

Kaili Resources Limited

ARBN 077 559 525

OFFER DOCUMENT

NON-RENOUNCEABLE PRO RATA ENTITLEMENT OFFER

This is an offer to Eligible Shareholders to participate in a non-renounceable pro rata entitlement offer on the basis of one (1) New Share for every two (2) Shares held by Eligible Shareholders on the Record Date at an Issue Price of \$0.036 per New Share to raise up to approximately \$1,768,804 (before costs) (**Offer**).

The Offer opens on 5 December 2018 and closes at 5:00pm (Sydney time) on 17 December 2018 (unless it is lawfully extended). Valid acceptances must be received before the Closing Date.

Applications can only be made by following the instructions on an Application Form that was attached to a paper copy of this Offer Document. The personalised Application Form sent to Eligible Shareholders sets out the Eligible Shareholder's Entitlement to participate in the Offer.

Important Information

This Offer Document is an important document and requires your attention. You should read the contents and instructions in this Offer Document and on the Application Form in their entirety. If you do not understand their contents or are in any doubt about how to deal with your Entitlements or the course you should follow, please consult your stockbroker, accountant, financial planner or other professional adviser without delay and before making an investment decision. The Shares offered under this document should be considered speculative.

CORPORATE DIRECTORY

Kaili Resources Limited

ARBN 077 559 525

Directors

| | |
|----------------|------------------------------------|
| Donghai Zhang | (Chairman, Non-Executive Director) |
| Chunlin Liu | (Non-Executive Director) |
| Jing Li | (Non-Executive Director) |
| Jianzhong Yang | (Non-Executive Director) |

Company Secretary

| | |
|-----------|---------------------|
| Long Zhao | (Company Secretary) |
|-----------|---------------------|

Registered Office

Suite 1612, Level 16, 87-89 Liverpool Street
Sydney NSW 2000

T: +61 2 8386 5713

Email: contact@kailigroup.com.au

Share Registry

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

GPO Box 2975

Sydney VIC 3001

T: +61 3 9415 4062

ASX Code

Ordinary shares: KLR

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Key Dates

Proposed Timetable

| | |
|--|------------------|
| Announcement date | 27 November 2018 |
| Notice of Offer sent to all Shareholders | 28 November 2018 |
| Ex-Date: the date on which Shares commence trading without entitlement to participate in the Offer | 29 November 2018 |
| Record Date (7:00pm Sydney time) | 30 November 2018 |
| Dispatch of Offer Document and Application Form to Eligible Shareholders | 5 December 2018 |
| Closing Date (5:00pm Sydney time) | 17 December 2018 |
| New Shares quoted on deferred settlement basis | 18 December 2018 |
| Shortfall Shares notification to ASX and Underwriter | 20 December 2018 |
| New Shares issued and allotted (deferred settlement ends) | 20 December 2018 |
| Normal trading in Shares commences | 21 December 2018 |
| Dispatch of holding statements | 24 December 2018 |

This timetable is indicative only. The Company reserves the right to vary the dates and times of the Offer in consultation with the Underwriter, without prior notice, and subject to compliance with the Listing Rules.

IMPORTANT NOTE

This Offer Document has been prepared by the Company and is dated 27 November 2018. This is an Offer Document for an Offer of continuously quoted securities of the Company as defined by the Corporations Act and has been prepared in accordance with section 708AA of the Corporations Act and ASIC Instrument 2016/84. Section 708AA and ASIC Instrument 2016/84 relate to entitlement offers that do not require the issue of a prospectus or other disclosure document. Accordingly, this Offer Document is not a prospectus and the level of disclosure in this Offer Document is significantly less than that required in a prospectus. This Offer Document does not contain all of the information that an investor would find in a prospectus or other disclosure document or which may be required or expected by an investor in order to make an informed investment decision regarding, or about the rights attaching to, the New Shares. You should therefore rely on your own knowledge of the Company, refer to disclosures already made by it to ASX and, if you are in any doubt whether or not to take up the Offer, consult your legal, financial or other professional adviser before deciding whether to take up your Entitlement. This Offer Document has not been lodged with ASIC and neither ASIC nor ASX takes any responsibility for the contents of this Offer Document nor the merits of the investment to which this Offer Document relates.

The information contained in this Offer Document is in summary form and is not, and does not purport to be, complete. This Offer Document is not a recommendation or advice in relation to the

Company or investment in the New Shares.

You should carefully consider whether New Shares are an appropriate investment for you. There are significant risks associated with an investment in the Company. The New Shares to be issued under this Offer Document should be regarded as a speculative investment. The New Shares carry no guarantee whatsoever with respect to return on capital investment, payment of dividends or the future value of the New Shares. Share prices can fall as well as rise.

This Offer Document and the Application Form are important and you should read them in their entirety (including Section 6 - "Investment Risks") prior to making an investment decision. If you do not understand the documents or are in any doubt as to how to deal with your Entitlements, you should consult your professional adviser.

No person is authorised to give any information or make any representation in connection with the Offer which is not expressly contained in this Offer Document. Any information or representation not so contained may not be relied on by any person as having been authorised by the Company in connection with the Offer.

Applications for New Shares by Eligible Shareholders can only be made on an original Application Form sent together with this Offer Document. The Application Form sets out an Eligible Shareholder's Entitlement. By returning an Entitlement and Acceptance Form or otherwise arranging for payment for your New Shares through BPAY®, you acknowledge that you have received and read this Offer Document, you have acted in accordance with the terms of the Offer detailed in this Offer Document and you agree to all of the terms and conditions as detailed in this Offer Document.

The distribution of this Offer Document in jurisdictions outside Australia and New Zealand may be restricted by law and persons who come into possession of this Offer Document should seek advice on, and observe the requirements of, these laws. Non-observance by such persons may violate securities laws. Any recipient of this Offer Document residing outside Australia and New Zealand should consult their professional advisers on requisite formalities. This Offer is not being extended and Shares will not be issued to Shareholders with a registered address which is outside Australia and New Zealand (Overseas Shareholders). The Company will be sending to each Overseas Shareholder details of the Offer and advice that the Company will not offer New Shares to that Shareholder.

Neither this Offer Document, the Application Form nor any other document released or distributed by the Company in connection with this Offer constitutes an offer or an invitation by or on behalf of the Company to subscribe for or purchase any New Shares in any place or jurisdiction in which, or to any person to whom, it would not be lawful to make such an offer or invitation. No action has been taken to register or qualify this Offer Document in Australia or New Zealand or elsewhere or to otherwise permit a public offering of New Shares outside Australia and New Zealand. Shareholders in Australia or New Zealand holding Shares on behalf of overseas Shareholders are responsible for ensuring that taking up an Entitlement under the Offer does not breach regulations in the relevant overseas jurisdiction. Return of a duly completed Application Form will be taken by the Company to constitute a representation that there has been no breach of the applicable regulations.

This Offer Document and Entitlement and Acceptance Form may not be released or distributed in the United States. This Offer Document does not constitute an offer to sell, or a solicitation of an offer to buy, securities in the United States. Any securities described in this Offer Document have not been, and will not be, registered under the US Securities Act of 1933 and may not be offered or sold in the United States except in transactions exempt from, or not subject to, registration under that act or any applicable US state securities laws.

Electronic Offer Document

The Offer Document is available in electronic form via the Company's website <http://www.kailigroup.com.au/>. The electronic version of this Offer Document on the Company's website will not include an Application Form. Any person accessing the electronic version of the Offer Document must be an Australian or New Zealand resident and must only access the Offer Document from within Australia or New Zealand. The Corporations Act prohibits any person passing on to another person an Application Form unless it is attached to a hard copy of the Offer Document or accompanied by the complete and unaltered version of this Offer Document. Prospective applicants should read this Offer Document in its entirety before completing an Application Form. Any person may obtain a copy of this Offer Document free of charge by contacting the Company.

Risks

The New Shares offered under this Offer Document are considered highly speculative and an investment in the Company is not risk free. A non-exhaustive list of some of the key risk factors to an investment in the New Shares and the Company are described in Section 6 under the heading "Investment Risks", which the Directors strongly recommend all Applicants read in full before deciding whether to apply for New Shares pursuant to this Offer Document.

These key risks include:

- funding risk;
- exploration and development risk;
- operations risk;
- risk of foreign operations;
- environmental risk;
- taxation risk;
- general economic risk;
- share market risk; and
- insurance risk.

In addition to the above specific risks that relate directly to the Company, there are also other general risks, many of which are largely beyond the control of the Company and its Directors, that investors should consider and which may also have a material impact on the financial position and prospects of the Company, and the market price of the New Shares issued pursuant to this Offer Document.

No Forecasts

Some statements in this Offer Document are in the nature of forward looking statements, including statements of current intention, statements of opinion and predictions as to possible

future events. Forward looking-statements may be identified by words such as "aim", "intend", "should", "expect", "estimate", "likely", "believe", "anticipate", "planned" and similar expressions.

Such statements are not statements of fact and there can be no assurance or certainty of outcome in relation to the matters to which the statements relate. Forward-looking statements are based on an assessment of present economic and operating conditions and are only predictions based on a number of assumptions regarding future events and actions that are expected to take place, and are subject to inherent risks and uncertainties. Past performance is not necessarily an indication of future performance. Actual events or results may differ materially from the events or results expressed as implied in any forward looking statement. Such statements are not guarantees of future performance or representations of future matters and involve known and unknown risks, uncertainties, assumptions and other factors, many of which are beyond the control of the Company, the Directors and management. The estimates and projections contained in this Offer Document involve significant elements of subjective judgment and analysis, which may or may not be correct when considered with hindsight against the background of actual events. You are cautioned not to place undue reliance on any forward looking statement. You should make your own independent review of the relevant assumptions, calculations and circumstances upon which the forward looking statements, estimates and projections are based. The forward looking statements in this Offer Document reflect views held only as at the date of this Offer Document and the Company assumes no obligation to update such information or publish any further prospective information in the future, regardless of whether new information, future events or any other factors affect the information contained in this Offer Document, except where required by law.

Disclaimers

No representation or warranty, express or implied, is made by any person in relation to the fairness, accuracy, completeness or reliability of all or part of this Offer Document, or any constituent or associated presentation, information or material, or the accuracy, likelihood of achievement or reasonableness of any forecasts, prospects or returns contained in, or implied by, the information or any part of it. The information in this Offer Document may include information derived from third party sources that has not been independently verified.

Without limiting anything else in this Offer Document, to the maximum extent permitted by law, the Company, its subsidiaries, and their respective partners, directors, officers, employees, agents and advisers disclaim all liability and responsibility for any direct or indirect loss or damage which may be suffered by any recipient through the use or reliance on anything contained in or omitted from this Offer Document, including without limitation, any liability arising from fault or negligence on the part of the Company or its subsidiaries, directors, partners, officers, employees and advisers.

The information in this Offer Document remains subject to change without notice. No person is under any obligation to provide any recipient of this Offer Document with any access to any additional information, or to notify any recipient or any other person of any other matter arising or coming to its notice after the date of the presentation.

Privacy

The Company (and the Share Registry on its behalf) collects, holds and uses personal information of security holders in order to service their needs as security holders, provide facilities

and services that they request or that are connected with their interests in Shares and carry out appropriate administration.

The information may also be used from time to time and disclosed to persons inspecting the securities register, bidders for the securities in the context of takeovers, regulatory bodies, including the Australian Taxation Office, authorised securities brokers, print service providers and mail houses.

A security holder may request access, correct and update his or her personal information held by the Company or the Share Registry, by contacting the Company Secretary.

Collection, maintenance and disclosure of certain personal information is governed by legislation including the *Privacy Act 1988* (Commonwealth) (as amended), the Corporations Act and certain rules such as the ASX Settlement Operating Rules of ASX.

LETTER FROM THE CHAIRMAN

Dear Shareholder,

On behalf of the Directors, it is my pleasure to invite you to subscribe for New Shares in the Company at an Issue Price of \$0.036 per New Share under a non-renounceable pro rata offer on the basis of one (1) New Share for every two (2) Shares that you hold on the Record Date to raise approximately \$1,768,804. The Offer is underwritten to ensure that the Company receives the total funds it seeks to raise.

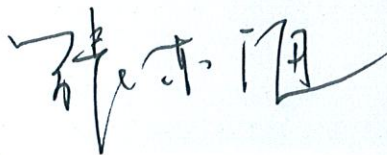
The money raised from the Offer will be applied to exploration within the licences that the Company holds, repayment of debt, general working capital and costs related to this Offer.

The Offer presents an opportunity to Eligible Shareholders who wish to increase their investment in the Company at a time when it is commencing an exciting phase of exploration within its several granted mineral tenements.

Please carefully read the terms and conditions contained in this Offer Document before deciding whether to take up your Entitlement. If you are in any doubt as to whether to take up your Entitlement or the effect of taking up your Entitlement may have on you, please consult your financial or other professional adviser.

Yours sincerely

Donghai Zhang
Chairman



27 November 2018

1. PURPOSE OF THE OFFER

The Company proposes to raise up to approximately \$1,768,804 by the issue of approximately 49,133,457 New Shares, subject to rounding, pursuant to this Offer Document.

The purpose of the Offer is to fund exploration expenditure, repay Company debt, general working capital and costs related to this Offer.

1.1 Background

The Company has 12 tenements in Western Australia granted between 2016 and 2018, of which:

- three (Hamersley Project) are in the Pilbara Craton for iron ore exploration;
- five (Kookynie and Gindalbie Projects) are in the Yilgarn Craton for gold exploration;
- four (Halls Creek Project) are in the Lamboo Province for cobalt/gold exploration; and
- one permit in Queensland in the Surat Basin (Maryvale Coal Project) granted in 2009 for coal exploration.

1.2 Steps forward

After submitting licence applications with the Western Australian Government in the last two years all 12 new tenements have now been granted. The Company has progressed exploration programs as the tenements have been granted and recently completed a reverse circulation drilling program at the Jungle Hill tenement within the Kookynie Project. In addition, several structural/geologic targets have been identified at the Gindalbie Project and drill testing is planned for early 2019. The Company plans to carry out exploration programs to further assess the prospectivity of those tenements, and also to satisfy the commitments under the licences.

In February 2017, the Company announced a maiden In Situ Gasification (ISG) JORC 2012 compliant inferred mineral resource estimate of 97 million tonnes at its Maryvale Coal Project. The Company plan to carry out work with a view to improving this mineral resource estimate.

1.3 Use of funds

The proposed use of funds raised from the Offer is as follows:

| | |
|---------------------------------|---------|
| Exploration | \$ |
| Hamersley Iron Project | 100,000 |
| Kookynie Gold Project | 100,000 |
| Gindalbie Gold Project | 100,000 |
| Halls Creek Cobalt/Gold Project | 110,000 |
| Maryvale Coal Project | 100,000 |
| Repayment of debt | 500,000 |
| Expenses of the Issue | 24,000 |

| | |
|------------------|-------------------------|
| Underwriting fee | 88,440 |
| Working capital | 646,364 |
| Total | <u>1,768,804</u> |

The amount allocated to each exploration project is based on the minimum work commitments under each of the licences for the next 12 months and may vary subject to the results of the exploration. Funds may be reallocated between the projects listed in the table.

Please refer to the risks in Section 6, particularly relating to funding risks.

2. DETAILS OF THE OFFER

The details of the Offer are as follows.

2.1 Offer Ratio and Price

For every two (2) Shares held on the Record Date, an Eligible Shareholder is offered one (1) New Share at an Issue Price of \$0.036 per New Share, that Issue Price payable upon application.

2.2 Record Date

The Record Date for the Offer is 7:00pm (Sydney time) on 30 November 2018.

2.3 Eligible Shareholders

Eligible Shareholders are those holders of Shares who:

- are registered as a holder of Shares as at 7:00pm (Sydney time) on 30 November 2018 (the Record Date);
- have a registered address in Australia or New Zealand; and
- are not located in the United States and are not acting for the account or benefit of a person in the United States.

If you are a Shareholder who does not satisfy each of the criteria listed above, you are deemed an Ineligible Shareholder. Refer to Section 2.5 for more information regarding the Offer and Ineligible Shareholders.

By returning a completed Application Form or making a payment by BPAY®, you will be taken to have represented and warranted that you satisfy each of the criteria listed above. Eligible Shareholders who are nominees, trustees or custodians are therefore advised to seek independent professional advice as to how to proceed.

2.4 Entitlements and Acceptance

Details of how to make an Application under the Offer are set in Section 3. The Entitlement of Eligible Shareholders to participate in the Offer will be determined on the Record Date and set out on the Application Form accompanying the paper copy of this Offer Document mailed to Eligible Shareholders. The Directors reserve the right to reject any Application that they believe is submitted by or on behalf of a person who is not an Eligible Shareholder.

2.5 Ineligible Shareholders

The Offer of New Shares under this Offer Document does not, and is not intended to, constitute an offer in any place or jurisdiction in which, or to any person to whom, it would not be lawful to make such an offer or to issue this Offer Document. The Company has decided not to make the Offer to Shareholders who do not have a registered address in Australia or New Zealand (**Ineligible Shareholder**), having regard to each of the following:

- the number of Ineligible Shareholders in each jurisdiction where the Offer would be made;

- the number and value of New Shares that the Ineligible Shareholders would be offered; and
- the cost of complying with the legal requirements and requirements of a regulatory authority in each jurisdiction of the Ineligible Shareholders.

Accordingly, the Offer is not being extended, and New Shares will not be issued, to Ineligible Shareholders. The Company will be sending to each Ineligible Shareholder details of the Offer and advise that the Company will not offer New Shares to that Shareholder.

This Offer Document is sent to Shareholders with registered addresses outside Australia and New Zealand for information purposes only.

2.6 Non-renounceable offer

The Entitlement to New Shares is non-renounceable. Accordingly, there will be no trading of Entitlements on the ASX and you may not dispose of your Entitlements to subscribe for New Shares under the Offer to any other party.

Any portion of an Eligible Shareholder's Entitlements that are not exercised will lapse and the New Shares (the subject of those Entitlements) will form part of the Shortfall Shares and will be taken up by the Underwriter.

2.7 Underwriting

The Offer is fully underwritten by the Underwriter. Any Shortfall Shares that are not subscribed for by Eligible Shareholders under the Shareholder Shortfall Offer will be issued to the Underwriter in accordance with the Underwriting Agreement. The effect of the underwriting on the Share capital is further explained under Section 4. The significant terms of the Underwriting Agreement are summarised under Section 7.3.

2.8 Identity of Underwriter

The Underwriter is Treasure Unicorn Limited, a controlled entity of Inner Mongolia Yitai Investment Co. Limited, which holds approximately 37.42% of the Company's share capital.

2.9 Fractional entitlements

Fractional Entitlements to New Shares will be rounded down to the nearest whole number.

2.10 Rights on issue of New Shares

The New Shares offered pursuant to this Offer Document will have the same rights as the Company's fully paid ordinary Shares, and will rank equally with those Shares on issue as at the date of this Offer Document. The rights attaching to Shares are set out in the Company's Constitution, a copy of which can be obtained from the Company on request.

2.11 No minimum subscription

There is no minimum subscription for the Offer.

2.12 Allotment of New Shares

It is expected that New Shares will be allotted and issued no later than 20 December 2018 with dispatch of holding statements expected to occur on 24 December 2018.

A holding statement for the purposes of CHESS for the New Shares will be mailed, at the risk of the Applicant, by ordinary post to the address appearing on the completed Application Form.

If the Application Form is not completed properly, or if the accompanying payment is in the wrong amount, it may still be treated as a valid Application. The Directors' decision whether to treat the Application as valid, and how to construe, amend or complete the Application Form is final. However, an Applicant will not be treated as having applied for more New Shares than is indicated by the amount of the cheque for Application Monies.

2.13 Expenses of the Offer

The estimated expenses which are payable by the Company for underwriting fee, legal fees, registry, printing and other costs incurred in preparing and distributing this Offer Document in respect of the Offer are estimated to be approximately \$112,440.

2.14 Quotation of New Shares

The Company will make application to ASX for quotation of the New Shares on the date of this Offer Document.

If ASX does not grant quotation of the New Shares offered pursuant to this Offer Document before the expiration of three months after the date of this Offer Document (or such period as varied by ASIC), the Company will not issue any New Shares and will repay all Application Monies within the time prescribed under the Corporations Act, without interest.

The fact that ASX may grant quotation of the New Shares offered pursuant to this Offer Document is not to be taken in any way as an indication of the merits of the Company or the New Shares.

2.15 Taxation implications

The Directors do not consider it appropriate to give Shareholders advice regarding the taxation consequences of subscribing for New Shares. The Company, its advisers and its officers do not accept any responsibility or liability for any such taxation consequences to Shareholders.

Shareholders should consult their professional tax adviser in connection with subscribing for New Shares under this Offer Document.

2.16 Enquiries

Enquiries regarding this Offer Document should be directed to the Company Secretary or Directors on 02 8386 5713 or via email to contact@kailigroup.com.au.

3. HOW TO ACCEPT THE OFFER

The Offer can be accepted by either of an Application Form with accompanying cheque, or by making a payment through BPAY®.

By completing, and the Share Registry or the Company receiving, your personalised Application Form with the requisite Application Monies or making a payment by BPAY®, you:

- agree to be bound by the terms of this Offer Document and the provisions of the Company's Constitution;
- authorise the Company to register you as the holder(s) of the New Shares allotted to you;
- declare that all details and statements made in the Application Form are complete and accurate;
- acknowledge that the Offer Document is not investment advice and does not constitute a recommendation that you subscribe for New Shares;
- declare that you have full legal capacity to subscribe for New Shares;
- acknowledge that once the Company receives the Application Form or your payment by BPAY® (as applicable), you may not withdraw it except as allowed by law;
- agree to apply for, and be issued with up to, the number of New Shares that you apply for at the Issue Price per New Share;
- authorise the Company and its officers or agents to do anything on your behalf necessary for the New Shares to be issued to you;
- represent and warrant that you are an Eligible Shareholder; and
- have read and understood this Offer Document and the Application Form and that you acknowledge the matters, and make the warranties and representations and agreements contained in this Offer Document and the Application Form.

3.1 Payment by BPAY®

For payment by BPAY® please follow the instructions on the Application Form. You can only make a payment via BPAY® if you are the holder of an account with an Australian financial institution that supports BPAY® transactions.

Please note that should you choose to pay by BPAY®:

- you do not need to submit the Application Form but are taken to make the declarations on that Application Form; and
- you are deemed to have applied for such whole number of New Shares which is covered in full by your Application Monies, whether that number is less than or equal to your Entitlement.

When paying by BPAY® please make sure you use the specific Biller Code and your unique customer reference number (CRN) which can be found on the front of your personalised Application Form.

It is your responsibility to ensure that your BPAY® payment is received by the Share Registry by no later than 5:00pm (Sydney time) on the Closing Date. You should be aware that your financial institution may implement earlier cut-off times with regards to electronic payment, and you should therefore take this into consideration when making payment.

Any Application Monies received for more than your entitlement of New Shares will be refunded as soon as practicable after the Closing Date. No interest will be paid on any Application Monies received or refunded.

3.2 Payment by cheque

For payment by cheque, you should complete your Application Form in accordance with the instructions on the Application Form and return it accompanied by a cheque in Australian currency for the amount of the Application Monies payable to "**Kaili Resources Limited – Rights Issue A/C**" and crossed "Not Negotiable".

Your cheque must be:

- for an amount equal to the Issue Price multiplied by the number of New Shares that you are applying for; and
- in Australian currency drawn on an Australian branch of a financial institution.

If the amount of your cheque for Application Monies (or the amount of which the cheque clears in time for allocation) is insufficient to pay in full for the number of New Shares you have applied for in your Application Form, you will be taken to have applied for such number of New Shares (rounded down to the nearest whole number) as your cleared Application Monies will pay for (and to have specified that number of New Shares on your Application Form). Alternatively, your Application will not be accepted.

Any Application Monies received for more than your final allocation of New Shares will be refunded as soon as practicable after the Closing Date. No interest will be paid on any Application Monies received or refunded.

Your completed Application Form and cheque must reach the Company's Share Registry at the address set out on the Application Form and be cleared by no later than 5:00pm (Sydney time) on the Closing Date. It is your responsibility to ensure that your cheque clears by that time. You should be aware that financial institutions may have different lead times for the clearing of cheques and you should therefore take this into consideration when making payment.

3.3 Application Form is binding

You will not have any right to withdraw your Application for New Shares or to be repaid any amount once your Application has been accepted. Even if an Application has not been completed or submitted correctly it may still be treated as a valid Application for New Shares.

Applications must be lodged on or before 5:00pm (Sydney time) on the Closing Date. The Directors generally reserve the right to vary the Closing Date for Applications without prior notice, subject to compliance with the Listing Rules.

The Directors recommend that completed Application Forms be posted promptly to minimise any risk of being delayed in the mail.

All Application Forms must be lodged at the following address of the Share Registry:

By Hand:
Kaili Resources Limited
C/- Computershare Investor Services Pty Limited
452 Johnston Street, Abbotsford VIC 3067

By Post:
Kaili Resources Limited
C/- Computershare Investor Services Pty Limited
GPO Box 505, Melbourne VIC 3001

3.4 If you do nothing with your Entitlements

If you choose not to do anything with your Entitlements, you will not be allocated any New Shares and your Entitlements will lapse and any associated New Shares will be taken up by the Underwriter. Eligible Shareholders who do not take up their Entitlements in full will not receive any payment or value for those Entitlements they do not take up. Further, Eligible Shareholders who do not take up some or all of the Entitlements are likely to have their shareholding in the Company diluted.

4. EFFECT OF THE OFFER

4.1 Capital Structure

The following tables set out the expected securities of the Company on issue, based on:

- the capital structure of the Company as at the date of this Offer Document; and
- the completion of the Offer, assuming it is fully subscribed.

| Shares | Number |
|---|-------------|
| Shares on issue at the date of this Offer Document | 98,266,915 |
| New Shares to be issued under this Offer Document (subject to rounding) | 49,133,457 |
| Total Shares on issue (notional expanded capital, subject to rounding) | 147,400,372 |

4.2 Effect of Offer on Voting Power in the Company

As at the date of this Offer Document, there are four (4) substantial Shareholders of the Company:

- Treasure Unicorn Limited, the Underwriter;
- Mile Ocean Limited;
- Kaili Holdings Limited (an entity associated with director Jianzhong Yang); and
- Mr Jin He.

The following table sets out the possible effects of the Offer on the Voting Power of those substantial shareholders, depending on whether or not they take up their Entitlements under the Offer. It provides for completion of the Offer under 3 scenarios regarding the level of Shortfall Amount. Note that in each instance, the number of actual New Shares issued is subject to rounding for fractional entitlements

Table 1: Top 4 Shareholders don't take up their Entitlements

| Voting Power | Current | | 100% Shortfall | | 50% Shortfall | | No Shortfall | |
|------------------------|-------------------|----------------|--------------------|----------------|--------------------|----------------|--------------------|----------------|
| | Shares | Voting Power | Shares | Voting Power | Shares | Voting Power | Shares | Voting Power |
| Underwriter | 36,769,904 | 37.42% | 85,903,361 | 58.28% | 78,459,129 | 53.23% | 71,014,896 | 48.18% |
| Mile Ocean Limited* | 16,532,222 | 16.82% | 16,532,222 | 11.22% | 16,532,222 | 11.22% | 16,532,222 | 11.22% |
| Kaili Holdings Limited | 8,800,000 | 8.96% | 8,800,000 | 5.97% | 8,800,000 | 5.97% | 8,800,000 | 5.97% |
| Mr Jin He | 6,387,859 | 6.50% | 6,387,859 | 4.33% | 6,387,859 | 4.33% | 6,387,859 | 4.33% |
| Remaining Shareholders | 29,776,930 | 30.30% | 29,776,930 | 20.20% | 37,221,162 | 25.25% | 44,665,395 | 30.30% |
| Total | 98,266,915 | 100.00% | 147,400,372 | 100.00% | 147,400,372 | 100.00% | 147,400,372 | 100.00% |

*Ineligible Shareholder

Table 2: Top 4 Shareholders (other than Mile Ocean Limited) take up their Entitlements

| Voting Power | Current | | 100% Shortfall | | 50% Shortfall | | No Shortfall | |
|------------------------|-------------------|----------------|--------------------|----------------|--------------------|----------------|--------------------|----------------|
| | Shares | Voting Power | Shares | Voting Power | Shares | Voting Power | Shares | Voting Power |
| Underwriter | 36,769,904 | 37.42% | 78,309,432 | 53.13% | 70,865,199 | 48.08% | 63,420,967 | 43.03% |
| Mile Ocean Limited* | 16,532,222 | 16.82% | 16,532,222 | 11.22% | 16,532,222 | 11.22% | 16,532,222 | 11.22% |
| Kaili Holdings Limited | 8,800,000 | 8.96% | 13,200,000 | 8.96% | 13,200,000 | 8.96% | 13,200,000 | 8.96% |
| Mr Jin He | 6,387,859 | 6.50% | 9,581,788 | 6.50% | 9,581,788 | 6.50% | 9,581,788 | 6.50% |
| Remaining Shareholders | 29,776,930 | 30.30% | 29,776,930 | 20.20% | 37,221,162 | 25.25% | 44,665,395 | 30.30% |
| Total | 98,266,915 | 100.00% | 147,400,372 | 100.00% | 147,400,372 | 100.00% | 147,400,372 | 100.00% |

*Ineligible Shareholder

As demonstrated by the tables above, the Underwriter's Voting Power in the Company may significantly increase if Eligible Shareholders do not take up their entitlements. As the Company is incorporated in Bermuda, the takeover provisions of the Corporations Act will not apply, and accordingly, the Underwriter will be able to increase its Voting Power in the Company above 20% without needing to make a takeover offer for the Company.

4.3 Financial position

The Company's cash position at 31 October 2018 was \$440,138.

On close of the Offer, the Company's pro forma cash position will increase to \$2,096,502 (based on the cash balance as at 31 October 2018 above, and after deducting the expected costs of the Offer and underwriting fee of approximately totalling \$112,440).

The table on the following page shows:

- the pro forma balance sheet based on the unaudited figures as at 31 October 2018; and
- the adjustment to be made as a result of the Offer as fully subscribed.

| | Balance Sheet 31 October 2018 \$ | Net Offer Proceeds \$ | Balance Sheet Pro Forma \$ |
|--|--|-----------------------------|----------------------------------|
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | 440,138 | 1,656,364 | 2,096,502 |
| Other current assets | 39,302 | - | 39,302 |
| Financial assets | 10,895 | - | 10,895 |
| Total current assets | <u>490,335</u> | <u>1,656,364</u> | <u>2,146,699</u> |
| Non-current assets | | | |
| Exploration and evaluation expenditure | 1,266,447 | - | 1,266,447 |
| Plant and equipment | 481 | - | 481 |
| Financial assets | 2,500 | - | 2,500 |
| Total non-current assets | <u>1,269,428</u> | <u>-</u> | <u>1,269,428</u> |
| Total assets | <u>1,759,763</u> | <u>1,656,364</u> | <u>3,416,127</u> |
| LIABILITIES | | | |
| Current liabilities | | | |
| Trade and other payables | 15,328 | - | 15,328 |
| Borrowings | 500,000 | - | 500,000 |
| Total current liabilities | <u>515,328</u> | <u>-</u> | <u>515,328</u> |
| Total liabilities | <u>515,328</u> | | <u>515,328</u> |
| NET ASSETS | <u>1,244,435</u> | <u>1,656,364</u> | <u>2,900,799</u> |
| EQUITY | | | |
| Contributed equity | 982,669 | 1,656,364 | 2,639,033 |
| Reserves | 261,766 | - | 261,766 |
| Total equity | <u>1,244,435</u> | <u>1,656,364</u> | <u>2,900,799</u> |

The pro-forma Statement of Financial Position has been prepared on the basis of the Company's unaudited financial statements as at 31 October 2018 and on the basis of the following transactions and adjustments having occurred on or about that date:

- the issue of 49,133,457 New Shares, pursuant to this Offer Document, issued at the Issue Price of \$0.036 per New Share, raising gross proceeds of approximately \$1,768,804;
- The estimated costs of the Offer of \$24,000 (excluding underwriting fees) are paid; and
- The underwriting fee of \$88,440 is paid.

This information is presented on the basis that there have been no material movements in the assets and liabilities of the Company between 31 October 2018 and the close of the Offer.

5. COMPANY'S SHARE PRICE ON ASX

The last sale price of Shares on ASX on 15 October 2018 (being the last trading day before the date of this Offer Document of 27 November 2018) was \$0.036.

The highest and lowest market sale prices of Shares on ASX during the three months immediately preceding 27 November 2018 were:

Highest: \$0.040 on 13 September 2018.

Lowest: \$0.036 on 15 October 2018.

6. INVESTMENT RISKS

Prospective investors should be aware that the value of the Company's securities on ASX may be influenced by many unpredictable factors and may rise and fall depending on factors beyond the control of the Company. Shareholders taking up their Entitlements under the Offer should be aware that the New Shares carry no guarantee with respect to the return of capital or price at which those New Shares will trade.

The Company's business is in the early stages of coal and mineral exploration under licence in Australia. Any profitability in the future from the Company's business may be dependent upon the successful exploration, development, production and marketing of coal and minerals from the Company's tenements.

The New Shares being offered under this Offer Document are considered speculative due to the present stage of development of the Company and the risks inherent in resources exploration. While some of the risks can be minimised by the use of safeguards and appropriate systems, some are outside the control of the Company.

The principal risk factors applicable to the business of the Company include but are not limited to the following.

Funding risk

The purpose of the Offer is to fund exploration expenditure, repay debt and general working capital. The Offer carries no guarantee with respect to the payment of dividends, return of capital or price at which the Shares will trade.

Exploration and development risk

The business of resources exploration, project development and production, by its nature, contains elements of significant risk with no guarantee of success. Ultimate and continuous success of these activities is dependent on many factors such as:

- the discovery and/or acquisition of economically recoverable reserves;
- access to adequate capital for project development;
- design and construction of efficient development and production infrastructure within capital expenditure budgets;
- securing and maintaining title to interests;
- obtaining consents and approvals necessary for the conduct of resources exploration, development and production; and
- access to competent operational management and prudent financial administration, including the availability and reliability of appropriately skilled and experienced employees, contractors and consultants.

Whether or not income will result from projects undergoing exploration and development programs depends on successful exploration and establishment of production facilities. Factors

including costs, actual minerals deposits, grades and formations, and commodity prices affect successful project development and operations.

Environmental impact constraints

The Company's operations are subject to the environmental risks inherent in the resources industry. The Company's exploration and development programmes are, in general, subject to approval by Australian government authorities before it can undertake activities which are likely to impact the environment. Failure to obtain such approvals will prevent the Company from undertaking the desired activities.

Exploration and development of any of the Company's properties is also dependent on meeting planning and environmental laws and guidelines. Although the Company believes that it is in compliance in all material respects with all applicable environmental laws and regulations, there are certain risks inherent to its activities that could subject the Company to extensive liability. The Company is unable to predict the effect of additional environmental laws and regulations which may be adopted in the future, including whether any such laws or regulations would materially increase the Company's cost of doing business or affect its operations in any area. However, there can be no assurances that new environmental laws, regulations or stricter enforcement policies, once implemented, will not oblige the Company to incur significant expenses and undertake significant investments in such respect which could have a material adverse effect on the Company's business, financial condition and results of production operations.

Taxation

The Company, its advisers and officers do not accept any responsibility or liability for any taxation consequences to holders of New Shares. It is solely the responsibility of individual Shareholders to inform themselves of their taxation position resulting from the investment in New Shares under this Offer Document.

Taxation obligations can vary depending on the circumstances of each individual Shareholder, the particular circumstances relating to his or her holdings of securities, and the taxation laws applicable to Shareholders as residents of different jurisdictions.

The acquisition and disposal of New Shares may have taxation consequences which will differ depending on the specific financial and personal circumstances of each Shareholder. Shareholders should consult their own professional advisers on the taxation implications of investing in the New Shares as it relates to them.

Changes in taxation law and its application may adversely affect the operations and business of the Company.

General economic climate

The Company's future revenues and operating costs can be affected by such factors as supply and demand for goods and services, industrial disruption, interest rates, currency fluctuation, inflation and global economic conditions or events. Accordingly, the future profitability of the Company and Share prices may be affected by these factors. These factors are beyond the control of the Company.

Share market

The market price of Shares may be subject to general movements in local and international stock exchanges, economic conditions, currency fluctuations and interest rates. The New Shares may trade at a price above or below the issue price depending on a range of factors including the performance of the market generally; the performance of the coal and minerals sector of the market; national and international economic performance; market perceptions of the Company; and the degree of success in the Company's exploration endeavours; and the financial performance of the Company.

Insurance

The Company maintains insurance within ranges of coverage that it believes to be consistent with industry practice and having regard to the nature of activities being conducted. The occurrence of an event that is not covered or fully covered by insurance could have a material adverse effect on the business, financial condition and results of the Company.

7. ADDITIONAL INFORMATION

7.1 Litigation

The Company is not involved in any litigation.

7.2 Directors' interest

The aggregate number of securities of the Company held directly, indirectly or beneficially by the current Directors or their related entities at the date of this Offer Document are:

| Directors | Number of Shares |
|----------------|------------------|
| Donghai Zhang | 0 |
| Chunlin Liu | 0 |
| Jing Li | 0 |
| Jianzhong Yang | 8,800,000 |
| Total | 8,800,000 |

Remuneration of the Directors is disclosed in the annual report of the Company. Mr Donghai Zhang, Mr Chunlin Liu and Ms Jing Li have received no remuneration since their appointment on 9 November 2018.

The table below sets out the number of Shares that will be held by Directors (whether directly, indirectly or beneficially) after completion of the Offer, on the basis that:

- Jianzhong Yang takes up his Entitlement; and
- no other Directors acquire New Shares under the Offer (as they have no entitlement in the Offer as at the date of this Offer Document).

| Directors | Number of Shares |
|----------------|-------------------|
| Donghai Zhang | 0 |
| Chunlin Liu | 0 |
| Jing Li | 0 |
| Jianzhong Yang | 13,200,000 |
| Total | 13,200,000 |

7.3 Underwriting Agreement

The Company has entered into the Underwriting Agreement with the Underwriter, under which the Underwriter has agreed to fully underwrite the Offer on a conditional basis.

The Company has agreed to pay to the Underwriter:

- an underwriting fee representing 5% of the gross proceeds raised under the Offer but excluding the funds that would be raised from the Underwriter exercising its Entitlement in respect of its own shareholding in the Company, approximately \$88,440; and

- all reasonable costs and expenses of, and incidental to, the Offer which are incurred by the Underwriter.

The Underwriting Agreement contains customary representations, warranties and indemnities and undertakings in favour of the Underwriter. In particular, the Underwriting Agreement contains certain warranties by the Company relating to matters such as the conduct of the Company and the information provided by the Company in relation to the Offer. The Underwriting Agreement also imposes various obligations on the Company, including the obligation to comply with all applicable laws in respect of the Offer, and to apply for the quotation of the New Shares on ASX.

If certain conditions are not satisfied, or if certain events occur, the Underwriter has the right to terminate the Underwriting Agreement. In summary, this includes circumstances where:

- the Company withdraws the Offer, or the Offer fails to proceed;
- the Company fails to perform any of its obligations under the Underwriting Agreement;
- the Company is the subject of an insolvency event;
- there is a 10% or more decrease in the S&P/ASX 300 Index which is sustained for three (3) business days;
- any of the documents published in connection with the Offer omit any information required by the Corporations Act or any other applicable law, contain a statement which is or becomes misleading or deceptive or otherwise fails to comply with the Corporations Act or any other applicable law;
- there is a material adverse change, or an event occurs which may result in a material adverse change in respect of the Company, its business or its assets or the industry in which the Company or one of its subsidiaries operates;
- ASIC takes certain actions against the Company with respect to the Offer which are not withdrawn within the specified times;
- trading in the Shares is suspended, the Shares cease to be officially quoted, or the Company otherwise ceases to be admitted to the official list of the ASX;
- ASX does not approve, or grants approval and subsequently withdraws such approval, of the quotation of the New Shares;
- the Company defaults under any of its financing arrangements, an event occurs which entitles the financier to accelerate or require repayment of any debt financing, or a financier takes any steps towards terminating a material financing arrangement, or otherwise enforcing a security over the assets of the Company;
- the Underwriter forms the view that a disclosure document is required in order to make the Offer, or that the cleansing notice issued by the Company under section 708AA(2)(f) of the Corporations Act is defective and the Company fails to correct such defective notice in accordance with section 708AA(10) of the Corporations Act;
- any director, or member of the senior management of the Company resigns, is charged with a criminal offence, or is the subject of an investigation or public action;

- any director of the Company is disqualified from managing a corporation;
- a government agency commences an investigation, public action or hearing against the Company, or publicly announces that it intends to take any such action;
- the Company takes any steps towards changing or restructuring its share capital;
- the Takeovers Panel makes a declaration of unacceptable circumstances in respect of the Offer; or
- certain specified events occur which have, or are likely to have, a material adverse effect on the success of the Offer, or the willingness of Eligible Shareholders to subscribe for New Shares; or which lead, or are likely to lead to a contravention by the Underwriter of, or otherwise a liability for the Underwriter under, the Corporations Act or any applicable law.

The Underwriting Agreement is otherwise on terms and conditions that are customary for an agreement of its nature.

7.4 Governing Law

This Offer Document, the Offer, and the contracts formed on acceptance of the Application Forms are governed by the laws of the State of New South Wales, Australia. Each person that applies for New Shares submits to the exclusive jurisdiction of the Courts of the State of New South Wales, Australia and the Courts of appeal from them.

8. GLOSSARY OF TERMS

| | |
|--------------------------------|--|
| Applicant | an applicant for New Shares who duly completes an Application Form and pays the applicable Application Monies |
| Application | an application for New Shares pursuant to the Offer made on an Application Form or deemed to be made through the payment of the relevant Application Monies in accordance with terms of the Application Form |
| Application Form | an entitlement and acceptance form accompanying a paper copy of this Offer Document, pursuant to which Eligible Shareholders may apply for New Shares pursuant to the Offer |
| Application Monies | the Issue Price multiplied by the number of New Shares for which an Applicant has applied |
| ASIC | Australian Securities and Investments Commission |
| ASIC Instrument 2016/84 | ASIC Corporations (Non-Traditional Rights Issues) Instrument 2016/84 |
| ASX | ASX Limited ABN 98 008 624 691 (also known as Australian Securities Exchange), or the securities exchange operated by it, as the context requires |
| Board | the Board of Directors of the Company |
| Closing Date | the last date by which Applications on an Application Form will be accepted, which is 5:00pm (Sydney time) on 17 December 2018, or such other date as the Directors in consultation with the Underwriter may determine |
| Company | Kaili Resources Limited ARBN 077 559 525 and, where the context requires, includes the Company's subsidiaries |
| Constitution | the Bye Laws of the Company |
| Corporations Act | <i>Corporations Act 2001</i> (Cth) |
| Directors | Directors of the Company |
| Dollars or \$ | dollars in Australian currency |
| Eligible Shareholder | a Shareholder with a registered address in Australia or New Zealand on the Company's Share register at the Record Date |
| Entitlement | the right of Eligible Shareholders to subscribe for New Shares under the Offer based on the number of Shares held by that Eligible Shareholder on the Record Date. Every Entitlement giving the holder, upon the |

| | |
|-------------------------------|--|
| | payment of the Issue Price, the right to receive one New Share |
| Ineligible Shareholder | a Shareholder on the Company's Share register at the Record Date that is not an Eligible Shareholder |
| Issue Price | the price payable on subscription for each New Share, being \$0.036 |
| Listing Rules | the Listing Rules of ASX |
| New Shares | Shares offered under the Offer |
| Offer | the non-renounceable pro-rata entitlement offer of New Shares to Eligible Shareholders under this Offer Document |
| Offer Document | this Offer Document dated 27 November 2018 |
| Record Date | the date and time at which Shareholders must hold Shares in order to qualify for the pro-rata entitlement in the Offer, being 7:00pm (Sydney time) 30 November 2018. |
| Relevant Interest | has the meaning given to that term in the Corporations Act |
| Share | a fully paid ordinary share in the Company |
| Share Registry | Computershare Investor Services Pty Limited ACN 078 279 277 |
| Shareholder | a holder of Shares registered on the share register of the Company |
| Shortfall Amount | the difference between the number of New Shares that would be issued if all Shareholders took up all of their Entitlements under the Offer, and the total number of New Shares for which valid Application Forms and Application Monies have been received |
| Shortfall Shares | such number of New Shares for which valid Applications have not been received |
| Underwriter | Treasure Unicorn Limited, a company incorporated under the laws of Bermuda, and controlled by Inner Mongolia Yitai Investment Co. Limited, which holds approximately 37.42% of the Company's share capital |
| Voting Power | has the meaning given to that term in the Bermuda Companies Act 1981 |