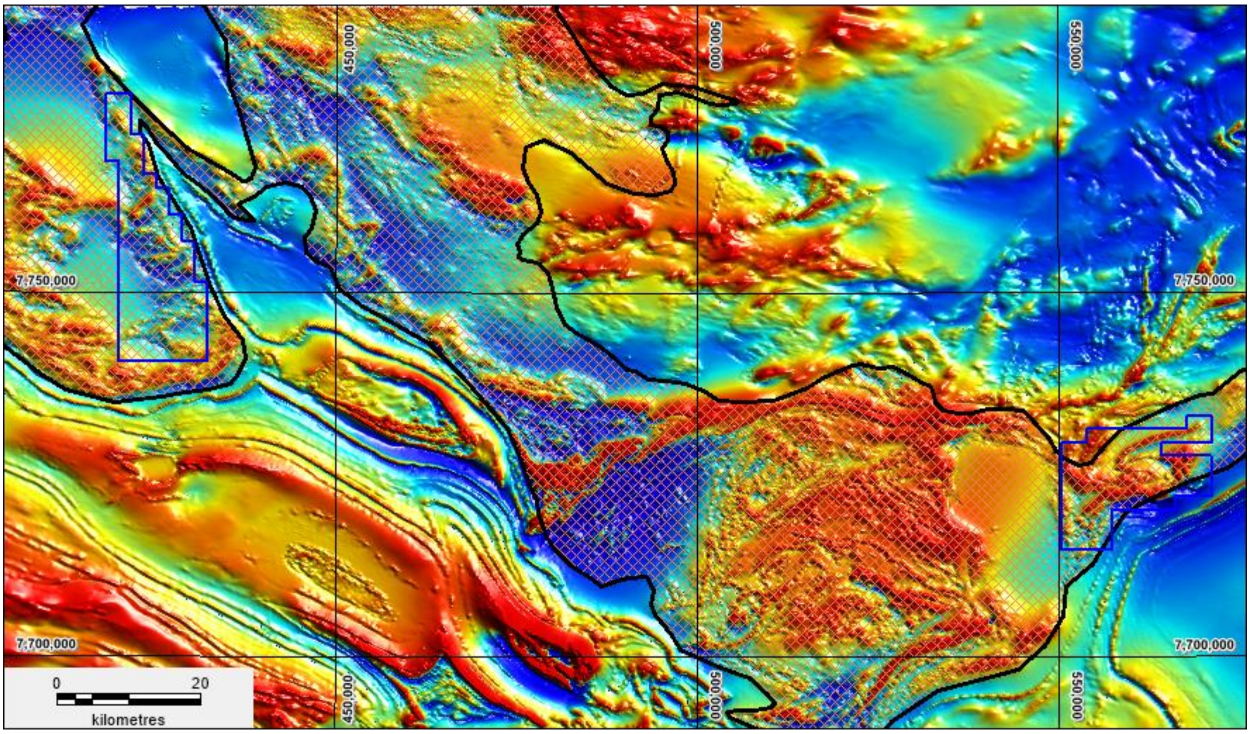


Figure 20: Gidyea (east) and Kovac (west) are shown on regional TMI magnetics with the Warramunga Province shown as a light hatching over the magnetics.

REVIEW OF OPERATIONS

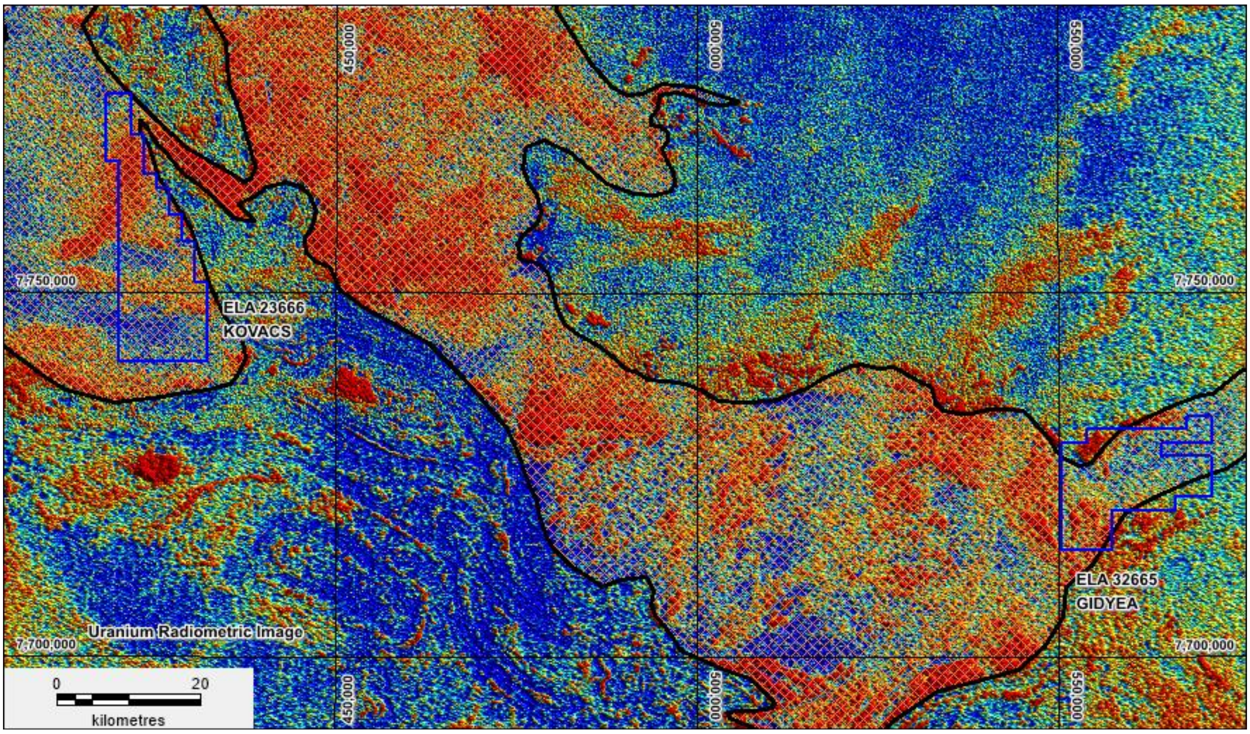


Figure 21: Gidyea and Kovac projects are shown on regional Uranium radiometrics with the Warramunga Province shown as a light hatching over the radiometrics.

Proposed Exploration:

Within the first two years following grant the following activities are planned:

- Detailed review of all historic exploration including digitising of historic maps and exploration data.
- Geological and regolith mapping.
- Surficial geochemical sampling.
- Ground based geophysical surveys such as magnetics and gravity.
- Shallow aircore drilling of the interface between transported sediments and residual bedrock.

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 in 2020. 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 BIF layer from historical drilling results at the Bustler Bore project, the Company decided to relinquish the three (3) Pilbara Craton Iron tenements. The relinquishment was approved by the DMIRS on 15th January 2020.

REVIEW OF OPERATIONS

Figure 22: Kaili Resources iron projects showing iron ore mines of third parties as red diamond

Clarence Moreton Basin (Maryvale) Coal Project – Queensland

EPC1506 Relinquished in 2020. Previously held 100% by wholly owned subsidiary APEC Coal Pty Ltd.

In the December 2019 quarter, based on drill analyses and land access constraints, the Company decided to relinquish the tenement. The relinquishment documents were lodged in January 2020 and confirmation of relinquishment was received in May 2020.

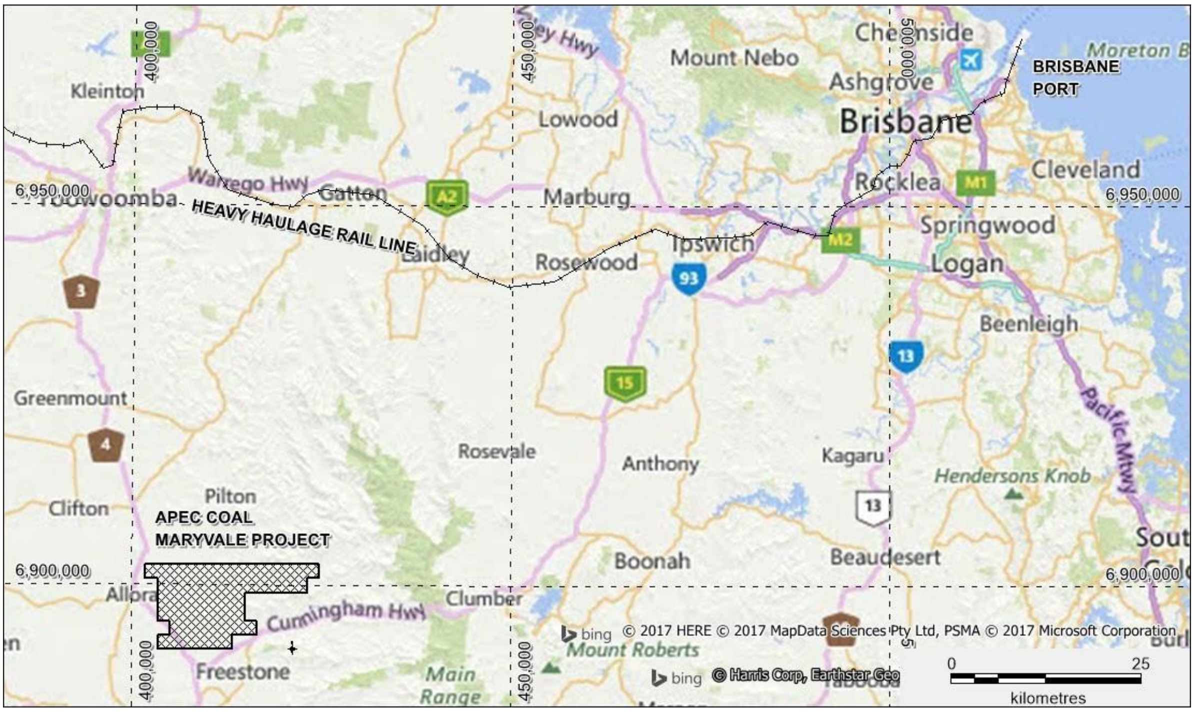


Figure 23: Maryvale Project Location Map

REVIEW OF OPERATIONS

LICENCES STATUS

Minerals tenements and their locations held at 31 December 2020 are set out below:

Granted	Tenement	Name	Commodity	Region	Registered Holder	Beneficial Interest	Area km^2	Expiry
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
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
							710.4	

There was no acquisition or disposal or change in beneficial interests under farm-in or farm-out agreements during the year other than relinquishment of E08/2770-I(Darnell Hill), E46/1084-I(Bustler Bore), E45/4619-I(Bea Bea Creek) in Western Australia and EPC1506 in Queensland.

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

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

Forward-Looking Statement

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

DIRECTORS' REPORT

The Directors present their report together with the consolidated financial statements of Kaili Resources Limited ("the Company") and its controlled entities ("the Group") for the year ended 31 December 2020.

DIRECTORS

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

Donghai Zhang
Chunlin Liu
Jing Li
Jianzhong Yang
Long Zhao

DIRECTORS' INFORMATION

Donghai Zhang
Non-Executive Chairman

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

Chunlin Liu
Non-Executive Director

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

Jing Li
Non-Executive Director

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

Jianzhong Yang
Non-Executive Director

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

Long Zhao
Executive Director

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

COMPANY SECRETARY

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

PRINCIPAL ACTIVITIES

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

OPERATING AND FINANCIAL REVIEW

Review of operations

A Review of Operations for the financial year, together with future prospects, is set out on pages 3 to 21.

Performance

The loss of the Group after income tax for the year was $1,424,491 (2019: loss $1,522,601) including impairment of exploration and evaluation expenditure of $490,928 (2019: $164,430).

Financial position

At 31 December 2020 the Group was in a net liability position of $175,257 (2019: net assets $1,249,234) with an unsecured and interest free loan of $1.6 million maturing on 1 October 2021 (extended to 1 April 2022 after balance date) from Yitai Group (Hong Kong) Co., Limited, a related party of the ultimate parent company Inner Mongolia Yitai Investment Co., Limited. That loan was increased from $500,000 to $1.6 million during the year. Total assets decreased to $2,051,010 (2019: $2,846,230), with cash and cash equivalents of $32,111 (2019: $249,816).

Subsequent to balance date on 5 February 2021, the loan agreement was varied to increase the facility from $1.6 million to $2.4 million and extend the maturity date from 1 October 2021 to 1 April 2022. The Company has drawn $800,000 to the full limit of the loan facility to fund operations. In March 2021, the related party confirmed financial support to the Company undertaking to provide additional interest free and unsecured funds of up to $1 million until 1 April 2022 that may be drawn as necessary to ensure that the Group continues to be able to pay its debts as and when they fall due, meets its work commitments and continues to operate as a going concern. No amount has been drawn under the undertaking at the date of this report.

Cash flows

Operating activities resulted in net outflow of $778,644 (2019: $849,203) as the Group is still in the exploration phase with no income. A total of $241,810 (2019: $344,286) was spent on exploration activities.

State of affairs

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

- Completion of 50 Aircore drillholes at ELs 31/1113 (Canegrass) and 27/550 (Holey Dam) in September 2020. Details of the drilling program are included in the Review of Operations.

Dividends

The Directors recommend that no dividend be declared or paid.

Likely developments

During the subsequent financial year the likely developments of the Group will be continuation of exploration in its tenement in Western Australia and commencement of exploration in the tenements in the Northern Territory when granted.

DIRECTORS' BENEFITS

No Director of the Company has received or become entitled to receive a benefit (other than a benefit included in the aggregate amount of remuneration received or due and receivable by Directors as detailed in the Remuneration Report) by reason of a contract made by the consolidated entity or a controlled entity with the Director or with a firm of which the Director is a member, or with a Company in which the Director has a substantial interest, except for any benefit that may be deemed to have arisen as disclosed in Note 27 of the financial statements.

DIRECTORS' REPORT (continued)

DIRECTORS' INTERESTS IN CONTRACTS

No contracts involving Directors' interests were entered into during the financial year except as disclosed in Note 27 of the financial statements.

DIRECTORS' MEETINGS

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

	Directors' Meetings	
	Number eligible to attend	Number attended
Donghai Zhang	-	-
Chunlin Liu	-	-
Jing Li	-	-
Jianzhong Yang	-	-
Long Zhao	-	-

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

REMUNERATION REPORT

The information provided in this remuneration report has been audited.

A. Principles Used to Determine Amount and Nature of Remuneration

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

- Competitiveness and reasonableness
- Acceptability to shareholders
- Transparency

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

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

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

I. Remuneration of Directors

	Short-term benefits Cash salary and fees	Post-Employment benefits Superannuation	Total	% of performance related remuneration
	$	$	$	
2020				
Donghai Zhang	-	-	-	-
Chunlin Liu	-	-	-	-
Jing Li	-	-	-	-
Jianzhong Yang	13,605	2,656	16,261	-
Long Zhao	68,016	6,462	74,478	-
Yutian Bai[1]	16,051	1,525	17,576	
	97,672	10,643	108,315	-

[1] Backpay to Mr. Yutian Bai for the period when he was a non-executive director of the Company, 9 November 2016 to 8 November 2018.

DIRECTORS' REPORT (continued)

	Short-term benefits Cash salary and fees	Post-Employment benefits Superannuation	Total	% of performance related remuneration
	$	$	$	
2019				
Donghai Zhang	-	-	-	-
Chunlin Liu	-	-	-	-
Jing Li	-	-	-	-
Jianzhong Yang	69,038	24,006	93,044	-
Long Zhao[1]	29,916	2,402	32,318	-
	98,954	26,408	125,362	-

[1] Appointed on 9 August 2019

II. Remuneration of Key Management Personnel of the Group

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

III. Service agreement

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

Director or key management personnel	Salient details
Jianzhong Yang Non-Executive Director	• Employment contract with Kaili Minerals Management Pty Ltd, a wholly owned subsidiary, as Managing Director, on a salary of $80,000 p.a. plus statutory superannuation. • Statutory leave entitlements in New South Wales apply. • Either party may terminate the employment contract by giving 4 weeks' notice. Service agreement ceased on 9 February 2020.

IV. Share-based compensation

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

DIRECTORS' REPORT (continued)

C. Directors' securities holdings

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

2020

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

[1] Shares held by Kaili Holdings Limited, a company controlled by Director Jianzhong Yang

2019

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

[1] Appointed on 9 August 2019

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

ENVIRONMENTAL REGULATION

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

NON-AUDIT SERVICES

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

DIRECTORS' REPORT (continued)

EVENTS AFTER THE REPORTING DATE

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

- In February 2021, the Group applied for 2 new tenements near Tennant Creek in the gold and base metal prospective Warramunga Province of the Northern Territory. ELA 32665 Gidyea and ELA 32666 Kovacs exploration licence applications were registered.

- On 5 February 2021, the Company and Yitai Group (Hongkong) Co., Limited, a related party of the ultimate parent company, entered into a Varied Loan Agreement to increase an existing loan facility from $1.6 million to $2.4 million and to extend the maturity date from 1 October 2021 to 1 April 2022. The Company has drawn $800,000 to the full limit of the loan facility of $2.4 million.

- In March 2021, Yitai Group (Hongkong) Co., Limited confirmed financial support to the Company undertaking to provide additional interest free and unsecured funds of up to $1 million until 1 April 2022 that may be drawn as necessary to ensure that the Group continues to be able to pay its debts as and when they fall due, meets its work commitments and continues to operate as a going concern. No amount has been drawn under the undertaking at the date of this report.

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration is included on page 28 of the Annual Report and forms part of this report.

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

Donghai Zhang
Chairman

Sydney
31st March 2021

Kaili Resources Limited

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

To the Directors of Kaili Resources Limited

I declare that, to the best of my knowledge and belief, in relation to the review of Kaili Resources Limited for the year ended 31 December 2020 there has been:

a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the review; and

b) no contraventions of any applicable code of professional conduct in relation to the review.

J F Shute

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

Dated this 26 March 2021

CORPORATE GOVERNANCE STATEMENT

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

The ASX Corporate Governance Council has published the Corporate Governance Principles and Recommendations – 4th edition which takes effect for a listed entity’s first full financial year commencing on or after 1 January 2020. The Group has adopted the 4th edition from 1 January 2020.

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2020

	NOTE	2020	2019
		$	$
Revenue			
Interest income		5,835	1,849
Other income	4	43,236	48,250
		49,071	50,099
Expenses			
Depreciation expense	11	(338,561)	(310,557)
Employee benefits expense		(217,867)	(325,366)
Finance costs		(62,822)	(86,719)
Impairment of exploration and evaluation expenditure	12	(490,928)	(164,430)
Other expenses	5	(363,384)	(685,628)
Loss before income tax		**(1,424,491)**	**(1,522,601)**
Income tax	10	-	-
Loss after income tax		**(1,424,491)**	**(1,522,601)**
Other comprehensive income (loss) for the year, net of tax		**-**	**-**
Total comprehensive loss for the year attributable to members of the Parent Entity		**(1,424,491)**	**(1,522,601)**
		Cents	**Cents**
Loss per share			
Basic and diluted loss per share	24	(0.97)	(1.03)

The accompanying notes form part of these financial statements.

CONSLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2020

	NOTE	2020	2019
		$	$
Current Assets			
Cash and bank balances	6	32,111	249,816
Trade and other receivables	7	18,370	11,784
Prepayments	8	24,805	30,505
Financial assets	9	-	500
Total Current Assets		75,286	292,605
Non-Current Assets			
Property, plant and equipment	11	448,998	787,559
Financial assets	9	233,314	235,814
Exploration and evaluation expenditure	12	1,293,412	1,530,252
Total Non-Current Assets		1,975,724	2,553,625
Total Assets		2,051,010	2,846,230
Current Liabilities			
Trade and other payables	14	180,618	318,558
Provisions	15	21,047	19,045
Borrowings	16	-	500,000
Lease liabilities	13	390,031	334,791
Total Current Liabilities		591,696	1,172,394
Non-Current Liabilities			
Lease liabilities	13	34,571	424,602
Borrowings	16	1,600,000	-
Total Non-Current Liabilities		1,634,571	424,602
Total Liabilities		2,226,267	1,596,996
Net (Liabilities)/Assets		(175,257)	1,249,234
Shareholders' Equity			
Share capital	19 (b)	1,474,004	1,474,004
Reserves	19 (c)	(1,649,261)	(224,770)
Total (Deficit)/Equity		(175,257)	1,249,234

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2020

	NOTE	2020	2019
		$	$
Cash flows from operating activities			
Payments to suppliers and employees		(762,880)	(769,319)
Interest paid		(59,000)	(79,884)
Receipts under Government cash flow boost		43,236	-
Net cash used in operating activities	23(b)	(778,644)	(849,203)
Cash flows from investing activities			
Payments for exploration and evaluation expenditure		(241,810)	(344,286)
Purchase of plant and equipment		-	(153,987)
Receipt from Exploration Incentive Scheme (WA)		-	48,250
Net inflow/(outflow) for security deposits		3,000	(222,919)
Interest received		5,835	1,849
Net cash used in investing activities		(232,975)	(671,093)
Cash flows from financing activities			
Payments for lease liabilities		(305,372)	(191,797)
Proceeds from long term loan		1,100,000	-
Capital raising costs		-	(15,187)
Net cash from/(used) in financing activities		794,628	(206,984)
Net decrease in cash and cash equivalents		(216,991)	(1,727,280)
Cash and cash equivalents at beginning of year		249,816	1,977,022
Effect of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies		(714)	74
Cash and cash equivalents at end of year	6	32,111	249,816

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2020

	Share capital	Share premium	Accumulated losses	Total
	$	$	$	$
Balance as at 1 January 2019	1,474,004	24,475,363	(23,177,532)	2,771,835
Loss and total comprehensive loss for the year	-	-	(1,522,601)	(1,522,601)
Balance as at 31 December 2019	1,474,004	24,475,363	(24,700,133)	1,249,234
Loss and total comprehensive loss for the year	-	-	(1,424,491)	(1,424,491)
Balance as at 31 December 2020	1,474,004	24,475,363	(26,124,624)	(175,257)

The accompanying notes form part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

1. NATURE OF OPERATIONS

Kaili Resources Limited and its subsidiaries' ("the Group") principal activities are investment in the coal, energy and resources industry. Details of the principal activities of the Group are set out in Note 20 to the financial statements.

2. GENERAL INFORMATION AND STATEMENT OF COMPLIANCE

The consolidated financial statements of the Group for the year ended 31 December 2020 have been prepared in accordance with Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board (AASB). Compliance with Australian Accounting Standards results in full compliance with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Inner Mongolia Yitai Investment Co., Limited is the ultimate parent company of the Group. Kaili Resources Limited ("the Company") is a public limited company incorporated in Bermuda with its shares listed on the Australian Securities Exchange ("ASX"). The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and its office is at Governor Phillip Tower, Suite 3, Level 44, 1 Farrer Place, Sydney NSW 2000, Australia.

The consolidated financial statements for the year ended 31 December 2020 were approved and authorised for issue by the Board on 31 March 2021.

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

(a) Basis of Preparation

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

These financial statements are presented in Australian dollars.

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

The principal accounting policies and methods of computation used by the Group in the preparation of the financial statements for the year ended 31 December 2020 are consistent with those adopted in the financial statements for the year ended 31 December 2019.

Judgments

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

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

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

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES – CONTINUED

(b) Basis of Consolidation

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

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

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

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

The interests in the controlled entities are disclosed in Note 20.

(c) Going concern

At balance date the Group had current assets of $75,286 (2019: $292,605) including cash and cash equivalents of $32,111 (2019: $249,816), current liabilities of $591,696 (2019: $1,172,394) which included current lease liabilities under AASB 16 of $390,031 (2019: $334,791) and has incurred a net loss of $1,424,491 (2019: $1,522,601) in the year. In addition, the Group has an unfulfilled expenditure requirement under its exploration licences of $171,000 and lease commitment of $77,500 for the next 12 months.

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

In February 2021, the loan agreement with Yitai Group (Hongkong) Co., Limited, a related party of the ultimate parent company, was varied to increase the unsecured and interest free loan of $1.6 million to $2.4 million and to mature on 1 April 2022. The loan facility has been fully drawn by the Company in February 2021. In March 2021, Yitai Group (Hongkong) Co., Limited confirmed its financial support to the Group undertaking to provide unsecured and interest free funds of up to $1 million until 1 April 2022 that may be drawn as necessary to ensure that the Group continues to be able to pay its debts as and when they fall due, meets its work commitments and continues to operate as a going concern. No amount has been drawn under the undertaking at the date of this report. Based on that financial support, the consolidated financial statements have been prepared on a going concern basis, which assumes that the Group will be able to pay its debts as and when they become due and payable.

(d) Investments

Controlled Entities

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

(e) Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost, less provision for depreciation and impairment losses, if any. Right-of-use assets are disclosed under this heading. Details are set out in Note 11.

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable cost of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the item has been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the consolidated income statement in the year in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in future economic benefits expected to be obtained from the use of the item, the expenditure is capitalised as an additional cost of the item. When an item of property, plant and equipment is sold, its cost and

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES – CONTINUED

accumulated depreciation are removed from the consolidated financial statements and any gain or loss resulting from the disposal, being the difference between the net disposal proceeds and the carrying amount of the asset, is included in the consolidated income statement.

	Depreciation Method	Depreciation Rate
Office Equipment	Prime Cost	20.0%
Motor Vehicle	Prime Cost	12.5%

(f) Leased assets

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

- The contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Group;

- The Group has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract;

- The Group has the right to direct the use of the identified asset throughout the period of use. The Group assesses whether it has the right to direct "how and for what purpose" the asset is used throughout the period of use.

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.

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 the 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, and, except where included in the cost of inventories, 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 consolidated entity 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.

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 rate cannot be readily determined, the consolidated entity'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; the lease term; and 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.

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES – CONTINUED

Lease term

The lease term is a significant component in the measurement of both the right-of-use asset and lease liability. Judgement is exercised in determining whether there is reasonable certainty that an option to extend the lease or purchase the underlying asset will be exercised, or an option to terminate the lease will not be exercised, when ascertaining the periods to be included in the lease term. In determining the lease term, all facts and circumstances that create an economical incentive to exercise an extension option, or not to exercise a termination option, are considered at the lease commencement date. Factors considered may include the importance of the asset to the consolidated entity's operations; comparison of terms and conditions to prevailing market rates; incurrence of significant penalties; existence of significant leasehold improvements; and the costs and disruption to replace the asset. The consolidated entity reassesses whether it is reasonably certain to exercise an extension option, or not exercise a termination option, if there is a significant event or significant change in circumstances.

Incremental borrowing rate

Where the interest rate implicit in a lease cannot be readily determined, an incremental borrowing rate is estimated to discount future lease payments to measure the present value of the lease liability at the lease commencement date. Such a rate is based on what the consolidated entity estimates it would have to pay a third party to borrow the funds necessary to obtain an asset of a similar value to the right-of-use asset, with similar terms, security and economic environment.

(g) Foreign Currency

Translation of foreign currency transactions

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

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

(h) Income Tax

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

Current income tax expense charged to profit or loss is the tax payable on taxable income. Current tax liabilities/(assets) are measured at the amounts expected to be paid to/(recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well as unused tax losses.

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

Deferred tax assets relating to temporary differences and unused tax losses are recognized only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilized.

(i) Goods and Services Tax ('GST') and other similar taxes

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES – CONTINUED

recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

(j) Exploration and Development Expenditure

Exploration, evaluation and development expenditures incurred are capitalized in respect of each identifiable area of interest. These costs are only capitalized to the extent that they are expected to be recovered through the successful development of the area or where activities in the area have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

Accumulated costs in relation to an abandoned area are written off in full against profit or loss in the year in which the decision to abandon the area is made.

When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to capitalize costs in relation to that area of interest.

Costs of site restoration are provided for over the life of the project from when exploration commences and are included in the costs of that stage. Site restoration costs include the dismantling and removal of mining plant, equipment and building structures, waste removal, and rehabilitation of the site in accordance with local laws and regulations and clauses of the permits, such costs have been determined using estimates of future costs, current legal requirements and technology on an undiscounted basis.

Any changes in the estimates for the costs are accounted for on a prospective basis. In determining the costs of site restoration, there is uncertainty regarding their nature and extent of the restoration due to community expectations and future legislation. Accordingly, the costs have been determined on the basis that the restoration will be completed within one year of abandoning the site.

(k) Provisions

Employee Entitlements

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

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

Doubtful Debts

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

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES – CONTINUED

(l) Revenue recognition

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

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

(m) Impairment of non-financial assets

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

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the consolidated income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued assets.

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

(n) Financial instruments

Recognition, initial measurement and derecognition

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the financial instrument, and are measured initially at fair value adjusted by transactions costs, except for those carried at fair value through profit or loss, which are measured initially at fair value. Subsequent measurement of financial assets and financial liabilities are described below.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Classification and subsequent measurement of financial assets

Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with AASB 15, all financial assets are initially measured at fair value adjusted for transaction costs (where applicable).

For the purpose of subsequent measurement, financial assets other than those designated and effective as hedging instruments are classified as amortised cost upon initial recognition:

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES – CONTINUED

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of trade receivables which is presented within other expenses.

Classifications are determined by both:

- The entities business model for managing the financial asset
- The contractual cash flow characteristics of the financial assets

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of trade receivables, which is presented within other expenses.

Subsequent measurement financial assets

Financial assets at amortised cost

Financial assets are measured at amortised cost if the assets meet the following conditions (and are not designated as FVPL):

- they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding

After initial recognition, these are measured at amortised cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial. The entity's cash and cash equivalents, trade and most other receivables fall into this category of financial instruments as well as government bonds that were previously classified as held-to-maturity under AASB 139.

Impairment of Financial assets

AASB 9's impairment requirements use more forward-looking information to recognize expected credit losses – the 'expected credit losses (ECL) model'. Instruments within the scope of the new requirements included loans and other debt-type financial assets measured at amortised cost and FVOCI, trade receivables, contract assets recognised and measured under AASB 15 and loan commitments and some financial guarantee contracts (for the issuer) that are not measured at fair value through profit or loss.

The entity considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying this forward-looking approach, a distinction is made between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk ('Stage 1') and
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ('Stage 2').

'Stage 3' would cover financial assets that have objective evidence of impairment at the reporting date.

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES – CONTINUED

'12-month expected credit losses' are recognised for the first category while 'lifetime expected credit losses' are recognised for the second category.

Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

Classification and measurement of financial liabilities

As the accounting for financial liabilities remains largely unchanged from AASB 139, the entity's financial liabilities were not impacted by the adoption of AASB 9. However, for completeness, the accounting policy is disclosed below.

The entity's financial liabilities include trade creditors and other payables.

Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the entity designated a financial liability at fair value through profit or loss.

Subsequently, financial liabilities are measured at amortised cost using the effective interest method except for derivatives and financial liabilities designated at FVPL, which are carried subsequently at fair value with gains or losses recognised in profit or loss (other than derivative financial instruments that are designated and effective as hedging instruments).

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within finance costs or finance income.

(o) Impairment testing of goodwill, other intangible assets and property, plant and equipment

For impairment assessment purposes, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which management monitors goodwill.

Cash-generating units to which goodwill has been allocated (determined by the Group's management as equivalent to its operating segments) are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount, which is the higher of fair value less costs to sell and value-in-use. To determine the value-in-use, management estimates expected future cash flows from each cash-generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Group's latest approved budget, adjusted as necessary to exclude the effects of future reorganisations and asset enhancements. Discount factors are determined individually for each cash-generating unit and reflect current market assessments of the time value of money and asset-specific risk factors.

Impairment losses for cash-generating units reduce first the carrying amount of any goodwill allocated to that cash-generating unit. Any remaining impairment loss is charged to pro-rata to the other assets in the cash-generating unit.

With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist. An impairment loss is reversed if the asset's or cash-generating unit's recoverable amount exceeds its carrying amount.

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES – CONTINUED

(p) Cash and cash equivalents

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

(q) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:
- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:
- (i) The entity and the Group are members of the same group.
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(r) New and amended standards and interpretations

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

- (i) Definition of a Business (Amendments to IFRS 3);
- (ii) Definition of Material (Amendments to IAS 1 and IAS 8)
- (iii) Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)
- (iv) Amendments to Refences to the Conceptual Framework (Various Standards)
- (v) COVID-19 Rent Related Concessions (Amendments to IFRS 16)

	2020	2019
	$	$

4. OTHER INCOME

	2020 $	2019 $
Exploration Incentive Scheme (WA)	-	48,250
Government subsidies	43,236	-
	43,236	48,250

5. OTHER EXPENSES

	2020 $	2019 $
Audit fees	19,960	18,800
Consulting fees	68,503	62,413
Insurance	9,460	2,915
Registration fees and charges	35,420	24,868
Legal and professional fees	78,530	77,521
Listing fees	11,026	18,423
Rental expenses	18,860	299,809
Office services charges	72,377	56,303
Share registry	9,542	9,629
Travel and accommodation	9,757	47,214
Other costs	29,949	67,733
	363,384	685,628

6. CASH AND CASH EQUIVALENTS

	2020 $	2019 $
Cash at bank	32,111	249,816

7. TRADE AND OTHER RECEIVABLES

	2020 $	2019 $
GST receivable	18,370	11,784

8. PREPAYMENTS

	2020 $	2019 $
Prepayments	24,805	30,505

9. FINANCIAL ASSETS

	2020 $	2019 $
Current		
Rental bond	-	500
Non-Current		
Security deposits	233,314	235,814

	2020	2019
	$	$

10. INCOME TAX

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

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

	2020	2019
Loss before income tax	(1,424,491)	(1,522,601)
Tax at the Australian domestic income tax rate 27.5% (2019:27.5%)	(391,735)	(418,715)
Tax losses not recognised	391,735	418,715
Income tax expense	-	-

At the reporting date, the Group has estimated tax losses of $8,499,000 (2019: $6,998, 000). A deferred tax asset has not been recognised for these losses because it is not probable that future taxable income will be available to use against such losses.

11. PROPERTY, PLANT AND EQUIPMENT

2020	Right-of-use assets $	Furniture & office equipment $	Motor vehicle $	Total $
At cost:				
Balance at beginning of year and end of year	944,355	61,152	103,498	1,109,005
Depreciation:				
Balance at beginning of year	(288,553)	(19,318)	(13,575)	(321,446)
Depreciation charge	(314,785)	(10,839)	(12,937)	(338,561)
Balance at end of year	(603,338)	(30,157)	(26,512)	(660,007)
Carrying amount at 31 December 2020	341,017	30,995	76,986	448,998

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

12. EXPLORATION AND EVALUATION EXPENDITURE

	2020	2019
	$	$
At cost:		
Balance at beginning of year	1,530,252	1,355,100
Additions	254,088	339,582
Impairment	(490,928)	(164,430)
Balance at end of year	1,293,412	1,530,252

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

Ultimate recoupment of the carrying value of the exploration areas is dependent on successful development and commercial exploitation, or alternatively sale of the respective areas of interest. The areas of interest are exploration licences held by the Group and are detailed in the schedule contained in the Licence Status shown on page 21.

13. LEASE LIABILITIES

	2020	2019
Current:		
Lease liabilities	390,031	334,791
Non-Current:		
Lease liabilities	34,571	424,602

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

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

	2020	2019
Due within twelve months	413,518	397,614
Due twelve months or longer and not longer than five years	34,571	448,089

Lease payments not recognised as a liability

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

14. TRADE AND OTHER PAYABLES

	2020	2019
Trade and other payables	74,648	15,108
Amount owing to director[1]	-	186,378
Accrued expenses	105,970	117,072
	180,618	318,558

[1] Amount owing to Director Jianzhong Yang at the beginning of the year was repaid in full during the year. Director Jianzhong Yang made payments for the short-term lease of accommodation and related expenses on behalf of the Company in previous years that had not been fully reimbursed.

	2020	2019
	$	$
15. PROVISIONS		
Employee entitlements	21,047	19,045
16. BORROWINGS		
Current		
Unsecured loan from a related party	-	500,000
Non-Current		
Unsecured loan from a related party	1,600,000	-

In February 2020 Yitai Group (Hongkong) Co. Limited, a related company of the ultimate parent company, agreed to provide financial support facility to fund operations of the Company up to $2.5 million until 1 April 2021.The amount drawn of $1.6 million at balance date is the subject of loan agreement 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. On 5 February 2021, Yitai Group (Hongkong) Co., Limited and the Company entered into a Varied Loan Agreement to increase the loan facility from $1.6 million to $2.4 million with a maturity date of 1 April 2022, allowing early repayments at the Company's election.

	2020	2019
17. REMUNERATION OF AUDITOR		
Amounts received or due and receivable by the auditor for audit and review of financial statements	19,960	18,800

18. SEGMENT INFORMATION

Business segments

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

19. SHARE CAPITAL

	2020 Number of shares	2020 $	2019 Number of shares	2019 $
(a) Authorised capital:				
Authorised ordinary shares: Par value $0.01	5,000,000,000	50,000,000	5,000,000,000	50,000,000
(b) Issued and paid up capital:				
Fully paid ordinary shares: Par value $0.01	147,400,363	1,474,004	147,400,363	1,474,004

	2020	2019
	$	$
(c) Reserves		
Share premium account	24,475,363	24,475,363
Accumulated losses	(26,124,624)	(24,700,133)
	(1,649,261)	(224,770)

20. CONTROLLED ENTITIES

(a) Investments in controlled entities comprise:

Name of subsidiary	Place of incorporation/operation	Principal activities	Beneficial percentage held by economic entity 2020	2019
			%	%
Kaili Corporation Pty Ltd	Australia/Australia	Investment holding	100	100
APEC Coal Pty Ltd	Australia/Australia	Coal exploration	100	100
Kaili Minerals Management Pty Ltd (ex ASF Kaili Resource Pty Ltd)	Australia/Australia	Administration	100	100
Kaili Gold Pty Ltd	Australia/Australia	Gold/cobalt exploration	100	100
Kaili Iron Pty Ltd	Australia/Australia	Iron ore exploration	100	100

21. COMMITMENTS

(a) Exploration expenditure commitments

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

	2020	2019
	$	$
Within twelve months	171,000	415,000
Twelve months or longer and not longer than five years	282,000	715,000
	453,000	1,130,000

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

(b) Lease commitments

Under the office lease agreement, the Group has to pay monthly contributions for the office building's outgoings, cleaning and make good at end of the lease. 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 five years	57,640	135,240
	135,140	213,740

22. CONTIGENT LIABILITIES

At balance date, the Group has given guarantees totaling $45,000 (2019: $60,000) for compliance with the conditions of the exploration licences granted in Western Australia.

	2020	2019
	$	$

23. CASH FLOW INFORMATION

(a) Reconciliation of Cash

Cash and cash equivalents include cash and bank balances.

(b) Reconciliation of loss before income tax to cash flows from operating activities

	2020 $	2019 $
Loss before income tax	(1,424,491)	(1,522,601)
Depreciation	338,561	310,557
Foreign exchange differences	714	(74)
Interest income	(5,835)	(1,849)
Exploration Incentive Scheme (WA)	-	(48,250)
Impairment of exploration and evaluation expenditure	490,928	164,430
Interest payable	3,822	6,835
Operating cash flows before movements in working capital	(596,301)	(1,090,952)
Changes in assets and liabilities relating to operations:		
(Increase)/Decrease in trade and other receivables	(6,586)	32,028
Decrease in prepayments	5,700	22,748
(Decrease)/Increase in trade and other payables	(183,459)	167,928
Increase in provisions	2,002	19,045
Net cash used in operating activities	(778,644)	(849,203)

24. LOSS PER SHARE

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

	2020 $	2019 $
Loss for the purposes of basic and diluted loss per share	(1,424,491)	(1,522,601)
Number of shares	Number	Number
Weighted average number of ordinary shares for the purposes of basic and diluted loss per share	147,400,363	147,400,363

25. FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES

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

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

Financial assets	2020 $	2019 $
Cash and cash equivalents	32,111	249,816
Trade and other receivables	18,370	11,784
Financial assets – current	-	500
Financial assets – non-current	233,314	235,814
Total financial assets	283,795	497,914

	2020	2019
	$	$
Financial liabilities at amortised cost		
Trade and other payables	180,618	318,558
Borrowings - current	-	500,000
Borrowings - non-current	1,600,000	-
Lease liabilities - current	390,031	334,791
Lease liabilities - non-current	34,571	424,602
Total financial liabilitlies	2,205,220	1,577,951

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

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

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

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

(ii) Fair value hierarchy

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

	Note	Level 1	Level 2	Level 3	Total
		$	$	$	$
2020					
Assets					
Total	(a)	283,795	-	-	283,795
Liabilities					
Total		(2,205,220)	-		(2,205,220)
Net fair value		(1,921,425)	-	-	(1,921,425)
2019					
Assets					
Total	(a)	497,914	-	-	497,914
Liabilities					
Total		(1,577,951)	-		(1,577,951)
Net fair value		(1,080,037)	-	-	(1,080,037)

Measurement of fair value

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

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

(i) Interest rate sensitivity analysis

A 1% decrease in interest rate would result in a decrease of $2,654 (2019: $4,831) in interest income for the year based on financial instruments held at each reporting date that are sensitive to changes in interest rates, with all other variables remaining unchanged. A 1% increase in interest rate would have the opposite effect.

(b) Foreign currency risk

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

(c) Credit risk

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

(d) Liquidity risk

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

	2020			**2019**		
	Within 1 year	1 to 5 years	Total	Within 1 year	1 to 5 years	Total
	$	$	$	$	$	$
Trade and other payables and borrowings	180,618	1,600,000	1,780,618	818,558	-	818,558
Lease liabilities	413,518	34,571	448,089	397,614	448,089	845,703

(e) Price risk

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

26. CAPITAL MANAGEMENT

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

The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes during the year ended 31 December 2020.

27. RELATED PARTY TRANSACTIONS

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

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

	2020 $	2019 $
Compensation of KMP of the Group:		
Short-term employee benefits	97,672	98,954
Post-employment benefits	10,643	26,408
Other long-term benefits	-	-
Termination benefits	-	-
Share-based payments	-	-
	108,315	125,362

28. PARENT ENTITY INFORMATION

	2020 $	2019 $
Assets		
Current assets	1,452,009	1,455,116
Non-current assets	1,090,369	1,428,234
Total assets	2,542,378	2,883,350
Liabilities		
Current liabilities	2,133,685	937,300
Non-current liabilities	34,571	424,602
Total liabilities	2,168,256	1,361,902
Equity		
Issued capital	1,474,004	1,474,004
Share premium account	24,475,363	24,475,363
Accumulated losses	(25,575,245)	(24,427,919)
	374,122	1,521,448
Financial performance		
Loss for the year	(1,147,326)	(1,392,068)
Other comprehensive income	-	-
Total comprehensive loss	(1,147,326)	(1,392,068)

29. EVENTS AFTER THE REPORTING DATE

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

- In February 2021, the Group applied for 2 new tenements near Tennant Creek in the gold and base metal prospective Warramunga Province of the Northern Territory. ELA 32665 Gidyea and ELA 32666 Kovacs exploration licence applications were registered;
- On 5 February 2021, the Company and Yitai Group (Hongkong) Co., Limited, a related party of the ultimate parent company, entered into a Varied Loan Agreement to increase an existing loan facility from $1.6 million to $2.4 million and to extend the maturity date from 1 October 2021 to 1 April 2022. The Company has drawn $800,000 to the full limit of the loan facility of $2.4 million.
- In March 2021, Yitai Group (Hongkong) Co., Limited confirmed financial support to the Company undertaking to provide additional interest free and unsecured funds of up to $1 million until 1 April 2022 that may be drawn as necessary to ensure that the Group continues to be able to pay its debts as and when they fall due, meets its work commitments and continues to operate as a going concern. No amount has been drawn under the undertaking at the date of this report.

30. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 31 March 2021.

DIRECTORS' DECLARATION

In the Directors' opinion:

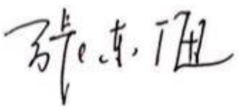
(a) the financial statements and notes set out on pages 30 to 52:

  (i) are in accordance with International Accounting Standards; and

  (ii) give a true and fair view of the Group's financial position as at 31 December 2020 and of its performance for the year then ended; and

(b) there are reasonable grounds to believe that Kaili Resources Limited will be able to pay its debts as and when they become due and payable.

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



Donghai Zhang
Chairman

Sydney
31st March 2021

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

We have audited the accompanying Consolidated Financial Statements of Kaili Resources Limited (the "Company") and the subsidiaries (together "the Group") set out on pages **30 to 52,** which comprise the consolidated statement of financial position as at 31 December 2020, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in equity for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the directors declaration.

Directors' responsibilities for the Consolidated Financial Statements

The Directors of the Company are responsible for the preparation of Consolidated Financial Statements that gives a true and fair view in accordance with International Financial Reporting Standards ("IFRS's") and the Corporations Act 2001, and for such internal control as the directors determine is necessary to enable the preparation of the financial statements that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

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

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Consolidated Financial Statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the Consolidated Financial Statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the Consolidated Financial Statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the Consolidated Financial Statements.

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

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Telephone +61 2 8021 2645; Facsimile +61 2 8021 2745

Key Audit Matters

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

Key Audit Matter	How our audit addressed this matter
Impairment of Exploration Assets Refer to Note 12 in the Consolidated Financial Statements	
The Consolidated Entity has capitalised exploration and evaluation expenditure, with a carrying value of $1,293,412 as at 31 December 2020. Under AASB 6 Exploration for and Evaluation of Mineral Resources, the Consolidated Entity is required to test the exploration and evaluation asset for impairment when facts and circumstances suggest that the carrying amount may exceed the recoverable amount. We determined this to be a key audit matter due to the significant management judgement involved in assessing the carrying value of the asset.	Our audit procedures in relation to the carrying value of exploration and evaluation expenditure included: • Obtaining evidence that the Consolidated Entity has valid rights to ongoing exploration and activities to support the continued capitalisation of these assets • Enquiring with management the basis on which they have determined that the exploration and evaluation of mineral resources has not yet reached the stage where it can be concluded that no commercially viable quantities of mineral resources exists; • Enquiring with management and reviewing budgets to determine that the Consolidated Entity will incur substantive expenditure on further exploration and evaluation of mineral resources in the specific areas of interest; • Testing on a sample basis the exploration costs incurred in the period to ensure that they meet the capitalisation criteria under AASB 6.

Independence

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

Opinion

In our opinion:

a) the Consolidated Financial Statements of Kaili Resources Limited is in accordance with the Corporations Act 2001, including:

   i. giving a true and fair view of the Company's financial position as at 31 December 2020 and of its performance for the year ended on that date; and

   ii. complying with Australian Accounting Standards and the Corporations Regulations 2001; and

b) the financial report also complies with International Financial Reporting Standards ("IFRS's") as disclosed in Note 3.

Emphasis of Matter

We draw attention to Note 3 (c) to the financial statements which describes the undertaking by Yitai Group (Hongkong) 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 $3.4 million until 1 April 2022 to ensure the Group has working capital to be able to meet its debts as and when they fall due and continue as a going concern.

Our opinion is not modified in respect of this matter.

Report on the Remuneration Report

We have audited the Remuneration Report included in paragraph **A** and **B** of the directors' report for the year ended 31 December 2020. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with International Financial Reporting Standards ("IFRS's").

Opinion

In our opinion the Remuneration Report of Kaili Resources Limited for the year ended 31 December 2020, complies with section 300A of the Corporations Act 2001.

JOHN F SHUTE
Chartered Accountant

John F Shute

Sydney
31 March 2021

ADDITIONAL INFORMATION

Additional information included in accordance with Listing Rules of the ASX Limited as at 16th March 2021

SHAREHOLDINGS

1. Substantial shareholders

Substantial shareholders in the Company: -

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

* Director Jianzhong Yang has relevant interests in this entity.

2. Distribution of fully paid ordinary shares:-

Range of shareholdings			Number of shareholders	Number of shares	Percentage of issued capital
1	—	1,000	22	4,890	0.00
1,001	—	5,000	8	23,783	0.02
5,001	—	10,000	229	2,282,709	1.55
10,001	—	100,000	98	4,049,081	2.75
100,001	and	over	30	141,039,900	95.68
			383	147,400,363	100.00

265 shareholders held less than a marketable parcel.

3. Voting rights

Each shareholder is entitled to one vote per ordinary share.

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

5. Top twenty shareholders as at 16th March 2021

Name		Number of fully paid ordinary shares held	Percentage of issued capital
1.	TREASURE UNICORN LIMITED	75,734,441	51.38
2.	MILE OCEAN LIMITED	16,532,222	11.22
3.	KAILI HOLDINGS LIMITED	13,200,000	8.96
4.	JIN HE	9,361,788	6.35
5.	MR YUTIAN BAI	3,999,999	2.71
6.	MS JUNLAN WANG	3,166,666	2.15
7.	MR SHUJUN LIU	2,666,666	1.81
8.	ASF GROUP LIMITED	2,200,000	1.49
9.	MR HAIYU HE	1,999,999	1.36
10.	MR GUIYING JIA	1,999,999	1.36
11.	MRS MAN SUN NG	1,925,000	1.31
12.	MR QIUSHENG LI	1,666,666	1.13
13.	MS YONGJUN LIU	1,666,666	1.13
14.	WUJIANG INVESTMENT PTY LTD	1,100,000	0.75
15.	SMART STEP LIMITED	1,000,000	0.68
16.	SUO ZHANG	430,000	0.29
17.	EDGEFIELD INTERNATIONAL LIMITED	363,000	0.25
18.	MR CALVIN AU	322,000	0.22
19.	PING GAO	250,000	0.17
20.	GUICHENG QIAO	230,000	0.16
Twenty largest shareholders		139,815,112	94.88
Others		7,585,251	5.12
		147,400,363	100.00

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

Australia

Computershare Investor Services Pty Ltd

Level 4, 60 Carrington Street

Sydney, NSW 2000

Australia

Bermuda

Butterfield Corporate Services Ltd

The Rosebank Centre

14 Bermudiana Road

Pembroke HM08

Bermuda

7. Ordinary shareholders - enquiries

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

8. Trading symbol

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