

KAILI RESOURCES LIMITED

(Incorporated in Bermuda with limited liability)

ARBN 077 559 525

Annual Report – 2016

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CORPORATE DIRECTORY

Board of Directors

Jianzhong Yang

Executive Chairman

Kaiyuan Yang

Executive

Yutian Bai

Non-Executive

(appointed 9 November 2016)

Chi Yuen Kuan

Non-Executive

(resigned 9 November 2016)

Company Secretary

Long Zhao (appointed 28 June 2016)

Robert Lees

Ranee Pang (resigned 28 June 2016)

Registered Office

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

Independent Auditor

John Shute

Chartered Accountant

Suite 605,

321 Pitt Street,

Sydney NSW 2000

Australia

Principal Registry and Transfer Office

Butterfield Corporate Services Ltd

The Rosebank Centre

14 Bermudiana Road

Pembroke HM08

Bermuda

Telephone: +441 295 1111

Branch Share Registry and Transfer Office

Computershare Investor Services Pty Limited

Level 4, 60 Carrington Street

Sydney NSW 2000

Australia

Telephone: +612 8234 5222

Representative Office in Australia

World Tower

Suite 1612, Level 16

87-89 Liverpool Street,

Sydney NSW 2000

Australia

Telephone: +612 8386 5713

Facsimile: +612 9283 7166

CHAIRMAN'S REPORT

Dear Shareholders,

I am pleased to present you the 2016 Annual Report.

We have continued in our task to rebuild the Group rationalising the existing coal and minerals licences with a critical review on prospectivity and risks and seeking new ventures.

We applied for new exploration licences in Western Australia within the Pilbara region and the Yilgarn Craton that have a history of iron ore and gold exploration and production respectively.

During the year we have been successful in obtaining new licences as follows:

Yilgarn Craton for gold exploration

E40/354 – 8 Mile Dam
E31/1114 Jungle Hill
E31/1113 Canegrass
E27/550 Holey Dam
E27/549 Gindalbie Dam

Pilbara region for iron ore exploration

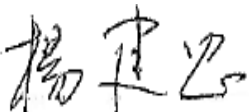
E45/4619-I Bea Bea Creek
E46/1084-I Bustler Bore

The past year has seen significant price increases in iron ore while gold price has been steady within a range which is profitable to most gold producers. In that respect we believe we have targeted the appropriate minerals for investment.

During the year, we carried out a successful drilling program in our Maryvale coal licence EP 1506 in Queensland that resulted, in February 2017, in a confirmed JORC 2012 compliant inferred coal resource estimate of 97 million tons. We aim for further exploration before advancing to a full feasibility study for mining the coal.

The investment climate for small resources companies appears to start to improve although it is still too early to discern the possible strength in the near term.

I look forward to your continued support as the Board continues to build the portfolio of investments to generate value for shareholders.



Jianzhong Yang
Chairman

30th March, 2017

REVIEW OF OPERATIONS

CORPORATE

- Mr Yutian Bai was appointed as non-executive director on 9 November 2016 and Mr Chi Yuen Kuan resigned as non-executive director on 9 November 2016.
- Mr Long Zhao was appointed joint company secretary on 28 June 2016 in replacement of Ms Ranee Pang who resigned on the same date.

EXPLORATION HIGHLIGHTS

Queensland

- Coal drilling in EPC 1506 and EPC 1539 completed in Quarter 2 (Maryvale Coal Project) and EPC 1539 was relinquished in Quarter 3 following assessment of results of drilling.

Western Australia

- 5 gold tenements, E27/549 (Gindalbie Dam), E27/550 (Holey Dam), E31/1113 (Canegrass), E31/1114 (Jungle Hill) and E40/354 (8 Mile Dam) in Yilgarn Craton were granted in Quarters 2 and 3.
- 2 iron tenements E46/1084-I (Bustler Bore) and E45/4619-1 (Bea Bea Creek) in Hamersley Basin were granted in Quarters 3 and 4.
- Phase 1 soil sampling in 3 newly granted gold tenements (Canegrass, Holey Dam and Gindalbie Dam) was completed in Quarter 4.
- E04/1433 and E04/1436 were relinquished in Quarter 1 after extensive review.

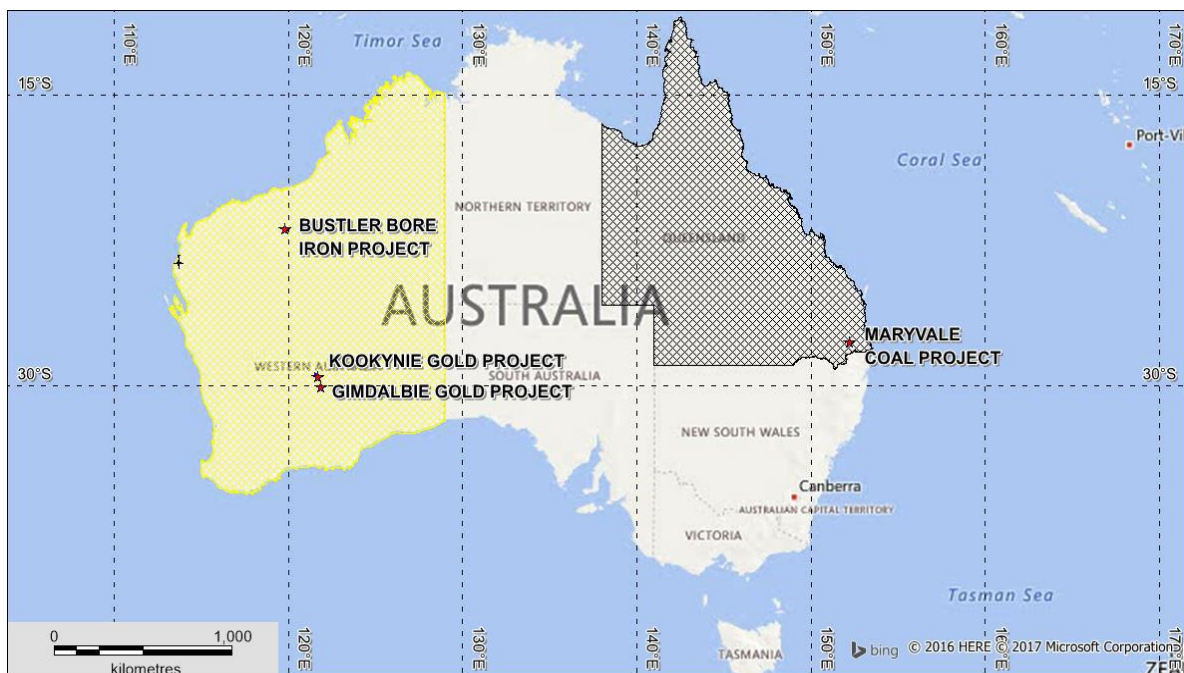


Figure 1: Kaili Resources projects locations for granted tenements

REVIEW OF OPERATIONS



Figure 2: Kaili Resources projects locations for relinquished tenements E04/1433, E04/1436 and EPC 1539 and current EPC 1506

WESTERNAUSTRALIA

Canning Basin (South Ellendale) Coal, Diamonds and Phosphate Project

E04/1433 and E04/1436 held 100% by wholly owned subsidiary ASF Kaili Resource Pty Ltd

Following from the decision made in the last quarter of 2015 after an extensive review of all historical exploration within and adjacent to E04/1433 and E04/1436, the Company relinquished those tenements in March 2016 on their expiry dates, satisfied all statutory requirements and wrote off all accumulated exploration expenditure on those tenements.

REVIEW OF OPERATIONS

Hamersley Basin (Darnell Hill, Bustler Bore and Bea Bea Creek) Iron Projects

Granted tenements, E46/1084-I (Bustler Bore), E45/4619-I (Bea Bea Creek) and tenement application E08/2770-I (Darnell Hill) are held 100% by Kaili Iron Pty Ltd (100% subsidiary of Kaili Resources Limited)

Following applications made in September 2015, E45/4619-I (Bea Bea Creek) and E46/1084-I (Bustler Bore) were granted by the Western Australia government in July 2016 and November 2016 respectively. Negotiations with the Native Title Parties were carried out during the year and at the date of this report all negotiations have been completed and all heritage agreements executed.

Year 1 (2017) work programs have been submitted to all Native Title Parties for review.

The Native Title Parties are:

| | | |
|----------------------------|--------------------------------|-------------|
| E08/2770-I (Darnell Hill) | Kuruma Marthundunera(Combined) | WC 2016/002 |
| E46/1084-I (Bustler Bore) | Palyku People | WC 1999/016 |
| E45/4619-I (Bea Bea Creek) | Kariyarra People | WC 1999/003 |

In addition, E45/4619-I is located within the Mugarinya Community and a separate access permit is required.



Figure 3: Kaili Resources iron tenements in red with major regional iron ore project as orange diamonds

E45/4619-I (Bea Bea Creek) and E46/1084-I (Bustler Bore) were granted to wholly owned subsidiary Kaili Iron Pty Ltd for a period of 5 years. The tenements are located between 200 km and 300 km south of Port

REVIEW OF OPERATIONS

Headland in the Pilbara region of WA (**Figure 3**). The Pilbara region of WA is one of the premier iron regions of the world with several world class iron ore mining operations. The Group has targeted the CID (Channel Iron Deposit) style of iron mineralisation which are found in ancient palaeochannels resulting in cemented masses of concretionary iron oxides of hematite to hematite-goethite composition. Major producing CIDs include Robe River (Rio Tinto) and Yandicoogina (BHP). Typical composition of ore from Yandicoogina is about 58% Fe, 0.05% P, 4.8% SiO₂ and 1.4% Al₂O₃. The location of mapped CID channels within the Bea Bea Creek and Bustler Bore are shown in **Figure 4 and 5**.

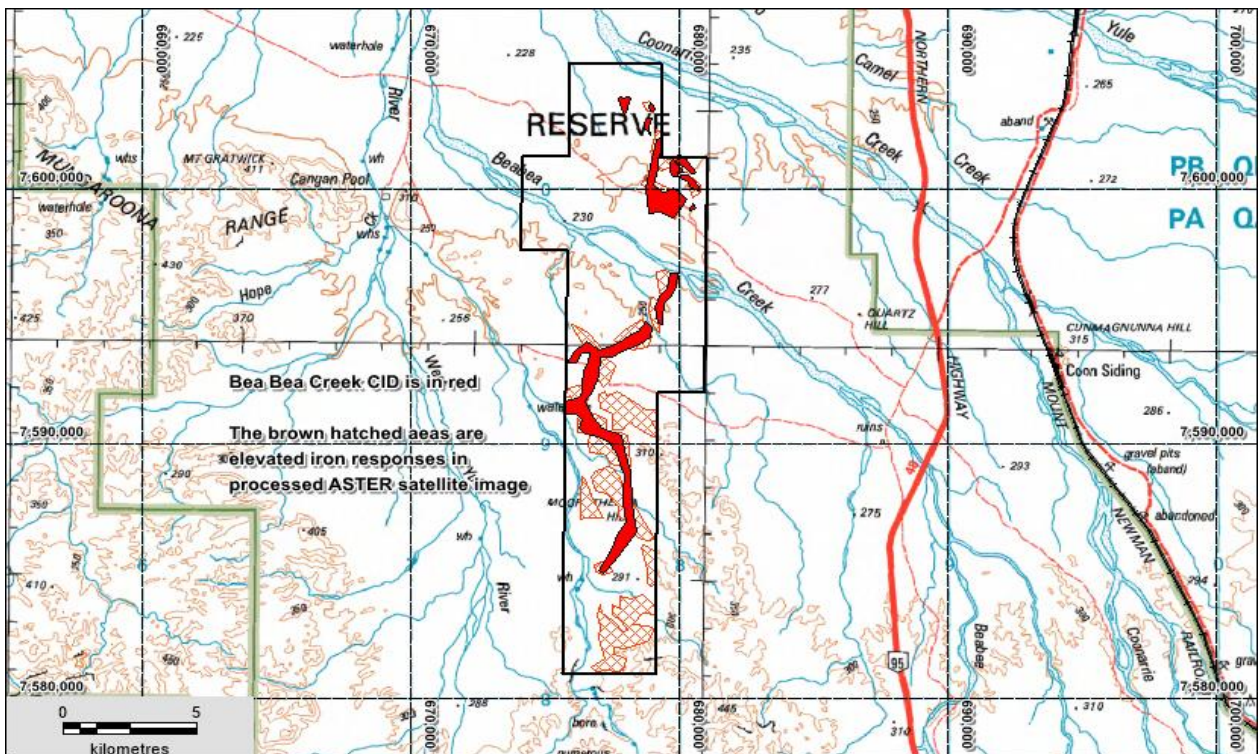


Figure 4: Bea Bea Iron Project showing the mapped CID channels and areas of elevated iron responses from processed ASTER satellite imagery.

REVIEW OF OPERATIONS

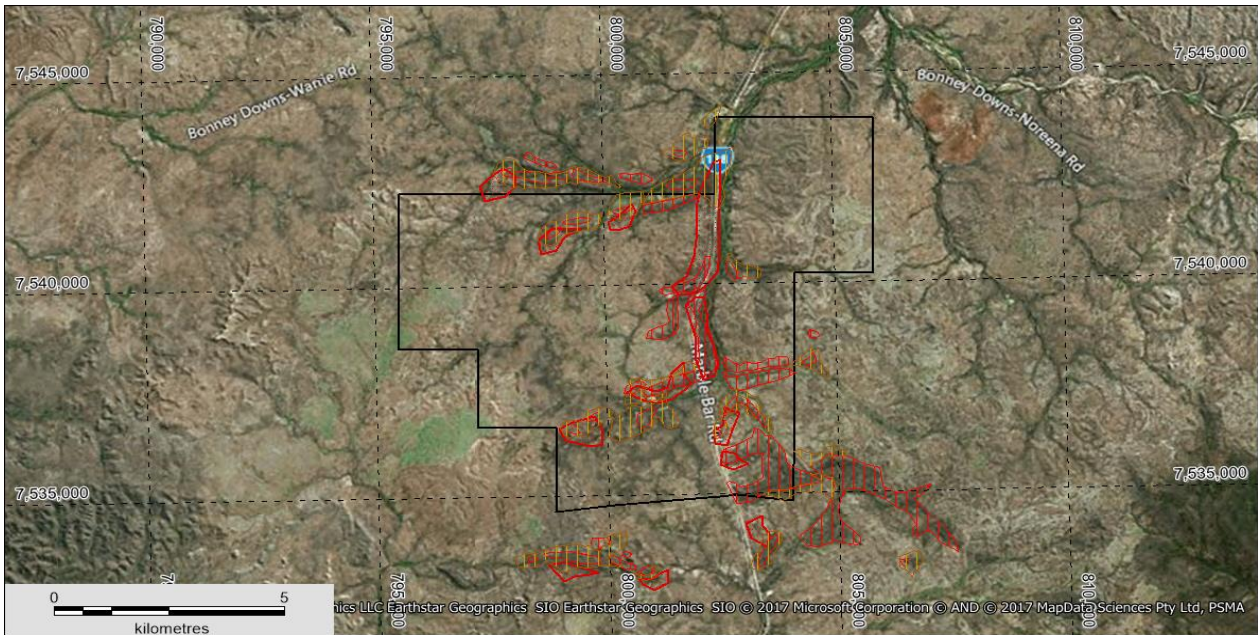


Figure 5: E46/1084-I Bustler Bore Iron Project showing mapped CID units (red) and areas of elevated iron response from interpreted ASTER satellite imagery (brown).

Yilgarn Craton (8 Mile Dam, Jungle Hill, Canegrass, Holey Dam and Gindalbie Dam) Gold Projects

Granted tenements E31/1113, E27/550, E27/549, E40/354 and E31/1114 are held 100% by Kaili Gold Pty Ltd (100% subsidiary of Kaili Resources Limited)

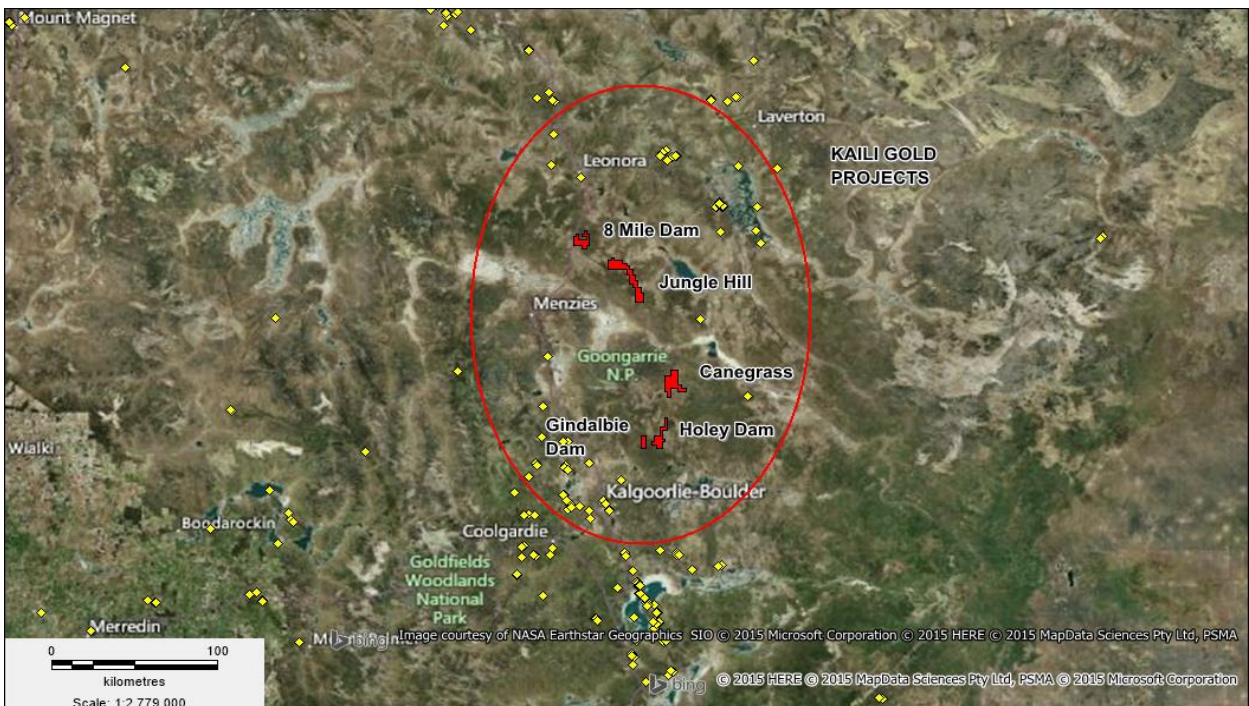


Figure 6: Kaili Resources gold projects in red and gold mining operations in yellow

REVIEW OF OPERATIONS

During the year, 5 tenements within the Yilgarn Craton of Western Australia (**Figure 6**) were granted to Kaili Gold Pty Ltd, a wholly owned subsidiary, following applications made in September 2015. The Yilgarn Craton is one of the premier gold regions in the world and hosts numerous multimillion ounce gold mines and deposits. In 2015, the Group reviewed several areas for tenement applications in proximity to known gold mineralisation and associated with mafic igneous extrusive/intrusive rocks and gold bearing structures. The Gindalbie area north east of Kalgoorlie and the Kookynie (**Figure 6**) area south east of Leonora were chosen and 5 tenement applications were made:

- Gindalbie - Canegrass, Holey Dam and Gindalbie Dam for 201 km²
- Kookynie – 8 Mile Dam and Jungle Hill for 69 km².

A total of 31 rock samples were collected from the Canegrass and Holey Dam tenements and 531 soil samples from Canegrass, Holey Dam and Gindalbie Dam tenement (**Figure 7**). The soil samples were analysed for low level Au by method AR-TL43 (ICP-MS) and a multi element suiter by ME-MS43 (ICP-MS) and the rock samples were analysed for gold by method Au-AA24 (AAS) and a multi element suite by ME-MS42 (ICPMS).

Most of the Canegrass tenement is covered by a transported red brown silty clay with fine quartz and iron pisolite lag which has subdued the surficial geochemical response from potential gold mineralised targets. A statistical analysis of the geochemistry has shown there to be a distinctly elevated gold in soil response of > 5ppb Au to 16ppb Au (**Figure 8**).

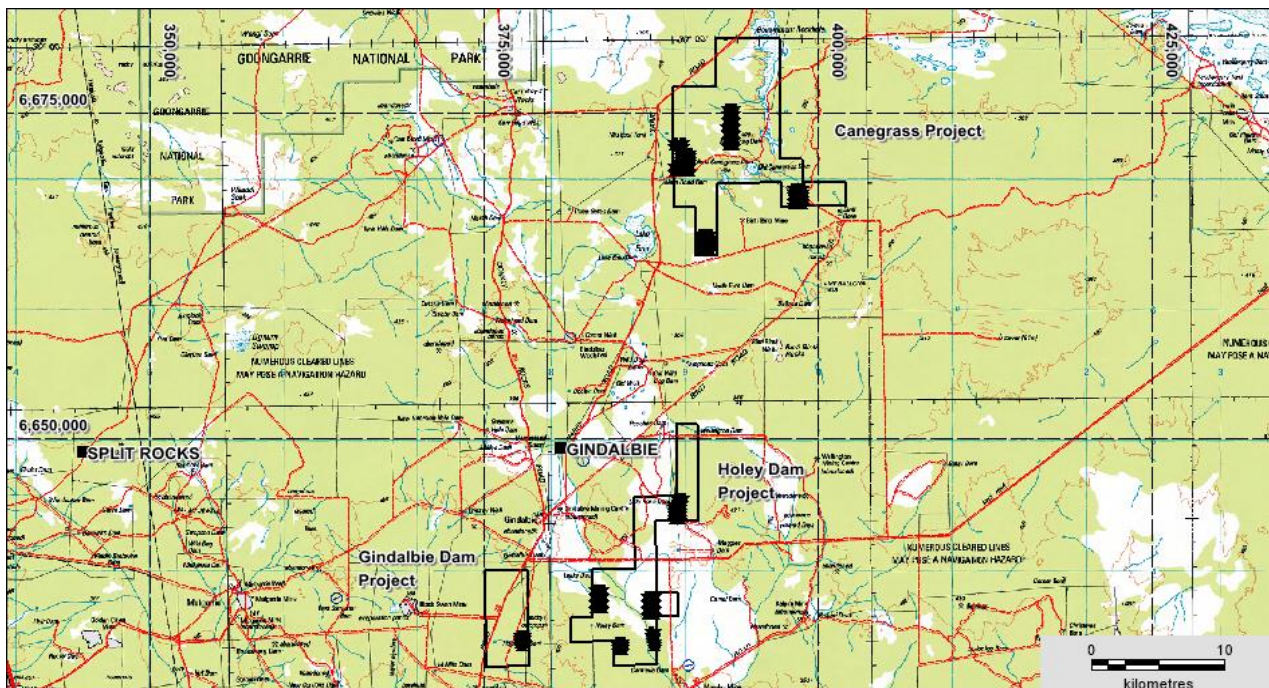


Figure 7: Topographic maps showing the soil sampling grids as black areas within the Gindalbie Dam project

REVIEW OF OPERATIONS

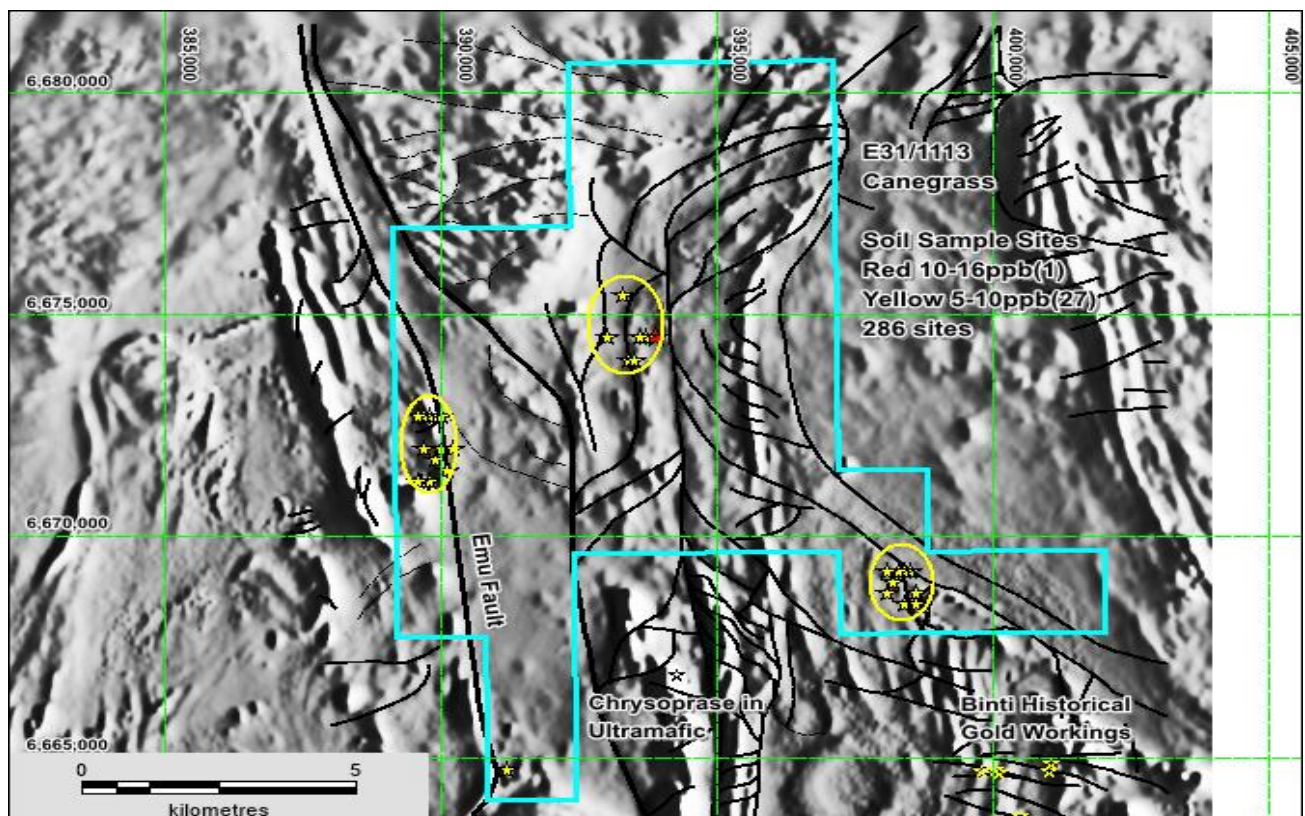


Figure 8: TMI aeromagnetic image with interpreted structures (black) and soil anomalies 5-16ppb Au (yellow)

The Gindalbie Dam and Holey Dam tenements are located 30 km south of the Canegrass tenements as shown in **Figure 7**. The sampling strategy is as for that carried out within the Canegrass tenement and described above.

REVIEW OF OPERATIONS

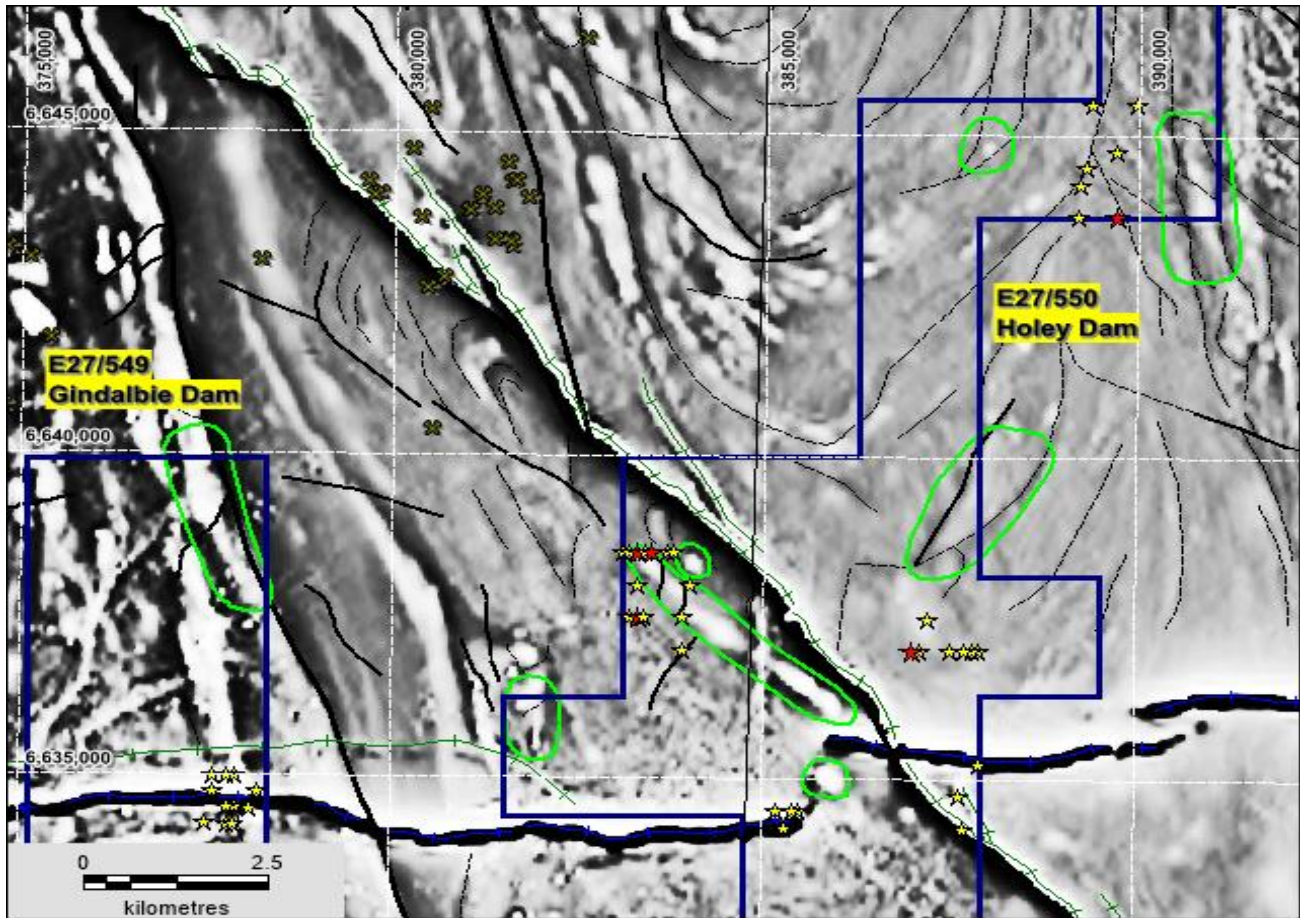


Figure 9: TMI aeromagnetic image with interpreted structures (black) and soil analyses 5-10ppb (yellow) and 10-16ppb (red)

In **Figure 9** the anomalous gold in soil results have been extracted and shown with the geophysical targets in green. As can be seen there are anomalous gold in soil results associated with the major E-W and NW-SE structures and subsidiary structures shown as faint black dashed lines. The limited outcrop within the Gindalbie and Holey Dam tenements led to the collection of rock float samples as shown in **Figure 10**. The results from the rock float sampling (18 samples) were all below detection limit apart from two samples which returned results of 0.3 (red diamond) and 0.2 (yellow diamond) ppm Au and were located proximal to a major or subsidiary structure.

REVIEW OF OPERATIONS

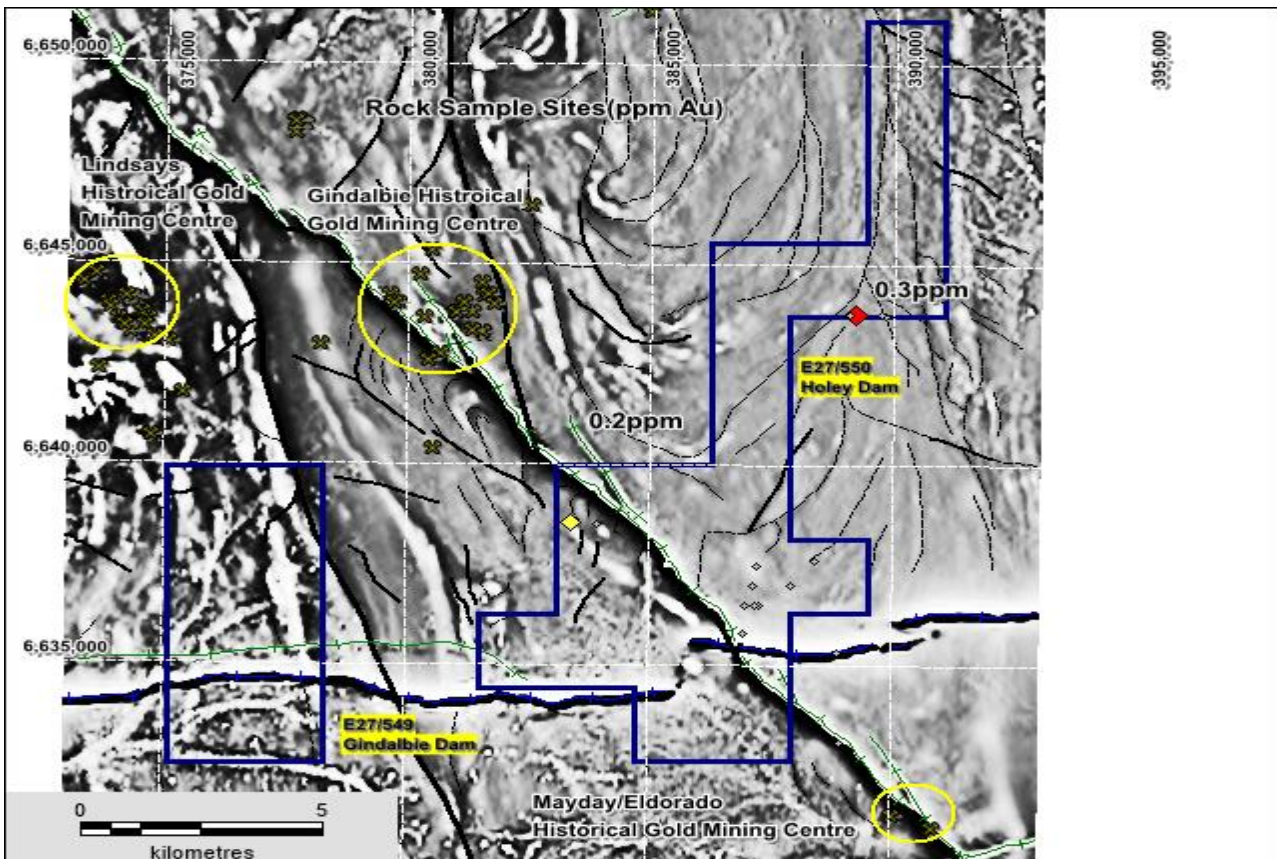


Figure 10: TMI aeromagnetic showing rock float sample sites as diamond shapes. The 0.2ppm text relates to the yellow diamond inside the Holey Dam tenement

QUEENSLAND

Clarence Moreton Basin (Maryvale) Coal Project

EPC1506 is held 100% by APEC Coal Pty Ltd (100% subsidiary of Kaili Resources Limited).

During the year, a compulsory relinquishment of 36 sub blocks for EPC 1506 was accepted by the Queensland Department of Natural Resources and Mines which reduced the tenements from 89 blocks to 53 blocks.

The areas chosen for proposed partial relinquishment included regions around Warwick airport and the town of Allora as well as adjacent land to the major sealed highways and property sub divisions.

During Quarter 2, the Phase 1 drilling program was completed within EPC 1506 and EPC 1539 and all holes intersected coal apart from the hole drilled in EPC 1539. The results from the drilling program were received in Quarter 3 and EPC 1539 was relinquished following assessment of the results.

REVIEW OF OPERATIONS

Queensland Project Description

The Queensland projects are located along the western slopes of the Great Dividing Range within the southern portion of the Darling Downs region. The tenements are bordered by the Main Range National Park in the east which forms part of the Great Dividing Range.

The tenements are situated in the Clarence-Moreton Basin, approximately 30 km north of Warwick and 50 km south of Toowoomba, in southeast Queensland. Access to the tenement is possible through a series of sealed and unsealed roads and tracks branching from the Cunningham Highway and the New England Highway. Part of the Darling Downs, which includes the towns of Allora, and Warwick (**Figure 11**), is known as the Southern Downs.

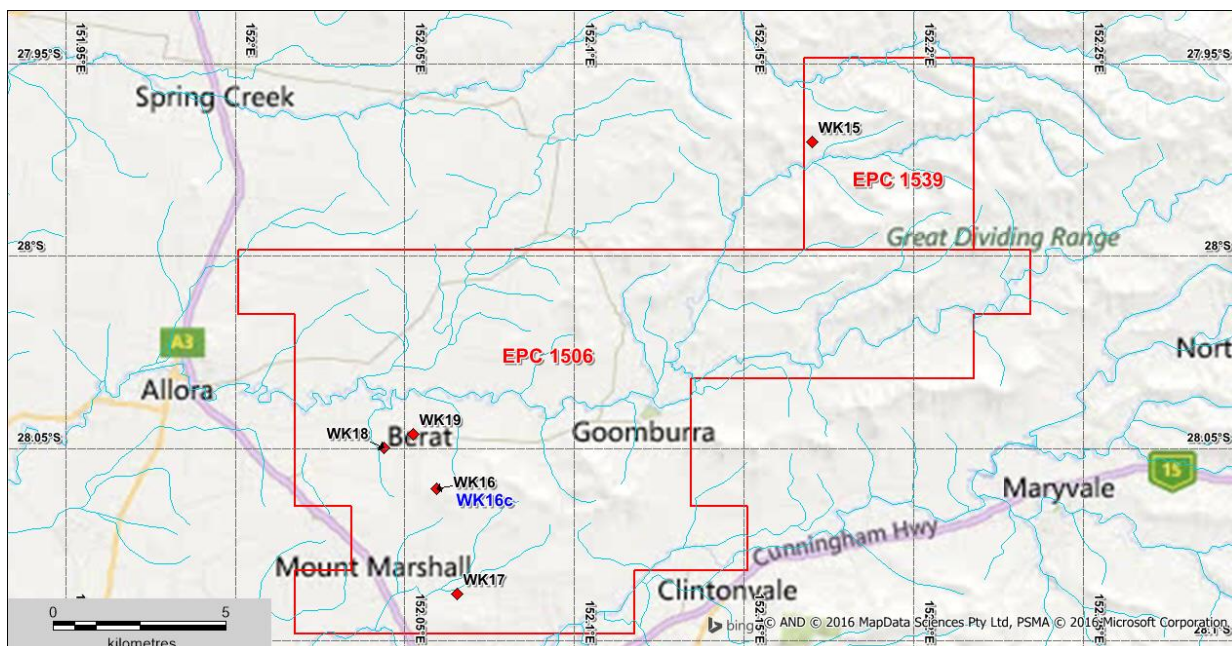


Figure 11: Location of EPC 1506 to the north of the town of Warwick and 2016 drill collars as well as the relinquished tenement EPC 1539

REVIEW OF OPERATIONS

During Quarter 2, the Company's wholly owned subsidiary, APEC Coal Pty Ltd, completed drilling at the Maryvale Coal Project located south west of Brisbane in South East Queensland within EPC 1539 and EPC 1506. 5 chip holes and 1 partially cored were completed for a total advance of 1,228 m including 7.87 m of core. One hole (WK15) was drilled in EPC 1539 and the remainder (WK16 to WK19) were drilled in the south west of EPC 1506 (**Figure 11**). The partially cored hole (WK16C) was a twin hole or the chip hole to WK16 at the same site.

All drill holes in EPC 1506 intersected the targeted Bulwer Seam but WK15 which was drilled in EPC 1539 did not intersect any seam (**Table 1**). In addition, WK 17 intersected a portion of the underlying Condamine Seam. The results are preliminary only as a full stratigraphic correlation between the drilling in this program and historical drilling has not been completed. Coal quality results were received in Quarter 3 and are shown in **Table 2**.

| EPC | Hole ID | GPS Pickup | | | TD | Dip | Basalt Depth (m) | Bulwer Seam Package | | | Condamine Seam Package | | |
|----------|---------|------------------|-------------------|-----|------|------|------------------|---------------------|-------|----------|------------------------|-------|----------|
| | | Easting (MGA 94) | Northing (MGA 94) | AHD | | | | Roof | Floor | Interval | Roof | Floor | Interval |
| EPC 1539 | WK15 | 418372 | 6905852 | 648 | 200 | -90° | >200 | NA | NA | NA | NA | NA | NA |
| EPC 1506 | WK16 | 407593 | 6895752 | 602 | 255 | -90° | 117 | 160 | 181 | 21 | NA | NA | NA |
| EPC 1506 | WK16C | 407595 | 6895748 | 602 | 176 | -90° | 120 | 163 | | | NA | NA | NA |
| EPC 1506 | WK17 | 408173 | 6892717 | 505 | 189 | -90° | 35 | 121 | 130 | 9 | 174 | 179.5 | 5.5 |
| EPC 1506 | WK18 | 406077 | 6896902 | 508 | 207 | -90° | 29 | 181.5 | 194 | 12.5 | NA | NA | NA |
| EPC 1506 | WK19 | 406878 | 6897302 | 516 | 201 | -90° | 46 | 182 | 192 | 10 | NA | NA | NA |
| | | | | | 1228 | | | | | | | | |

Table 1: Drill hole summary details

| Reference | Sample Type | From(m) | To(m) | Thickness(m) | Wet Mass | Relative Density | % Inherent Moisture | % Ash | % Volatile Matter | % Fixed Carbon | % Moisture | % Total Sulfur | Calorific Value(MJ/kg) | Calorific Value(kCal/kg) |
|-----------|-------------|---------|--------|--------------|----------|------------------|---------------------|-------|-------------------|----------------|------------|----------------|------------------------|--------------------------|
| 14386 | Core | 164.42 | 164.72 | 0.30 | 4.3 | 2.28 | 4.6 | 81.4 | 11.4 | 2.6 | - | - | - | - |
| 14387 | Core | 164.72 | 165.00 | 0.28 | 2.8 | 1.39 | 5.1 | 18.0 | 39.9 | 37.0 | 5.1 | 0.47 | 26.22 | 6262 |
| 14388 | Core | 165.00 | 165.16 | 0.16 | 1.9 | 1.64 | 4.4 | 42.5 | 30.7 | 22.4 | 4.4 | 0.40 | 17.09 | 4081 |
| 14389 | Core | 165.16 | 165.65 | 0.49 | 4.7 | 1.30 | 5.2 | 8.5 | 44.5 | 41.8 | 5.2 | 0.46 | 27.46 | 6559 |
| 14390 | Core | 165.65 | 166.00 | 0.35 | 4.2 | 1.54 | 5.6 | 34.1 | 31.5 | 28.8 | 5.6 | 0.37 | 19.64 | 4690 |
| 14391 | Core | 166.00 | 166.28 | 0.28 | 2.9 | 1.71 | 5.6 | 48.2 | 26.4 | 19.8 | 5.6 | 0.32 | 13.81 | 3297 |
| 14395 | Grab/Chip | 82.00 | 83.00 | 1.00 | 0.2 | 1.68 | 4.8 | 47.6 | 27.1 | 20.5 | 4.8 | 0.29 | 15.71 | 3751 |
| 14396 | Grab/Chip | 83.00 | 84.00 | 1.00 | 0.1 | 1.83 | 4.6 | 57.7 | 22.1 | 15.6 | - | - | - | - |
| 14397 | Grab/Chip | 178.00 | 179.00 | 1.00 | 0.2 | 1.58 | 3.7 | 41.5 | 33.0 | 21.8 | 3.7 | 0.34 | 18.16 | 4336 |
| 14398 | Grab/Chip | 179.00 | 180.00 | 1.00 | 0.3 | 1.54 | 3.5 | 34.6 | 34.2 | 27.7 | 3.5 | 0.39 | 20.08 | 4795 |
| 14400 | Grab/Chip | 46.00 | 47.00 | 1.00 | 0.3 | 1.54 | 4.9 | 33.1 | 34.5 | 27.5 | 4.9 | 0.38 | 20.10 | 4801 |
| 14401 | Grab/Chip | 162.00 | 163.00 | 1.00 | 0.7 | 1.93 | 5.5 | 63.6 | 16.5 | 14.4 | - | - | - | - |
| 14402 | Grab/Chip | 179.00 | 180.00 | 1.00 | 0.8 | 2.39 | 5.7 | 83.6 | 9.2 | 1.5 | - | - | - | - |
| 14403 | Grab/Chip | 182.00 | 183.00 | 1.00 | 0.7 | 1.77 | 5.7 | 54.8 | 23.7 | 15.8 | - | - | - | - |
| 14404 | Grab/Chip | 186.00 | 187.00 | 1.00 | 0.3 | 1.75 | 6.0 | 50.9 | 24.4 | 18.7 | 6.0 | 0.43 | 13.61 | 3251 |
| 14405 | Grab/Chip | 191.00 | 192.00 | 1.00 | 0.3 | 1.73 | 6.1 | 52.2 | 23.8 | 17.9 | 6.1 | 0.36 | 12.65 | 3021 |
| 14406 | Grab/Chip | 192.00 | 193.00 | 1.00 | 0.2 | 1.91 | 5.7 | 61.0 | 21.7 | 11.6 | - | - | - | - |
| 14407 | Grab/Chip | 193.00 | 195.00 | 2.00 | 0.3 | 2.23 | 4.9 | 78.9 | 11.0 | 5.2 | - | - | - | - |
| 14408 | Grab/Chip | 197.00 | 198.00 | 1.00 | 0.2 | 1.87 | 4.9 | 60.8 | 20.3 | 14.0 | - | - | - | - |
| 14409 | Grab/Chip | 62.00 | 63.00 | 1.00 | 0.2 | 1.63 | 6.0 | 42.8 | 28.7 | 22.5 | 6.0 | 0.34 | 16.67 | 3982 |
| 14410 | Grab/Chip | 63.00 | 64.00 | 1.00 | 0.2 | 1.64 | 7.5 | 43.5 | 27.1 | 21.9 | 7.5 | 0.30 | 15.42 | 3682 |
| 14411 | Grab/Chip | 117.00 | 118.00 | 1.00 | 0.2 | 1.59 | 5.4 | 38.7 | 28.0 | 27.9 | 5.4 | 0.41 | 18.67 | 4460 |
| 14412 | Grab/Chip | 185.00 | 186.00 | 1.00 | 0.3 | 1.81 | 7.3 | 59.4 | 19.1 | 14.2 | - | - | - | - |
| 14413 | Grab/Chip | 186.00 | 188.00 | 2.00 | 0.2 | 1.99 | 9.2 | 69.8 | 13.4 | 7.6 | - | - | - | - |
| 14414 | Grab/Chip | 188.00 | 190.00 | 2.00 | 0.1 | 2.20 | 10.1 | 80.1 | 9.5 | 0.3 | - | - | - | - |
| 14415 | Grab/Chip | 190.00 | 192.00 | 2.00 | 0.3 | 1.81 | 6.3 | 57.1 | 20.6 | 16.0 | - | - | - | - |
| 14416 | Grab/Chip | 192.00 | 193.00 | 1.00 | 0.1 | 1.70 | 5.6 | 48.5 | 24.7 | 21.2 | 5.6 | 0.37 | 15.34 | 3664 |

Results are on an air-dried basis

Table 2 Coal quality analyses

REVIEW OF OPERATIONS

LICENCES STATUS

Minerals tenements held at 31 December 2016 are as follows:

| Granted Tenement | Project Name | Location | Registered Holder | Beneficial Interest | Expiry |
|------------------|----------------|---|--------------------|---------------------|------------------|
| EPC 1506 | Maryvale 1 | Clarence Moreton Basin Qld, 15km north of Warwick | APEC Coal Pty Ltd | 100% | 13 May 2017 |
| E31/1113 | Canegrass | Yilgarn Craton WA, 80 km north of Kalgoorlie | Kaili Gold Pty Ltd | 100% | 29 May 2021 |
| E31/1114 | Jungle Hill | Yilgarn Craton WA 80 km south of Leonora | Kaili Gold Pty Ltd | 100% | 29 May 2021 |
| E27/549 | Gindalbie Dam | Yilgarn Craton WA, 80 km north of Kalgoorlie | Kaili Gold Pty Ltd | 100% | 30 June 2021 |
| E27/550 | Holey Dam | Yilgarn Craton WA, 80 km north of Kalgoorlie | Kaili Gold Pty Ltd | 100% | 30 June 2021 |
| E40/354 | 8 Mile Dam | Yilgarn Craton WA, 80 km south of Leonora | Kaili Gold Pty Ltd | 100% | 7 July 2021 |
| E45/4619-I | Bea Bea Creek | Hamersley Basin WA, 250km north west of Newman | Kaili Iron Pty ltd | 100% | 27 July 2021 |
| E46/1084-I | Bustler's Bore | Hamersley Basin WA, 150 km north of Newman | Kaili Iron Pty Ltd | 100% | 20 November 2021 |

| Application Tenement | Project Name | Location | Applicant | Beneficial Interest | Application Date |
|----------------------|--------------|---|--------------------|---------------------|-------------------|
| E08/2770-I | Darnell Hill | Hamersley Basin WA, 150 km south of Pannawonica | Kaili Iron Pty Ltd | 100% | 11 September 2015 |

E04/1433 and 1436 in Western Australia and EPC 1539 in Queensland were relinquished on the expiry dates of the licences during the year.

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

REVIEW OF OPERATIONS

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

Mr Mark Derriman has sufficient experience that is relevant to the style of mineralization and type of deposit under consideration and to the activities which he is undertaking to qualify as a Competent Person as defined in the 2004 and 2012 Editions of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves. Mr Mark Derriman consents to the inclusion in this report of matters based on his information in the form and context in which it appears.)

DIRECTORS' REPORT

The Directors present their report together with the consolidated financial statements of Kaili Resources Limited (“the Company”) and its controlled entity (“the Group”) for the year ended 31 December 2016.

DIRECTORS

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

Jianzhong Yang
Kaiyuan Yang
Yutian Bai (appointed 9 November 2016)
Chi Yuen Kuan (resigned 9 November 2016)

DIRECTORS' INFORMATION

Jianzhong Yang **Executive Chairman - appointed on 21 April 2014**

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.

In late 2013, he acquired the largest shareholder of the Company with the plan to rebuild the Company after it had several years of inactivity. He has introduced new investors to the Company, raised significant fresh capital, succeeded in achieving the re-admission of quotation of the Company on the ASX in early 2015.

Kaiyuan (Kelly) Yang **Executive Director – appointed on 21 April 2014**

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

Yutian Bai **Non-Executive Director - appointed on 9 November 2016**

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

Chi Yuen (William) Kuan, FCPA, ACIS **Non-Executive Director - (7 August 2014 – 9 November 2016)**

Mr William Kuan holds a Master Degree in International Accounting. He is a Fellow of CPA Australia and a member of the Institute of Chartered Secretaries and Administrators in the United Kingdom. He has over 20 years of experience in financial and corporate management working in listed companies in Hong Kong and Australia. He is currently an executive director and company secretary of ASX listed ASF Group Limited.

PRINCIPAL ACTIVITIES

During the year the Group has been active in exploration for coal and gold minerals.

DIRECTORS' REPORT

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 16.

Performance

The loss of the Group after income tax for the year was \$625,320 (2015: loss \$976,485), including the write off of exploration expenditure of \$146,288 (2015: Nil).

Financial position

At the end of the year, the Group had \$2,018,983 (2015: \$2,908,501) in cash and cash equivalents and net working capital, being current assets less current liabilities, of \$2,055,635 (2015: \$2,916,443).

The net assets of the Group at 31 December 2016 decreased to \$2,671,033 from \$3,296,353 as a result of loss from operations. Total liabilities increased by \$1,749 to \$32,897 and the Group had no borrowings.

Cash flows

Operating activities resulted in net outflow of \$510,885 (2015: \$983,312) as the Group is still in the exploration phase. A total of \$382,169 (2015: \$122,972) 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 the successful grant of seven new tenements.

Dividends

The Directors recommend that no dividend be declared or paid.

Likely developments

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

DIRECTORS' BENEFITS

No Director of the Company has received or become entitled to receive a benefit (other than a benefit included in the aggregate amount of remuneration received or due and receivable by Directors as detailed in the Remuneration Report) by reason of a contract made by the consolidated entity or a controlled entity with the Director or with a firm of which the Director is a member, or with a Company in which the Director has a substantial interest, except for any benefit that may be deemed to have arisen as disclosed in Note 22 of the financial statements.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts involving Directors' interests were entered into during the financial year except as disclosed in Note 22 of the financial statements.

DIRECTORS' REPORT

DIRECTORS' MEETINGS

There was no Board meeting held during the year and all 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 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 Company'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 |
|----------------------------|---|---|-----------------|--|
| 2016 | | | | |
| Jianzhong Yang | 55,004 | 29,994 | 84,998 | - |
| Kaiyuan Yang | - | - | - | - |
| Yutian Bai ¹ | - | - | - | - |
| Chi Yuen Kuan ² | - | - | - | - |
| | <hr/> 55,004 | <hr/> 29,994 | <hr/> 84,998 | <hr/> - |
| 2015 | | | | |
| Jianzhong Yang | 67,502 | 18,797 | 86,299 | - |
| Kaiyuan Yang | - | - | - | - |
| Chi Yuen Kuan | - | - | - | - |
| | <hr/> 67,502 | <hr/> 18,797 | <hr/> 86,299 | <hr/> - |

¹ Appointed on 9 November 2016

² Resigned on 9 November 2016

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 with Mr Jianzhong Yang. Salient details of the contract are as follows:

DIRECTORS' REPORT

Director or key management personnel

Salient details

Jianzhong Yang
Executive Chairman

- Employment contract with ASF Kaili Resource Pty Ltd, a wholly owned subsidiary, as Managing Director for a period of 3 years from 14 August 2012 on a salary of \$80,000 p.a. plus statutory superannuation with effect from October 2014;
- In March 2016, the contract was extended by 3 years from 14 August 2015 on the same terms and conditions.
- Statutory leave entitlements in New South Wales apply.
- Either party may terminate the employment contract by giving 4 weeks' notice.

IV. Share-based compensation

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

C. Directors' securities holdings

As at 31 December 2016, the relevant interests of the Company's Directors in the securities of the Company were as follows:

| | Number of fully paid ordinary shares |
|--------------------|---|
| Jianzhong Yang (i) | 45,569,904 |
| Kaiyuan Yang | - |
| Yutian Bai | 2,666,666 |
| | <hr/> |
| | 48,236,570 |

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

ENVIRONMENTAL REGULATION

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

NON-AUDIT SERVICES

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

EVENTS AFTER THE REPORTING DATE

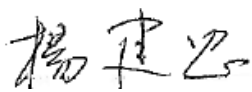
Subsequent to the reporting date, there were no matters or circumstances which have arisen since the end of the year which significantly affected or may significantly affect the Company's operations, the results of those operations or the Company's state of affairs in future years other than the announcement by the Company on 6 February 2017 of the maiden In Situ Gasification (ISG) JORC 2012 compliant inferred resource estimate at its Maryvale Coal Project of 97 million tonnes.

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration is included on page 22 of the Annual Report and forms part of this report.

DIRECTORS' REPORT

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



Jianzhong Yang
Chairman

Sydney
30th March 2017



Kaiyuan Yang
Executive Director

30th March 2017

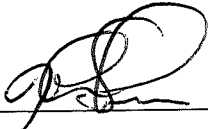
Kaili Resources Limited

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

To the Directors of Kaili Resources Limited

I declare that, to the best of my knowledge and belief, in relation to the review of Kaili Resources Limited for the half year ended 31 December 2016 there has been no contraventions of:

- a) the auditor independence requirements of the Corporations Act 2001 in relation to the review; and
- b) 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 30 March 2017

CORPORATE GOVERNANCE STATEMENT

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

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

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

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

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE
INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016**

| | NOTES | 2016 | 2015 |
|---|-------|---------------------|---------------------|
| | | \$ | \$ |
| Revenue | | | |
| Interest income | | 26,018 | 40,638 |
| Other income | | 57,985 | 226,970 |
| | | <u>84,003</u> | <u>267,608</u> |
| Expenses | | | |
| Depreciation expense | | (9,092) | (373) |
| Employee benefits expense | | (249,853) | (372,446) |
| Exploration expenditure written off | | (146,288) | - |
| Other expenses | 4 | (304,090) | (871,274) |
| Operating loss | | <u>(625,320)</u> | <u>(976,485)</u> |
| Loss before income tax | | | |
| | | <u>(625,320)</u> | <u>(976,485)</u> |
| Income tax | 5 | <u>-</u> | <u>-</u> |
| Loss after income tax | | <u>(625,320)</u> | <u>(976,485)</u> |
| Other comprehensive income (loss) for the year, net of tax | | | |
| | | <u>-</u> | <u>-</u> |
| Total comprehensive loss for the year attributable to members of the Parent Entity | | <u>(625,320)</u> | <u>(976,485)</u> |
| Earning/(loss) per share | | | |
| Basic and diluted (loss)/earning per share | 18 | <u>(0.64) cents</u> | <u>(1.01) cents</u> |

The accompanying notes form part of these financial statements.

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2016**

| | NOTES | 2016 | 2015 |
|----------------------------------|--------|------------------|------------------|
| | | \$ | \$ |
| Current Assets | | | |
| Cash and bank balances | 7 | 2,018,983 | 2,908,501 |
| Trade and other receivables | 8 | 29,611 | 39,090 |
| Prepayments | 9 | 26,078 | - |
| Financial assets | 10 | 13,860 | - |
| Total Current Assets | | <u>2,088,532</u> | <u>2,947,591</u> |
| Non-Current Assets | | | |
| Property, plant and equipment | 11 | 1,198 | 1,591 |
| Financial assets | 10 | 5,000 | 5,000 |
| Tenements | 12 | 609,200 | 373,319 |
| Total Non-Current Assets | | <u>615,398</u> | <u>379,910</u> |
| Total Assets | | <u>2,703,930</u> | <u>3,327,501</u> |
| Current Liabilities | | | |
| Trade and other payables | 13 | 32,897 | 31,148 |
| Total Current Liabilities | | <u>32,897</u> | <u>31,148</u> |
| Total Liabilities | | <u>32,897</u> | <u>31,148</u> |
| Net Assets | | <u>2,671,033</u> | <u>3,296,353</u> |
| Shareholders' Equity | | | |
| Share capital | 14 (b) | 982,669 | 982,669 |
| Reserves | 14 (c) | 1,688,364 | 2,313,684 |
| Total Equity | | <u>2,671,033</u> | <u>3,296,353</u> |

The accompanying notes form part of these financial statements.

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016**

| | NOTES | 2016 \$ | 2015 \$ |
|--|-------|-------------------------|-------------------------|
| Cash flows from operating activities | | | |
| Receipts from customers | | 57,985 | 226,970 |
| Payments to suppliers and employees | | <u>(568,870)</u> | <u>(1,210,282)</u> |
| Net cash used in operating activities | 17(b) | <u>(510,885)</u> | <u>(983,312)</u> |
| Cash flows from investing activities | | | |
| Payments for bond deposit | | (13,860) | - |
| Payments for exploration costs | | (382,169) | (122,972) |
| Purchase of plant and equipment | | (8,699) | (1,964) |
| Interest received | | <u>26,018</u> | <u>40,853</u> |
| Net cash used in investing activities | | <u>(378,710)</u> | <u>(84,083)</u> |
| Cash flows from financing activities | | | |
| Issue of shares | | - | 1,600,000 |
| Capital raising costs | | <u>-</u> | <u>(25,356)</u> |
| Net cash generated from financing activities | | <u>-</u> | <u>1,574,644</u> |
| (Decrease)/Increase in cash and cash equivalents | | (889,595) | 507,249 |
| Cash and cash equivalents at beginning of year | | 2,908,501 | 2,400,423 |
| Effect of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies | | <u>77</u> | <u>829</u> |
| Cash and cash equivalents at end of year | 7 | <u><u>2,018,983</u></u> | <u><u>2,908,501</u></u> |

The Group has used its cash in a way consistent with its business objectives.

The accompanying notes form part of these financial statements.

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016**

| | <u>Share capital</u> | <u>Share premium</u> | <u>Contributed surplus</u> | <u>Foreign currency translation</u> | <u>Accumulated losses</u> | <u>Total</u> |
|---|--------------------------|--------------------------|--------------------------------|---|-------------------------------|--------------|
| | \$ | \$ | \$ | \$ | \$ | \$ |
| Balance as at 1 January 2015 | 902,669 | 21,826,462 | 7,553,193 | (1,358,572) | (26,225,558) | 2,698,194 |
| Loss and total comprehensive loss for the year | - | - | - | - | (976,485) | (976,485) |
| Transactions with owners in their capacity as owners: | | | | | | |
| Issue of shares | 80,000 | 1,520,000 | - | - | - | 1,600,000 |
| Capital raising costs | - | (25,356) | - | - | - | (25,356) |
| Balance as at 31 December 2015 | 982,669 | 23,321,106 | 7,553,193 | (1,358,572) | (27,202,043) | 3,296,353 |
| Loss and total comprehensive loss for the year | - | - | - | - | (625,320) | (625,320) |
| Balance as at 31 December 2016 | 982,669 | 23,321,106 | 7,553,193 | (1,358,572) | (27,827,363) | 2,671,033 |

The accompanying notes form part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

1. NATURE OF OPERATIONS

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

2. GENERAL INFORMATION AND STATEMENT OF COMPLIANCE

The consolidated general purpose financial statements of the Group have been prepared in accordance with the requirements of the Corporations Act 2001, 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). Kaili Resources Limited is a for-profit entity for the purpose of preparing the financial statements.

Kaili Resources Limited is the Group's Ultimate Parent Company. The Company is a public limited company incorporated in Bermuda with its shares listed on the Australian Securities Exchange ("ASX"). The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and its office is at World Tower, Suite 1612, Level 16, 87-89 Liverpool Street, Sydney NSW 2000, Australia.

The consolidated financial statements for the year ended 31 December 2016 were approved and authorized for issue by the Board on 30th March 2017.

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 2016 are consistent with those adopted in the financial statements for the year ended 31 December 2015.

Judgments

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES – CONTINUED

(b) Basis of Consolidation

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

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

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

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

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

(c) Investments

Controlled Entities

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

(d) Property, plant and equipment and depreciation

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

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

(e) Goodwill

Goodwill is carried at cost less any accumulated impairment losses. Goodwill is calculated as the excess of the sum of:

- (i) the consideration transferred;
- (ii) any non-controlling interest; and
- (iii) the acquisition date fair value of any previously held equity interest;

over the acquisition date fair value of net identifiable assets acquired.

The acquisition date fair value of the consideration transferred for a business combination plus the acquisition date fair value of any previously held equity interest shall form the cost of the investment in the separate financial statements.

Fair value re-measurements in any pre-existing equity holdings are recognized in profit or loss in the period in which they arise. Where changes in the value of such equity holdings had previously been recognized in other comprehensive income, such amounts are recycled to profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES – CONTINUED

Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill on acquisition of associates is included in investments in associates.

Goodwill is tested for impairment annually and is allocated to the Group's cash-generating units or a group of cash-generating units, representing the lowest level at which goodwill is monitored being not larger than an operating segment. Gains and losses on the disposal of an entity include the carrying amount of goodwill related to the entity disposed of.

Changes in the ownership interests in a subsidiary are accounted for as equity transactions and do not affect the carrying amounts of goodwill.

(f) 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.

Translation of accounts of overseas operations

All overseas operations are deemed self-sustaining as each is financially and operationally independent of the Company. The assets and liabilities of overseas operations are translated using the exchange rates ruling at the end of the reporting period. Income and expenses items are translated at the average rates for the year. Exchange differences arising, if any, are taken directly to the foreign currency translation reserve in consolidated equity.

(g) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES – CONTINUED

(h) 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.

(j) Provisions

Employee Entitlements

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

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

Doubtful Debts

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

(k) Revenue recognition

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES – CONTINUED

(l) Impairment of non-financial assets

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

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

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

(m) Financial instruments

Financial assets

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

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

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

Financial liabilities

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

Significant financial liabilities include loan and advance from immediate holding company, trade and other payables and provisions.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES – CONTINUED

(n) Cash and cash equivalents

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

(o) Related parties

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

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

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

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

(p) New and amended standards and interpretations

The Group has adopted all new and amended Australian Accounting Standards and AASB interpretations effective as of 1 January 2016 including AASB 2015-4 Amendments to Australian Accounting Standards – Financial Reporting Requirements for Australian Groups with a Foreign Parent). The adoption of this amendment did not have any impact on the current period or any prior period and is not likely to affect future periods.

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

Australian Accounting Standards that have recently been issued or amended but are not yet effective and have not been adopted by the Group for the annual reporting period ending 31 December 2016 are outlined below:

- *AASB 15 Revenue from contracts with customers (applicable for annual reporting periods commencing on or after 1 January 2018)*
AASB 15 Revenue from contracts with customers establishes principles for reporting the nature, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers. The new standard is based on the principle that revenue is recognized when control of a good or service transfers to a customer, therefore the notion of control replaces the existing notion of risks and reward.
The Group has not yet assessed the impact of this new standard.
- *AASB 9 Financial Instruments (applicable for annual reporting period commencing on or after 1 January 2018)*
AASB 9 (December 2014) is a new Principal standard which replaces AASB 139. This new Principal version supersedes AASB 9 issued in December 2009 (as amended) and AASB 9 (issued in December 2010) and includes

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

a model for classification and measurement, a single, forward-looking 'expected loss' impairment model and a substantially reformed approach to hedge accounting.

The Group has not assessed the impact of this new standard.

- AASB 16 provides a new lessee accounting model which requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value.

The new standard is effective 1 January 2019. The Group has not assessed the impact of this new standard.

4. OTHER EXPENSES

| | 2016 | 2015 |
|----------------------------|----------------|----------------|
| | \$ | \$ |
| Audit fees | 17,050 | 15,850 |
| Director remuneration | 84,998 | 86,299 |
| Listing fees | 12,265 | 121,911 |
| Share registry | 9,026 | 11,125 |
| Rent on land and buildings | 36,500 | 4,000 |
| Insurance | 4,117 | 3,074 |
| Other costs | 140,134 | 629,015 |
| | <u>304,090</u> | <u>871,274</u> |

5. INCOME TAX

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

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

| | | |
|---|------------------|------------------|
| Loss before income tax | <u>(625,320)</u> | <u>(976,485)</u> |
| Tax at the Australian domestic income tax rate 28.5% (2015:30%) | (625,320) | (292,946) |
| Tax losses not recognised | <u>178,216</u> | <u>292,946</u> |
| Income tax expense | <u>-</u> | <u>-</u> |

6. CONTROLLED ENTITIES

(a) Investments in controlled entities comprise:

| Name of subsidiary | Place of incorporation/operation | Principal activities | Beneficial percentage held by economic entity | |
|---------------------------|----------------------------------|----------------------|---|------|
| | | | 2016 | 2015 |
| | | | % | % |
| Kaili Corporation Pty Ltd | Australia/Australia | Investment holding | 100 | 100 |
| APEC Coal Pty Ltd | Australia/Australia | Coal exploration | 100 | 100 |
| ASF Kaili Pty Ltd | Australia/Australia | Coal exploration | 100 | 100 |
| Kaili Gold Pty Ltd | Australia/Australia | Gold exploration | 100 | 100 |
| Kaili Iron Pty Ltd | Australia/Australia | Iron ore exploration | 100 | 100 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

| | 2016 | 2015 |
|---|-------------|-------------|
| | \$ | \$ |
| 7. CASH AND CASH EQUIVALENTS | | |
| Cash at bank | 2,018,983 | 2,908,501 |
| 8. TRADE AND OTHER RECEIVABLES | | |
| GST receivable | 29,611 | 39,090 |
| 9. OTHER ASSETS | | |
| Prepayments | 26,078 | - |
| 10. FINANCIAL ASSETS | | |
| Current | | |
| Rental bond | 13,860 | - |
| Non-current | | |
| Security deposit | 5,000 | 5,000 |
| 11. PROPERTY, PLANT AND EQUIPMENT | | |
| Furniture, fixtures and office equipment | | |
| At cost: | | |
| Balance at beginning of year | 1,964 | - |
| Additions | 8,699 | 1,964 |
| Balance at end of year | 10,663 | 1,964 |
| Depreciation: | | |
| Balance at beginning of year | (373) | - |
| Depreciation charge | (9,092) | (373) |
| Balance at end of year | (9,465) | (373) |
| Carrying amount at 31 December 2016 | 1,198 | 1,591 |
| 12. TENEMENTS | | |
| At cost: | | |
| Balance at beginning of year | 373,319 | 287,741 |
| Additions | 382,169 | 85,578 |
| Written off | (146,288) | - |
| Balance at end of year | 609,200 | 373,319 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

| | 2016 | 2015 |
|-------------------------------------|---------------|---------------|
| | \$ | \$ |
| 13. TRADE AND OTHER PAYABLES | | |
| Trade payables | 12,500 | 12,000 |
| Other payables and accrued expenses | 20,397 | 19,148 |
| | <u>32,897</u> | <u>31,148</u> |

14. SHARE CAPITAL

| | 2016 | 2016 | 2015 | 2015 |
|---|----------------------|-------------------|----------------------|-------------------|
| | Number | \$ | Number | \$ |
| | of shares | | of shares | |
| (a) Authorised capital: | | | | |
| Authorised ordinary shares : Par value \$0.01 | <u>5,000,000,000</u> | <u>50,000,000</u> | <u>5,000,000,000</u> | <u>50,000,000</u> |
| (b) Issued and paid up capital: | | | | |
| Fully paid ordinary shares: Par value \$0.01 | <u>98,266,915</u> | <u>982,669</u> | <u>98,266,915</u> | <u>982,669</u> |

| | 2016 | 2015 |
|--------------------------------------|------------------|------------------|
| | \$ | \$ |
| (c) Reserves | | |
| Contributed surplus | 7,553,193 | 7,553,193 |
| Foreign currency translation reserve | (1,358,572) | (1,358,572) |
| Share premium account | 23,321,106 | 23,321,106 |
| Accumulated losses | (27,827,363) | (27,202,043) |
| | <u>1,688,364</u> | <u>2,313,684</u> |

15. REMUNERATION OF AUDITORS

The following total remuneration was received by the auditors of the consolidated entity for audit services provided:

| | | |
|--|---------------|---------------|
| Auditing and reviewing financial reports | <u>17,050</u> | <u>15,850</u> |
|--|---------------|---------------|

16. SEGMENT INFORMATION

Business segments

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

| | 2016 | 2015 |
|---|------------------|------------------|
| | \$ | \$ |
| 17. CASH FLOW INFORMATION | | |
| (a) Reconciliation of Cash | | |
| Cash and cash equivalents include cash and bank balances. | | |
| (b) Reconciliation of loss before income tax to cash flows from operating activities | | |
| Loss before income tax | (625,320) | (976,485) |
| Depreciation | 9,092 | 373 |
| Foreign exchange differences | (77) | (830) |
| Interest income | (26,018) | (40,638) |
| Exploration expenditure written off | 146,288 | - |
| Exploration licences application fees | - | 37,394 |
| | <hr/> | <hr/> |
| Operating cash flows before movements in working capital | (496,035) | (980,186) |
| Changes in assets and liabilities relating to operations: | | |
| Decrease/(Increase) in trade and other receivables | 9,479 | (16,206) |
| (Increase)/Decrease in prepayments | (26,078) | 28,245 |
| Increase/(Decrease) in trade and other payables | 1,749 | (15,165) |
| | <hr/> | <hr/> |
| Net cash used in operating activities | <u>(510,885)</u> | <u>(983,312)</u> |

18. EARNING/(LOSS) PER SHARE

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

| | | |
|---|-------------------|-------------------|
| Loss for the purposes of basic and diluted loss per share | <u>(625,320)</u> | <u>(976,485)</u> |
| Number of shares | Number | Number |
| Weighted average number of ordinary shares for the purposes of basic and diluted loss per share | <u>98,266,915</u> | <u>96,464,717</u> |

19. COMMITMENTS

a) Lease commitment

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

| | | |
|--|---------------|----------|
| Within twelve months | 34,650 | - |
| Twelve months or longer and not longer than five years | - | - |
| | <hr/> | <hr/> |
| | <u>34,650</u> | <u>-</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

| | 2016 | 2015 |
|--|------|------|
| | \$ | \$ |

b) Minerals tenements commitment

The Group holds eight granted tenements in Australia, including seven granted in 2016. A condition of the tenements is that the Group is required to meet minimum committed expenditure requirements to maintain current rights of tenure. These commitments may be subject to renegotiation, may be farmed out or may be relinquished and have not been provided for in the financial statements and are due as follows from balance date:

| | | |
|--|----------------|----------------|
| Within twelve months | 49,500 | 186,000 |
| Twelve months or longer and not longer than five years | 899,400 | 115,000 |
| | <u>948,900</u> | <u>301,000</u> |

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

20. FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES

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

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

Financial assets

| | | |
|--------------------------------------|------------------|------------------|
| Cash and bank balances | 2,018,983 | 2,908,501 |
| Trade and other receivables | 29,611 | 39,090 |
| Financial assets – security deposits | 18,860 | 5,000 |
| | <u>2,067,454</u> | <u>2,952,591</u> |

Financial liabilities at amortised cost

| | | |
|--------------------------|---------------|---------------|
| Trade and other payables | <u>32,897</u> | <u>31,148</u> |
|--------------------------|---------------|---------------|

It is, and has been throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are fair value and cash flow interest rate risk, foreign currency risk, credit risk and liquidity 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) Interest rate sensitivity analysis

A 1% decrease in interest rate would result in a decrease of \$20,190 (2015: \$29,085) in interest income for the year based on balance date bank balances. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

(c) 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:-

| | 2016 | | | 2015 | | |
|--|-----------|-------------|--------|-----------|-------------|--------|
| | On demand | Over 1 year | Total | On demand | Over 1 year | Total |
| | \$ | \$ | \$ | \$ | \$ | \$ |
| Accounts and other payables and accruals | 32,897 | - | 32,897 | 31,148 | - | 31,148 |

(d) 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.

21. 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 the lowest 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 2016.

22. 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.

| | 2016 | 2015 |
|--|---------------|---------------|
| | \$ | \$ |
| Compensation of KMP of the Group: | | |
| Short-term employee benefits | 55,004 | 67,502 |
| Post-employment benefits | 29,994 | 18,797 |
| Other long-term benefits | - | - |
| Termination benefits | - | - |
| Share-based payments | - | - |
| | <u>84,998</u> | <u>86,299</u> |

Transaction with KMP

The Group entered into an office tenancy agreement with Director Mr. Jianzhong Yang, owner of a property which served as the Company's principal place of business during the second half of the financial year. The total rent paid was \$33,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

| | 2016 | 2015 |
|--------------------------------------|---------------------|---------------------|
| | \$ | \$ |
| 23. PARENT ENTITY INFORMATION | | |
| Assets | | |
| Current assets | 3,559,226 | 3,584,096 |
| Non-current assets | 759,011 | 905,300 |
| Total assets | <u>4,318,237</u> | <u>4,489,396</u> |
| Liabilities | | |
| Current liabilities | 12,500 | 12,000 |
| Total liabilities | <u>12,500</u> | <u>12,000</u> |
| Equity | | |
| Issued capital | 982,669 | 982,669 |
| Share premium account | 23,321,106 | 23,321,106 |
| Contributed surplus reserve | 7,553,193 | 7,553,193 |
| Foreign currency translation reserve | (1,358,572) | (1,358,571) |
| Accumulated losses | <u>(26,192,659)</u> | <u>(26,021,001)</u> |
| | <u>4,305,737</u> | <u>4,477,396</u> |
| Financial performance | | |
| Loss for the year | (171,658) | (589,365) |
| Other comprehensive income | - | - |
| Total comprehensive loss | <u>(171,658)</u> | <u>(589,365)</u> |

24. 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 Company's operations, the results of those operations or the Company's state of affairs in future years other than the announcement by the Company on 6 February 2017 of the maiden In Situ Gasification (ISG) JORC 2012 compliant inferred resource estimate at its Maryvale Coal Project of 97 million tonnes.

25. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 30th March 2017.

DIRECTORS' DECLARATION

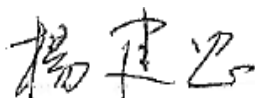
The Directors declare that the financial statements and notes set out on pages 24 to 40:

- (a) give a true and fair view of the Company's and consolidated entities' statements of financial position as at 31 December 2016 and of their statements of comprehensive income, as represented by the results of their operations and their cash flows, for the financial year ended on that date; and
- (b) have been prepared in accordance with International Financial Reporting Standards.

In the opinion of the Directors:

- (a) The statement of comprehensive income is drawn up so as to give a true and fair view of the results of the Company for the year ended 31 December 2016.
- (b) The statement of financial position is drawn up so as to give a true and fair view of the state of affairs of the Company as at 31 December 2016.
- (c) At the date of this declaration there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

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



Jianzhong Yang
Chairman



Kaiyuan Yang
Executive Director

Sydney
30th March 2017

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

We have audited the Consolidated Financial Statements of Kaili Resources Limited (the "Company") and the subsidiaries (together "the Group") set out on pages 24 to 40, which comprise the consolidated and Company statements of financial position as at 31 December 2016, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of financial position, the consolidated statement of cash flows and the consolidated statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibilities for the Consolidated Financial Statements

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

Auditor's responsibility

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

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

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

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



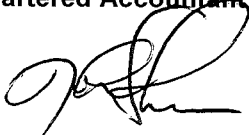
Independence

In conducting our audit we have complied with the independence requirements of the Code of Ethics for Professional Accountants.

Opinion

In our opinion, the Consolidated Financial Statements of Kaili Resources Limited give a true and fair view of the Company's financial position as at 31 December 2016 and of its performance for the year ended on that date in accordance with International Financial Reporting Standards and the accounting policies described in Note 3 to the Consolidated Financial Statements.

JOHN F SHUTE
Chartered Accountant

A handwritten signature in black ink, appearing to read 'John F Shute', written in a cursive style.

John F Shute

Sydney
30 March 2017

ADDITIONAL INFORMATION

Additional information included in accordance with Listing Rules of the ASX Limited as at 22 February 2017

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* | 36,769,904 | 37.42 |
| Kaili Holdings Limited* | 8,800,000 | 8.96 |
| Mile Ocean Limited | 16,532,222 | 16.82 |
| Jin He | 5,947,859 | 6.05 |

*Mr Jianzhong Yang has relevant interests in those entities.

2. Distribution of fully paid ordinary Shares:-

| Range of shareholdings | Number of Shareholders | Units | Percentage of issued capital |
|------------------------|---------------------------|------------------------|------------------------------------|
| 1 — 1,000 | 674 | 121,670 | 0.12 |
| 1,001 — 5,000 | 80 | 192,477 | 0.20 |
| 5,001 — 10,000 | 253 | 2,487,157 | 2.53 |
| 10,001 — 100,000 | 105 | 4,281,009 | 4.36 |
| 100,001 and over | 27 | 91,184,602 | 92.79 |
| | <hr/> 1,139 <hr/> | <hr/> 98,266,915 <hr/> | <hr/> 100.00 <hr/> |

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 dealing with the acquisition of shares (including substantial shareholdings and takeovers). 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 22 February 2017

| Name | Number of fully paid Ordinary shares held | Percentage of issued capital |
|-------------------------------------|---|------------------------------|
| 1. TREASURE UNICORN LIMITED | 36,514,086 | 37.16 |
| 2. MILE OCEAN LIMITED | 16,532,222 | 16.82 |
| 3. KAILI HOLDINGS LIMITED | 8,800,000 | 8.96 |
| 4. JIN HE | 5,947,859 | 6.05 |
| 5. MR YUTIAN BAI | 2,666,666 | 2.71 |
| 6. MR SHUJUN LIU | 2,666,666 | 2.71 |
| 7. MS JUNLAN WANG | 2,666,666 | 2.71 |
| 8. ASF GROUP LIMITED | 2,200,000 | 2.24 |
| 9. MRS MAN SUN NG | 1,900,000 | 1.93 |
| 10. MR QIUSHENG LI | 1,666,666 | 1.70 |
| 11. MR YONGJUN LIU | 1,666,666 | 1.70 |
| 12. MR HAIYU HE | 1,333,333 | 1.36 |
| 13. MS GUIYING JIA | 1,333,333 | 1.36 |
| 14. WUJIANG INVESTMENT PTY LTD | 1,100,000 | 1.12 |
| 15. SMART STEP LIMITED | 1,000,000 | 1.02 |
| 16. JUNLAN WANG | 500,000 | 0.51 |
| 17. JIN HE | 440,000 | 0.45 |
| 18. EDGEFIELD INTERNATIONAL LIMITED | 363,000 | 0.37 |
| 19. MR CALVIN AU | 322,000 | 0.33 |
| 20. TREASURE UNICORN LIMITED | 255,818 | 0.26 |
| Twenty largest shareholders | 89,874,981 | 91.46 |
| Others | 8,391,934 | 8.54 |
| | 98,266,915 | 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".