



KAILI RESOURCES LIMITED

ARBN 077 559 525

DIRECTORS

Jianzhong Yang

Executive Chairman

Kaiyuan (Kelly) Yang

Executive Director

Chi Yuen (William) Kuan

Non-executive Director

COMPANY SECRETARY

Ran Pang

Robert Lees

REGISTERED OFFICE

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

REPRESENTATIVE OFFICE

World Tower

Suite 1312, Level 13

87-89 Liverpool Street

Sydney NSW 2000

Australia

T+61 2 9267 5988

F +61 2 9283 7166

E contact@kailigroup.com.au

W www.kailigroup.com.au

SHARE REGISTRY IN AUSTRALIA

Computershare Investor Services Pty Limited

Level 4, 60 Carrington Street

Sydney NSW 2000

T 1300 855 080 (within Australia)

T+61 3 9415 4000 (outside Australia)

F +61 2 8234 5050

W www.computershare.com

CONSULTANT GEOLOGIST

Mark Derriman

Trading as Rock Tiger

58 Yarrabung Road

St Ives NSW 2075

T+61 414 241 960

E markderriman@gmail.com

INVESTIGATING ACCOUNTANT

Grant Thornton Corporate Finance Pty Ltd

Level 17, 383 Kent Street

Sydney NSW 2000

T +61 2 8297 2400

F +61 2 9299 4445

E info.nsw@au.gt.com

W www.grantthornton.com.au

AFSL No. 247140

AUDITOR

John Shute

Chartered Accountant

Suite 605, 321 Pitt Street

T +61 2 8021 2645

F +61 2 8021 2745

E john@jsag.com.au

SOLICITORS

Piper Alderman

Level 23, Governor Macquarie Tower

1 Farrer Place

Sydney NSW 2000

T+61 2 9253 9999

F +61 2 9253 9900

W www.piperalderman.com.au

ASX CODE:

Fully paid ordinary shares: KLR

CONTENTS

Important Notices	1
Key Dates and Terms	2
Letter from the Chairman	3
Investment Highlights and Risks	4
Purpose of the Offer and Use of Funds	5
Details of the Offer	6
Business Overview and Exploration Program	9
Directors and Senior Management	13
Expert Geologist's Report	14
Investigating Accountant's Report	55
Financial Information	60
Tenements Title Report	67
Investment Risks	81
Summary of Material Contracts	84
Summary of rights of Shareholders under the Constitution and Bermuda law	85
Additional Information	90
Glossary of Terms	94
Directors' Statement and Consent	96
Application Forms and Instructions	97

IMPORTANT NOTICES

This Prospectus

This is a prospectus dated 5 February 2015 and was lodged with ASIC on 5 February 2015. Neither ASIC nor ASX take any responsibility for the contents of this Prospectus nor the merits of the investment to which this Prospectus relates.

No Shares will be allotted or offered on the basis of this Prospectus later than 13 months after the date of this Prospectus.

Persons wishing to subscribe for Shares offered by this Prospectus should carefully read this Prospectus in its entirety in order to make an informed assessment of the assets and liabilities, financial position, performance, profits and losses, and prospects of the Company and the risks and the rights attaching to the Shares offered by this Prospectus.

Potential investors should carefully consider this Prospectus in light of their own personal circumstances, for example with regard to their personal financial and taxation situation, and seek professional advice from an accountant, lawyer, stockbroker or other financial adviser before making an Application.

The distribution of this Prospectus in jurisdictions outside Australia may be restricted by law and persons who come into possession of this Prospectus should seek advice on and observe the requirements of those laws. Non-observance by such persons may violate securities law. Any recipient of this Prospectus outside Australia should consult their professional advisers on requisite formalities and laws outside Australia. This Prospectus does not constitute an offer in any place in which, or to any person to whom, it would not be lawful to make such an offer. No action has been taken to register or qualify this Prospectus or to otherwise permit a public offering of Shares outside Australia.

Electronic Prospectus

KLR will place this Prospectus on the Company's website: www.kailigroup.com.au

Any person accessing the electronic version of this Prospectus for the purposes of becoming a Shareholder must be resident of and must only access the Prospectus from within Australia. The Corporations Act prohibits any person passing on to another person the Application Form unless it is attached to a hard copy of this Prospectus or accompanied by the complete and unaltered version of this Prospectus. Prospective Applicants should read this Prospectus in its entirety before completing the Application Form. Any person may obtain a hard copy of this Prospectus free of charge by contacting KLR.

Exposure Period

The Prospectus will be made generally available during the Exposure Period by being posted on the Company's website. In addition, copies of the Prospectus will be available on request to members of the public by calling the Company on (+612) 9267 5988 during the Exposure Period.

The purpose of the Exposure Period is to enable the Prospectus to be examined by market participants prior to raising funds. Potential investors should be aware that such examination may result in the identification of deficiencies in the Prospectus; in those circumstances, any application that has been received may need to be dealt with in accordance with Section 724 of the Corporations Act.

Applications for Shares during the Exposure Period will not be accepted until the Exposure Period has expired, with no preference given to persons who lodge their Application Forms during the Exposure Period.

Ricks

Potential investors should carefully consider whether Shares are an appropriate investment for them. There are significant risks associated with an investment in KLR. The Shares offered under this Prospectus should be regarded as a speculative investment. The Shares offered under this Prospectus carry no guarantee whatsoever with respect to return on capital invested, payment of dividends or the future value of the Shares. Share prices can fall as well as rise. Refer to the section headed "Investment Risks" for details relating to risks.

No Forecast

The business of coal and mineral exploration and development is speculative and there are significant uncertainties associated with forecasting revenues and expenses of such operations which are at a very early stage. Accordingly, the Directors believe that reliable forecasts cannot be prepared and forecasts have not been included in this Prospectus in accordance with ASIC Regulatory Guide 170.

Application for Listing

The Company will apply to the ASX within seven days after the date of this Prospectus for permission for the Shares offered by this Prospectus to be officially quoted.

Glossary of Terms

Certain words and terms used in this Prospectus have defined meanings that are explained in the section headed "Glossary of Terms".

Privacy

The Application Form accompanying this Prospectus requires you to provide information that may be personal information for the purposes of the Privacy Act 1988 (Commonwealth). The Company (and the Share Registry on its behalf) may collect, hold and use that personal information in order to assess your Application, service your needs as an investor in the Company, provide facilities and services that you request or that are connected with your interest in the Shares and carry out appropriate administration. Under the Privacy Act 1988 (Commonwealth), you may request access to your personal information held by KLR or the Share Registry by contacting the Company Secretary.

This document is important and should be read in its entirety and in particular the section headed "Investment Risks".

If you do not understand it, you should consult your professional adviser.

OFFER SUMMARY

	Full Subscription
Offer Price	\$0.20 per Share
Number of Shares offered under the Prospectus	8,000,000
Amount to be raised	\$1,600,000

This Prospectus is for an Offer of 8,000,000 Shares at a price of \$0.20 per Share to raise \$1,600,000.

PROPOSED TIMETABLE

Opening Date for Applications Friday, 13 February 2015

Closing Date for Applications 5:00 pm NST Friday, 20 March 2015

Expected despatch of Holding Statements

Thursday, 26 March 2015

Refund of any surplus Application Monies

Thursday, 26 March 2015

Expected date of quotation of Shares on ASX

Tuesday, 31 March 2015

This timetable is indicative only. The Company reserves the right to vary the dates and times of the Offer without prior notice.

HOW TO APPLY

Applications for Shares must be made on an Application Form attached to this Prospectus. Applicants should read the instructions on the Application Form before applying for Shares. Completed Application Forms may be lodged at any time after the Opening Date but by no later than the Closing Date.

Applications for Shares must be for a minimum of 10,000 Shares and in multiples of 1,000 Shares thereafter.

Payment for the Shares must be made in full at the Offer Price of \$0.20 per Share.

Cheques drawn from an Australian bank and in Australian dollars, must be made payable to "Kaili Resources Limited - Share Offer" and crossed "Not Negotiable".

Application Forms must be mailed or delivered to:

Mail:	Delivery:
Company Secretary	Company Secretary
Kaili Resources Limited	Kaili Resources Limited
PO Box 20439	"World Tower"Suite 1312
World Square	Level 13, 87-89 Liverpool Street
NSW 2002	NSW 2000
Australia	Australia

LETTER FROM THE CHAIRMAN

Dear Investors,

On behalf of the Directors, I am pleased to invite you to invest in the Shares of Kaili Resources Limited, formerly Omnitech Holdings Limited.

This is a new beginning for the Company with new management focussing on investment in the energy and resources industry and a plan to reinstate the trading of the Company's securities on the Australian Securities Exchange.

From recent acquisitions the Company now owns a 100% interests in four resources tenements in Western Australia and Queensland in Australia and our plan is to carry out further exploration to upgrade those tenements that have potential for coal, phosphate and diamonds. In excess of \$2 million has been raised from new investors since October 2014 to fund the work plan. We will also be seeking opportunities for investment to grow and create value for the Company.

The Company now seeks to raise an additional \$1,600,000 for working capital and achieve a spread of shareholders each holding shares with a minimum value of \$2,000 in order to satisfy the Listing Rules of ASX for the Shares of the Company to be reinstated for trading.

This Prospectus contains detailed information about the Offer, the Company's tenements and the Company and its management. I recommend you read it carefully and in full before deciding whether to invest in the Company.

I look forward to welcoming you as a Shareholder or if already a Shareholder, to increase your shareholding.

Yours faithfully,

Jianzhong Yang

Chairman

5 February 2015



DETAILS OF THE OFFER AND USE OF FUNDS

- The Company is seeking to raise \$1,600,000 by issuing 8,000,000 Shares at the Offer Price of \$0.20.
- The Offer must be fully subscribed in order to proceed. If the Company does not receive Applications to raise \$1,600,000 within 3 months of the date of this Prospectus, the Company will either repay the Application Monies to the Applicants or issue a supplementary or replacement prospectus and allow Applicants one month to withdraw their Application and be repaid their Application Monies. No Interest will be paid on returned Application Monies.
- The Company will apply the funds raised to meet:
 - o the minimum expenditure requirements of its Tenements, and in particular towards exploration of EPC 1506 in order to define JORC 2012 resources; and
 - o its existing and future working capital requirements.

Refer to sections "Purpose of the Offer and Use of Funds" and "Business Overview and Exploration Program" for details.

COAL AND MINERAL RESOURCES POTENTIAL OF TENEMENTS

- EPC 1506 has significant coal targets which the Company intends to explore with the aim to achieve an initial JORC 2012 resource estimate
- The EPC 1506 and EPC 1539 permits in Queensland are close to existing infrastructure and suppliers which may facilitate future development of those Tenements.
- The E04/1433 and E04/1436 licences in Western Australia have potential for coal, phosphate and diamonds exploration. A program targetting diamond and phosphate exploration in priority is planned.

Refer to sections "Business Overview and Exploration Program", "Expert Geologist's Report" and "Tenement Titles Report" for details.

EXPERIENCED BOARD AND MANAGEMENT

- Board and management possess significant experience in coal mining development and resources industry in Australia/Overseas.
- Financial and investment skills of the Board together with overseas business relationships and the support of consultants
 experienced in the resources industry underpin the Company's plans of development within the coal and minerals industry.

Refer to section "Directors and Senior Management" for details.

RISKS

- The Company acquired coal exploration information produced by previous owners and explorers of the Tenements. Any inaccuracies in this information could adversely impact on the Company's ability to achieve the planned exploration program.
- Three of the Tenements expire in 2015 (E04/1433 on 13 April 2015, E04/1436 on 26 April 2015 and EPC 1539 on 5 August 2015). If the Company is unsuccessful in renewing any or all of those 3 Tenements, the identified exploration potential in the Tenements that are not renewed will be lost. Any allocated and unspent funds will be reassigned to the alternative exploration program in EPC 1506.
- The Company's ability to undertake its planned exploration program is subject to obtaining necessary government approvals, executing land access agreements with applicable title holders and undertaking heritage impact surveys to ensure that all areas of heritage or cultural significance are not altered or damaged by its exploration program. Failure to obtain, or any delay in obtaining, necessary approvals, agreements and clearances in time for its proposed exploration program, may result in the Company not meeting its minimum work commitments in time and could further adversely affect its prospects of securing renewal of its Tenements.
- The exploration program proposed by the Company carries no guarantee of proving sufficient coal resources to JORC 2012 standards for eventual mining.
- The Company is dependent on availability and costs of equipment and drilling rigs and contractors to implement the proposed exploration plan within the planned timeframe and allocated funds.
- The financial performance of the Company is dependent on the price of coal and resources which can be very volatile.
- The Company may require further funding to implement its plans stated in this Prospectus should there be cost overruns, delays and unforeseen adverse exploration results. Further, the Company will need additional funds should its exploration program be successful and it proceeds to appraisal and production. Any such funds may not always be available, and if available, on terms satisfactory to the Company and may be dilutive to Shareholders.
- As a company incorporated in Bermuda, the Company is not subject to many provisions of the Corporations Act. The Bermuda Companies Act does not provide the same level of shareholder protections as the Corporations Act, including for example takeover protections. In addition, any changes in Bermudian tax law could have an adverse impact on Shareholders.

Refer to section "Business Overview and Exploration Program", "Investment Risks" and "Summary of rights of Shareholders under the Constitution and Bermuda law" for details.

PURPOSE OF THE OFFER AND USE OF FUNDS

PURPOSE OF THE OFFER

The purpose of the Offer is to raise \$1,600,000. The capital raised, after deduction of related capital raising costs and with existing funds at the date of this Prospectus, will be used to undertake the proposed exploration programs and for working capital.

The funds raised by this Offer together with existing cash available are planned to be utilised as follows in the two years following KLR's re-admission to quotation on the ASX:

On F	ull St	ıbscri	ption
	un Ju	103611	puon

	\$'000
Available funds	
Cash before this Offer¹	2,400
Trade and other receivables ²	23
Raised by this Offer	1,600
Total	4,023
Application of funds	
Exploration expenditure Year 1 ³	900
Exploration expenditure Year 2 ³	1,000
Expenses of the Offer	374
Trade and other payables ²	46
Sub-total	2,320
Working capital and administration costs	1,703
Total	4,023

 $^{^{\}rm 1}$ Cash at 31 December 2014. See the section headed "Financial Information".

The Directors consider that the amount sought to be raised by this Offer will provide sufficient working capital to achieve the objectives of the Company in the two years following its re-admission quotation on the ASX, as set out in this Prospectus.

² Trade and other receivables and Trade and other payables and accruals at 31 December 2014. See the section headed "Financial Information"

³ For details of planned exploration programs refer to the section headed "Business Overview and Exploration Program," and the section headed "Expert Geologist's Report".

THE OFFER

The Company is seeking to raise new capital of \$1,600,000 by issuing 8,000,000 Shares at \$0.20 per Share to Applicants.

PRO-FORMA CAPITAL STRUCTURE

The capital structure of the Company following completion of the Offer is summarised below:

% ¹ of capital post the Offer		
Full Subscription		
On issue at the date of this Prospectus	91.9	90,266,915
Offered under this Prospectus	8.1	8,000,000
Total	100.0	98,266,915
Total market capitalisation at Offer price		\$19,653,383

¹ All percentages rounded to the nearest tenth of a percent.

UNDERWRITING

The Offer is not underwritten.

FULL SUBSCRIPTION

The Offer must reach Full Subscription in order to proceed. The Full Subscription amount to be raised pursuant to this Prospectus is \$1,600,000.

If the Full Subscription is not achieved within three months after the date of this Prospectus, the Company will either repay the Application Monies to the Applicants or issue a supplementary or replacement prospectus and allow Applicants one month to withdraw their Application and be repaid their Application Monies. No interest will be paid on returned Application Monies.

No Shares will be allotted by the Company until the Full Subscription has been subscribed.

FEES

The Company reserves the right to pay fees calculated at a rate of up to 6% of Application Monies received on Applications lodged through stockbrokers and licensed financial advisers. On Full Subscription the maximum total fees payable to stockbrokers and financial advisors under this Prospectus is \$96,000.

APPLICATIONS

An Application for Shares under this Prospectus can only be made on the Application Form attached to this Prospectus. Applications can be lodged immediately after the date of this Prospectus, although they will not be accepted until after the conclusion of the Exposure Period. It is expected the Opening Date for the Offer will be 13 February 2015.

Applications must be for a minimum of 10,000 Shares and thereafter in multiples of 1,000 Shares. Cheques should be in Australian currency drawn on an Australian bank and made payable to "Kaili Resources Limited - Share Offer" and crossed "Not Negotiable".

Application Monies will be held in a separate bank account in trust for the Applicants until the Shares are allotted or the Application Monies are otherwise returned to Applicants (in the event that the Full Subscription is not met, or Applicants withdraw their Application on the issuance of a supplementary or replacement prospectus). No interest will be paid on any Application Monies held on trust and subsequently returned to Applicants.

Completed Application Forms and cheque(s) should be delivered or mailed to the Company in accordance with the instructions on the reverse side of the Application Form.

Applications must be received by the Closing Date being 5.00 pm NST on 20 March 2015 (subject to the right of the Directors to close the Offer earlier or to extend the date without notice).

A completed and lodged Application Form, together with a cheque for the Application Monies, constitutes a binding and irrevocable Application for the number of Shares specified in the Application Form. The Application Form does not need to be signed to be a binding application.

APPLICANTS OUTSIDE AUSTRALIA

Investors outside Australia should consult their professional advisers as to whether governmental or other consents are required, or other formalities need to be observed, before taking up Shares pursuant to this Prospectus.

This Prospectus does not constitute an offer in any place in which, or to any person to whom, it would not be lawful to make such an offer. Where this Prospectus has been despatched to persons domiciled outside of Australia, and where that country's securities code or legislation requires registration, this Prospectus is provided for information purposes only. No action has been taken to register or qualify this Prospectus or to otherwise permit a public offering of Shares in any jurisdiction outside Australia.

It is the responsibility of non-Australian resident investors to obtain all necessary approvals for applying for Shares pursuant to this Prospectus. The return of a completed Application Form will be taken by the Company to constitute a representation and warranty by the Applicant that all approvals necessary in the jurisdiction in which the Applicant resides, have been obtained.

ALLOTMENTS

Allotment of Shares will be made as soon as practicable after the Closing Date. The Company is only accepting Applications of up to \$1,600,000. The Company reserves the right to allot Shares in full for any Application or to allot any lesser number or to decline any Application received. The Directors urge potential investors to make their Applications as soon as practicable after the Opening Date to avoid potentially having their Applications scaled down or completely rejected.

Where the number of Shares allotted is less than the number applied for, the surplus Application Monies will be returned by cheque within 14 days after the Closing Date. Where no allotment is made, the amount tendered on Application with the relevant Application Form will be returned in full by cheque within 14 days after the Closing Date. Interest will not be paid on monies refunded.

If the Application Form is not completed correctly, or if the accompanying payment of the Application Monies is for 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 Shares than is indicated by the amount of the cheque for Application Monies.

ASX LISTING

The Company will apply to ASX for official quotation of the Shares issued under this Prospectus, and for the re-admission of the Existing Shares to quotation no later than seven days after the date of this Prospectus. Certain holders of the Existing Shares will be subject to escrow periods. Refer to the paragraph headed "Restricted Securities" below for further details.

The Directors will not issue any Shares unless and until ASX grants approval on conditions acceptable to the Directors for the Shares to be quoted. The fact that ASX may agree to quotation of the Shares is not to be taken in any way as an indication by ASX of the merits of the Company or the Shares offered by this Prospectus.

ASX takes no responsibility for the contents of, including any reports in, this Prospectus.

If permission is not granted for the Shares for quotation by ASX within three months after the date of this Prospectus or such longer period as is permitted by the Corporations Act, any allotment or issue of Shares pursuant to this Prospectus will be void and all Application Monies received pursuant to this Prospectus will be repaid to the relevant Applicants without interest.

RESTRICTED SECURITIES

As a condition for quotation of the Shares the ASX will classify certain Existing Shares as restricted securities.

Prior to quotation, it will be necessary for certain Existing Shareholders (including Directors and their related entities) to enter into restriction agreements. The effect of the restriction agreements will be that the relevant shares cannot be dealt with for a period as determined by the ASX, usually up to 24 months from the date of official quotation of the Shares for Directors and their related entities, promoters and certain consultants of the Company.

SHARE REGISTER

The Company's register in Australia will be maintained by the Share Registry:

Computershare Investors Securities Pty Ltd. Level 4, 60 Carrington Street Sydney NSW 2000

CHESS SYSTEM

The Company participates in the ASX's Clearing House Electronic Sub-register System ("CHESS"). CHESS is an automated transfer and settlement system for securities quoted on ASX under which transfers are effected in an electronic form. A security holder's Shares are registered in one of two sub-registers, an electronic issuer sponsored sub-register or an electronic CHESS sub-register. The two sub-registers together make up the Company's register of Shares. A CHESS participant, or a person sponsored by a CHESS participant, have their Shares registered on the CHESS sub-register. All other Shares are registered on the issuer sponsored sub-register.

The Company will not offer Certificates to investors. Instead, investors will receive a holding statement that sets out the number of Shares they hold in the Company.

A holding statement will also provide details of an investor's shareholder reference number (SRN) in the case of a holding on the issuer sponsored sub-register or holder identification number (HIN) in the case of a holding on the CHESS sub-register. Following distribution of these initial holding statements to all security holders, a holding statement will only routinely be provided to a security holder at the end of any subsequent month during which the balance of the security holder's holding of securities changes.

The Existing Shares designated by agreement or by ASX as restricted securities will be subject to a holding lock under the CHESS system preventing them being dealt with during the period of restriction.



BUSINESS OVERVIEW AND PROPOSED EXPLORATION PLAN

BUSINESS OVERVIEW

The Company was inactive from 2009 after having been an electronic components manufacturer since 1997 and the Shares have been suspended from quotation on the ASX since 31 July 2009.

On 28 February 2013, with the aim to reactivate the Company and changing the nature of its activities, the Company acquired a 100% interest in APEC Coal Pty Ltd, the holder of a 100% interest in two coal tenements EPC 1506 and EPC 1539, in the Clarence-Moreton Basin in the state of Queensland. The Company believes EPC 1506 could potentially contain a significant coal resource based on modelling by a previous operator.

On 11 April 2014, the Company made a further investment by acquiring a 100% interest in ASF Kaili Resource Pty Ltd, the holder of a 100% interest in two tenements, E04/1433 and E04/1436, in the Canning Basin in the state of Western Australia, with potential for coal, phosphate and diamonds exploration.

The Company's transformation into a resources company was further advanced by its Shareholders approving the change in the nature of its activities for the purposes of Chapter 11 of the Listing Rules at the general meeting held on 28 May 2013.

The Company's immediate plan is to focus on resources exploration in its Tenements, in particular to define a coal resource to JORC 2012 standards within EPC 1506 with the aim to eventually mining the coal.

The Company will concurrently be seeking new ventures for investment to spur growth.



Prepared: January 2015 by Mark Derriman

Tenements Location in Australia

BUSINESS OVERVIEW AND PROPOSED EXPLORATION PLAN continued

EXPLORATION PLAN

The Directors believe that the exploration potential of the Tenements under the Company's control is considerable. The Company has a two year exploration program to be funded from its existing cash balances and capital to be raised under the Offer.

The Company's exploration program is summarised below:

QUEENSLAND

EPC 1506 – Maryvale 1: In Year 1, the Company intends to obtain further coal quality information by drilling two diamond core holes and a further six chip holes with the aim of estimating a coal resource that is compliant with JORC 2012.

In Year 2, subject to the results obtained in Year 1, it is planned to drill one wide diameter core hole and four chip holes with the aim of upgrading a portion of any inferred resource that may be estimated in Year 1 to an indicated resource under JORC 2012. Further drilling may be carried out to increase or upgrade any JORC 2012 estimates should additional funds be allocated to this permit under the budget.

EPC 1539 – Maryvale 2: As there is no historical coal exploration data in this tenement it is planned to drill one chip hole to determine the depth, number, thickness and quality of the coal seams (which are expected to be deeper than in EPC 1506) in Year 1 with a further desktop study of exploration results in EPC 1539 in Year 2.

The company will need to complete its proposed exploration program in EPC 1539 before 5 August 2015 in order to be able to apply for the renewal of EPC 1539.

Prior to undertaking its planned exploration program in EPC 1539, the Company will need to obtain the necessary government approvals, execute land access agreements with applicable title holders and undertake a heritage impact survey to ensure that all areas of heritage or cultural significance are not altered or damaged by its exploration program. This may result in a delay to the completion of the Company's planned exploration program in EPC 1539. If the Company is not able to obtain, or is otherwise delayed in obtaining the necessary approvals, agreements and clearances in time for its proposed exploration program, then it may not be able to complete its exploration program in time, which could have an adverse impact the Company's prospects of securing renewal of EPC 1539.

Renewal of this permit is planned to be submitted to the Department of Mines and Petroleum prior to its expiry on 5 August 2015. In the event that the renewal is not granted, the funds allocated for exploration in Year 2 in this permit will be reallocated to exploration in EPC 1506 as described in the section "Expert Geologist's Report" or to any new licences that may be acquired in future.

WESTERN AUSTRALIA

E04/1433 (Annette Bore) and E04/1436 (Lucky Bore)

Historical exploration has focused on diamond and more recently thermal coal exploration. There has also been limited surface testing for uranium and phosphate.

In Year 1, it is proposed to carry out surface exploration on site in both E04/1433 and E04/1436, review historical diamond exploration results and magnetic images and also examine gamma logs of past drillings for indications of prospective horizons for phosphate. The results of Year 1 will determine a drilling program for Year 2 to target the identified commodities.

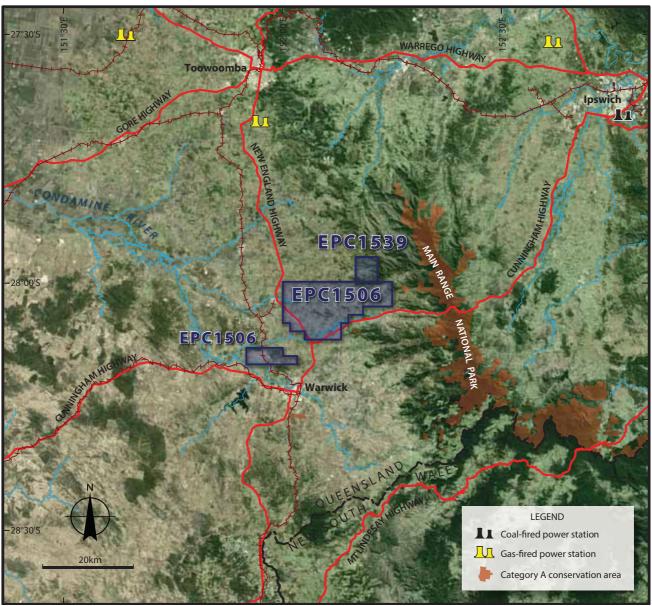
In Year 2, it is planned to drill up to 6 open chip holes to test in priority diamond and/or phosphate targets.

"The Company will need to complete its proposed exploration program in E04/1433 and E04/1436 by 13 April 2015 and 26 April 2015 (respectively) in order to be able to apply for the renewal of those licenses.

BUSINESS OVERVIEW AND PROPOSED EXPLORATION PLAN continued

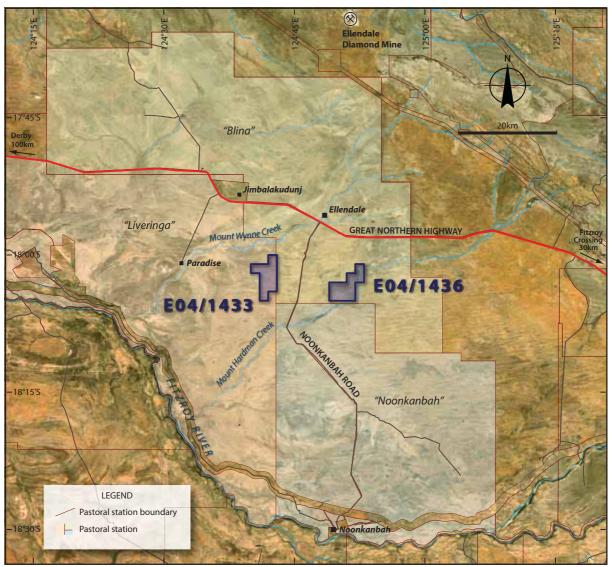
Prior to undertaking its planned exploration program in E04/1433 and E04/1436, the Company will need to obtain the necessary government approvals, execute land access agreements with applicable title holders and undertake a heritage impact survey to ensure that all areas of heritage or cultural significance are not altered or damaged by its exploration program. If the Company is not able to obtain, or is otherwise delayed in obtaining the necessary approvals, agreements and clearances in time for its proposed exploration program, then it may not be able to complete its exploration program in time, which could have an adverse impact the Company's prospects of securing renewal of E04/1433 and E04/1436.

Renewal of E04/1433 and E04/1436 is planned to be submitted to the Western Australian Department of Mines and Petroleum prior to their expiry on 13 April 2015 and 26 April 2015 respectively. In the event that the renewals are not granted, the funds allocated for exploration in Year 2 in those licences will be reallocated to exploration in EPC 1506 as described in the section "Expert Geologist's Report" or to any new licences that may be acquired in future.



Prepared: January 2015 by Mark Derriman

 ${\it Location Map of EPC1506 and EPC1539 in Queens land}$



Prepared: January 2015 by Mark Derriman

Location Map of E04/1433 and E04/1436 in Western Australia

The exploration budget expenditure for the two years from the Closing Date is as follows:

Area	Year 1 \$'000	Year 2 \$'000	Total \$'000
EPC 1506	600	600	1,200
EPC 1539	120	100*	220
E04/1433 and E04/1436	180	300*	480
Total	900	1,000	1,900

^{*}Subject to renewal of the licences in Year 1. See "Table 1: Tenements Register" in the section "Expert Geologist's Report" for expiry dates of those licences. In the event that those licences are not renewed by the relevant authorities, the funds allocated to those licences will be reallocated to exploration within EPC 1506 as described in the "Expert Geologist's Report".

A detailed description and analysis of the geology of the Tenements, the exploration potential and the proposed exploration objectives, concepts, programs, budget expenditure and constraints are in the section "Expert Geologist's Report".

DIRECTORS AND SENIOR MANAGEMENT



Jianzhong Yang

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 has been 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.

Since settling in Sydney, Australia in 2011 he has been active in property development in the Gold Coast, Queensland. 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 introduced new investors to the Company by the placement of new shares raising in excess of \$2 million dollars in the fourth quarter of 2014 thereby establishing a funded base to take the Company forward.



Kaiyuan (Kelly) Yang

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

Ms Kelly Yang is a business executive with responsibilities encompassing the oversight of the investment program in the coal and resources industry and assessing new investment opportunities for growth. She is also responsible for investor relations.



Chi Yuen (William) Kuan

Chi Yuen (William) Kuan, FCPA, ACIS Non-Executive Director - appointed on 7 August 2014

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.



Dr Pieter G Moeskops

Dr Pieter G Moeskops BSc, PhD, DIC, SAFin. Senior Technical Adviser

Dr Pieter Moeskops has a PhD in mining geology from Imperial College, London University, a graduate diploma in mining economics, is a Senior Associate of Finsia and a Member of the Australasian Institute of Mining and Metallurgy. He qualifies 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.

He has over 25 years experience in geophysics, mining geology, geochemistry, hard rock exploration, mineral processing and mining economics. He also has a strong background in securities analysis and mining project evaluation with over 10 years experience in resources investing. He has occupied high level positions at funds management organisations and has also been director of minerals, coal and energy companies.



ABN 28 069 772 384

Prepared by Mark Derriman

BSc (geology) MAppSc MBA MAIG

Principal

Rock Tiger

58 Yarrabung Road, St Ives, Sydney, New South Wale, 2075 T: +61 7 99831127 M: 04 2 141 960

E: markderriman@gmail.com

EXPERT GEOLOGIST'S REPORT

PURPOSE OF REPORT

This report has been produced for Kaili Resources Limited (Kaili or the Company) for inclusion in the Prospectus to be issued by the Company in connection with the offer of securities in the Company and application for re-instatement of quotation of the Company's securities on the Australian Securities Exchange (ASX). Rock Tiger was commissioned by Kaili to prepare an independent technical review of 4 exploration licences in Queensland and Western Australia, which are wholly-owned and operated by Kaili.

Rock Tiger has conducted its review in accordance with the requirements of the Australian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, prepared by the Joint Ore Reserve Committee of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia (JORC 2012).

This report is provided to Kaili in connection with the Prospectus and should not be used or relied upon for any other purpose.

USE OF REPORT

The Company's use and disclosure of this report is subject to the terms and conditions under which Rock Tiger prepared the report.

NOTICE TO THIRD PARTIES

Rock Tiger prepared this report for the Company for inclusion in its Prospectus and in connection with the offer of securities in Kaili. However, Rock Tiger notes that it has prepared this report having regard to the particular needs and interests of the Company, and in accordance with the Company's instructions. It did not prepare this report having regard to any other person's particular needs or interests.

INPUTS, SUBSEQUENT CHANGES AND NO DUTY TO UPDATE

Rock Tiger has created this report using data and information provided by or on behalf of the Company (and the Company's agents and contractors). The opinions stated herein are given in good faith. Rock Tiger has exercised all due care in reviewing the supplied information and believes that the information and data supplied to it are factual and correct and the interpretations are reasonable. Rock Tiger has independently analysed the data of Kaili but the accuracy of the conclusions of the review largely relies on the accuracy of the supplied data.

The conclusions and opinions contained in this report apply as at the date of this report. Events (including changes to any of the data and information that Rock Tiger used in preparing this report) may have occurred since that date which may impact on those conclusions and opinions and make them unreliable. Rock Tiger is under no duty to update the report upon the occurrence of any such event, though it reserves the right to do so.



MINING UNKNOWN FACTORS

The ability of any person to achieve forward-looking production and economic targets is dependent on numerous factors that are beyond Rock Tiger's control and that Rock Tiger cannot anticipate. These factors include, but are not limited to, site-specific mining and geological conditions, management and personnel capabilities, availability of funding to properly operate and capitalize the operation, variations in cost elements and market conditions, developing and operating the mine in an efficient manner, unforeseen changes in legislation and new industry developments. Any of these factors may substantially alter the performance of any mining operation.

Mark Derriman

Competent Person

Rock Tiger 5 February 2015



TABLE OF CONTENTS

1.	EXECUTIVE SUMMARY	
1.1	Introduction	18
1.2	Kaili projects overview	18
1.3	Exploration strategy and budget	18
1.4	Tenement register	20
2.	INTRODUCTION	
2.1	Terms of reference	21
2.2	Tenement status verification	21
2.3	Disclaimer	21
2.4	Consent	22
2.5	Qualifications, experience, independence	22
2.6	Principal sources of information	22
2.7	Competent Person Statement	22
3.	WESTERN AUSTRALIAN PROJECTS	
3.1	Climate and physiography	22
3.2	Tectonic and geological overview	23
3.3	Exploration targets and mineralisaton styles	23
3.3.1	Coal	23
	Diamanda	2.4
3.3.2	Diamonds	24
3.3.2 4.	QUEENSLAND PROJECTS	24
		26
4.	QUEENSLAND PROJECTS	
4.1	QUEENSLAND PROJECTS Climate and physiography	26
4.4.14.2	Climate and physiography Tectonic and geological overview	26 26
4.4.14.24.3	Climate and physiography Tectonic and geological overview Exploration targets and mineralisation styles	26 26
4.4.14.24.35.	Climate and physiography Tectonic and geological overview Exploration targets and mineralisation styles E04/1433 ANNETTE BORE AND E04/1436 LUCKY BORE - WA	26 26 27
4. 4.1 4.2 4.3 5.	Climate and physiography Tectonic and geological overview Exploration targets and mineralisation styles E04/1433 ANNETTE BORE AND E04/1436 LUCKY BORE - WA Introduction	26 26 27 29
4. 4.1 4.2 4.3 5. 5.1 5.2	Climate and physiography Tectonic and geological overview Exploration targets and mineralisation styles E04/1433 ANNETTE BORE AND E04/1436 LUCKY BORE - WA Introduction Cultural heritage and physiography	26 26 27 29 29
4. 4.1 4.2 4.3 5. 5.1 5.2 5.3	Climate and physiography Tectonic and geological overview Exploration targets and mineralisation styles E04/1433 ANNETTE BORE AND E04/1436 LUCKY BORE - WA Introduction Cultural heritage and physiography Geology	26 26 27 29 29 29
4. 4.1 4.2 4.3 5. 5.1 5.2 5.3 5.4	Climate and physiography Tectonic and geological overview Exploration targets and mineralisation styles E04/1433 ANNETTE BORE AND E04/1436 LUCKY BORE - WA Introduction Cultural heritage and physiography Geology Historical exploration	26 26 27 29 29 31 34
4. 4.1 4.2 4.3 5. 5.1 5.2 5.3 5.4 5.4.1	Climate and physiography Tectonic and geological overview Exploration targets and mineralisation styles E04/1433 ANNETTE BORE AND E04/1436 LUCKY BORE - WA Introduction Cultural heritage and physiography Geology Historical exploration Coal	26 26 27 29 29 31 34 34
4. 4.1 4.2 4.3 5. 5.1 5.2 5.3 5.4 5.4.1 5.4.2	Climate and physiography Tectonic and geological overview Exploration targets and mineralisation styles E04/1433 ANNETTE BORE AND E04/1436 LUCKY BORE - WA Introduction Cultural heritage and physiography Geology Historical exploration Coal Diamonds	26 26 27 29 29 31 34 34 34
4. 4.1 4.2 4.3 5. 5.1 5.2 5.3 5.4 5.4.1 5.4.2 5.5	Climate and physiography Tectonic and geological overview Exploration targets and mineralisation styles E04/1433 ANNETTE BORE AND E04/1436 LUCKY BORE - WA Introduction Cultural heritage and physiography Geology Historical exploration Coal Diamonds Geophysics	26 26 27 29 29 31 34 34 34 34
4. 4.1 4.2 4.3 5. 5.1 5.2 5.3 5.4 5.4.1 5.4.2 5.5 5.5.1	Climate and physiography Tectonic and geological overview Exploration targets and mineralisation styles E04/1433 ANNETTE BORE AND E04/1436 LUCKY BORE - WA Introduction Cultural heritage and physiography Geology Historical exploration Coal Diamonds Geophysics Surface seismic exploration	26 26 27 29 29 31 34 34 34 34 34
4. 4.1 4.2 4.3 5. 5.1 5.2 5.3 5.4 5.4.1 5.4.2 5.5 5.5.1 5.6	Climate and physiography Tectonic and geological overview Exploration targets and mineralisation styles E04/1433 ANNETTE BORE AND E04/1436 LUCKY BORE - WA Introduction Cultural heritage and physiography Geology Historical exploration Coal Diamonds Geophysics Surface seismic exploration Future exploration	26 26 27 29 29 31 34 34 34 34 34
4. 4.1 4.2 4.3 5. 5.1 5.2 5.3 5.4 5.4.1 5.4.2 5.5 5.5.1 5.6 5.6.1	Climate and physiography Tectonic and geological overview Exploration targets and mineralisation styles E04/1433 ANNETTE BORE AND E04/1436 LUCKY BORE - WA Introduction Cultural heritage and physiography Geology Historical exploration Coal Diamonds Geophysics Surface seismic exploration Future exploration Coal	26 26 27 29 29 31 34 34 34 34 35 35

6.	EPC 1506 MARYVALE 1 AND EPC 1539 MARYVALE 2 - QLD	
6.1	Introduction	38
6.2	Land tenure and physiography	38
6.2.1	Strategic cropping land	38
6.2.2	Water courses	38
6.2.3	Urban restricted areas (URA)	38
6.3	Cultural heritage	38
6.4	Geology	39
6.5	Historical exploration	40
6.5.1	Petroleum	40
6.5.2	Coal	40
6.5.3	Water	43
6.6	Future exploration	43
7.	TECHNICAL GLOSSARY	45
8.	BIBLIOGRAPHY	47

LIST OF FIGURES

- 1. KAILI AUSTRALIAN PROJECTS
- 2. LANDSAT IMAGE SHOWING WESTERN AUSTRALIA PROJECTS
- 3. GEOLOGY MAP SHOWING WESTERN AUSTRALIAN PROJECTS
- 4. SATELLITE IMAGE SHOWING THE LOCATION OF THE QUEENSLAND TENEMENTS
- 5. GEOLOGY OF THE QUEENSLAND TENEMENTS
- 6. WA PROJECT LOCATIONS AND INFRASTRUCTURE
- 7. PROJECT GEOLOGY E04/1433 AND E04/1436
- 8. E04/1433 AND E04/1436 AEROMAGNETIC IMAGE SHOWING DIAMOND OCCURRENCES AND EXPLORATION TARGETS
- 9. E04/1433 AND E04/1436 SEISMIC DEPTH TO COAL FROM INTERPRETATION OF GROUND SEISMIC DATA
- 10. EPC 1506 AND EPC 1539 LAND TENURE AND TOPOGRAPHY SATELLITE IMAGE
- 11. EPC 1506 AND EPC 1539 SURFACE CONSTRAINTS
- 12. EPC 1506 AND EPC 1539 PROJECT GEOLOGY AND HISTORICAL DRILLING

LIST OF TABLES

- Table 1. TENEMENT REGISTER
- Table 2. REGIONAL STRATIGRAPHY OF KAILI'S CANNING BASIN PROJECT
- Table 3. MARYVALE PROJECT STRATIGRAPHY
- Table 4. WESTERN AUSTRALIAN PROJECT HISTORICAL DRILLING
- Table 5. QUEENSLAND PROJECT HISTORICAL DRILLING

APPENDICES

Appendix 1 JORC 2012 Table- Exploration Results

1. EXECUTIVE SUMMARY 1.1 INTRODUCTION

Kaili has assembled a package of exploration tenements in Western Australia and Queensland prospective for thermal coal, diamonds, uranium and phosphate. The Western Australian tenements are located 150km east of the town of Derby in northern Western Australia within the Canning Sedimentary Basin and the Queensland tenements are located in south east Queensland 15km north of the town of Warwick in the Clarence-Moreton Sedimentary Basin.

1.2 KAILI PROJECTS OVERVIEW

1.2.1 EPC 1506 - MARYVALE 1

The Maryvale project is the main Kaili project with significant coal exploration drilling that has targeted several coal seam "packages" within the Walloon Sub Group. Exploration during Years 1 and 2 will be focused on defining the known coal mineralisation to JORC 2012 compliant standard.

1.2.2 EPC 1539 - MARYVALE 2

EPC 1539 has had no coal exploration drilling as such and the initial phase of drilling will aim to determine the depth of the coal seams, thickness and coal quality. Based on a successful outcome of the initial phase further drilling will be considered.

1.2.3 E04/1433 - ANNETTE BORE

Annette Bore is situated 6km east and down dip of Rey Resources's Duchess Paradise thermal coal resource (publicly reported JORC 2012 compliant in October 2014 as per Rey Resources ASX announcement of 28th October 2014). Limited drilling to date has intersected coal mineralization at vertical depths of between 200m and 250m. Further exploration drilling is planned during Year 2 with surface geochemical exploration for diamonds, uranium and phosphate taking precedence in Year 1.

1.2.4 E04/1436 - LUCKY BORE

Lucky Bore is situated 2km east of Annette Bore with the seismic interpretation of the depth to coal indicating coal mineralisation at shallower depths of between 120m and 160m. Historical holes Scarpia 1 (petroleum exploration) and ED-13 (coal exploration) indicate that coal mineralisation occurs at relatively shallow depths. Further exploration drilling is planned during Year 2 with surface geochemical exploration for diamonds, uranium and phosphate taking precedence in Year 1.

1.3 EXPLORATION STRATEGY AND BUDGET YEAR 1

QUEENSLAND:

MARYVALE 1 (EPC 1506):

Historical drilling has intersected coal mineralisation at various depth from <50m to >200m. In Year 1 the goal is to obtain further coal quality information by drilling 2 diamond core holes, followed by a further 6 chip holes with a view to defining a coal mineral resource to JORC 2012 standard.

Work will include the drilling of the 8 holes, collection of downhole geophysical data from all 8 holes, submission of samples for coal quality analyses, resource modelling and overall project management.

BUDGET: \$600,000

MARYVALE 2 (EPC 1539):

There has been no historical coal exploration within this tenement as the small EPC is located within an elevated terrain dominated by basalt covered hills and steep topography. Any likely coal seams will be significantly deeper than within EPC 1506 and as such has been a lower priority coal exploration target.

Work will include the drilling of one chip hole to determine the depth, number and approximate thicknesses of coal seams within EPC 1539.

BUDGET: \$120,000

WESTERN AUSTRALIA:

As a significant proportion of the Year 1 budget has been allocated to resource drilling within EPC 1506 only surface exploration will be carried out within E04/1433 (Annette Bore) and E04/1436 (Lucky Bore). These tenements are situated in the Canning Basin of Western Australia with historical exploration having focused on diamonds and more recently thermal coal. The Year 1 budget will be a total figure for surface exploration in both tenements combined as the exploration methods will be the same and carried out at the same time.

Historical non-coal exploration within and adjacent to E04/1433 and E04/1436 has been for diamonds, uranium and phosphate with no drill testing having been carried out for any of these commodities. The most advanced historical exploration was for diamonds comprising detailed magnetic/radiometric surveys over E04/1433 and E04/1436 with some follow up termite mound sampling. Given the limited available budget for E04/1433 and E04/1436 in Year 1 the proposed exploration is as follows.

DIAMONDS

Review all historical diamond exploration and magnetic images to determine the overall diamond prospectivity and of the latest literature regarding diamond genesis.

PHOSPHATE/URANIUM

Examine gamma logs from existing drilling for anomalies in the shales that could indicate prospective horizons for phosphate. Check chip trays from all previous holes and send selected shale samples (including all anomalous gamma shales and any unusual horizons) for analysis.

Send selected samples from new holes for analysis for phosphate. Check radiometrics for outcrops of any potentially anomalous horizons.

- The above exploration will involve a significant re-evaluation of all exploration to date with a view to the prospectivity of other commodities other than coal ie diamonds and phosphate and to a lesser extent uranium.
- 2. There will be several field trips to the tenements to carry out geological/regolith mapping and surficial geochemical sampling. The geochemical sampling will involve several traverses using the Innovex Portable XRF Device with select samples to be sent to a geochemical laboratory in Perth.
- 3. Heritage clearance surveys will need to be conducted prior to the surficial sampling
- 4. The ultimate goal of the Year 1 field work is to define drilling targets for one or more of the commodities.

BUDGET: \$180,000

TOTAL YEAR 1 BUDGET: \$900,000

YEAR 2

- A budget of \$1,000,000 will not allow significant drilling on all 4 tenements.
- Given the location of EPC 1539 there will not be any drilling in EPC 1539 and the commitment will be small.
- A very small number of holes will be planned for the WA tenements assuming successful delineation of drill targets in Year 1. The WA targets are very remote and any drilling will be expensive as will be the associated heritage surveys.
- By the end of Year 1 Kaili aims to achieve a significant coal resource in EPC 1506 and a small amount of drilling will be allocated to elevate a portion of any inferred resource to indicated status.

QUEENSLAND:

MARYVALE 1 (EPC 1506):

Year 2 exploration will focus on the definition of any mineral resource defined in Year 1 and extending and upgrading a portion of any defined inferred resource to indicated status and the possible drilling of a wide diameter diamond core hole for metallurgical testwork.

Work will include the drilling of the 1 wide diameter core hole and 4 chip holes.

BUDGET: \$600,000

If additional funds become available from the budget initially allocated to E04/1433, E04/1436 and EPC 1539 (if those licences are not renewed), those funds will be applied to EPC 1506 which the Company considers to be its "flagship" project. The funds will be used to complete up to a further 8 chip holes across that tenement with the view to defining an expanded coal mineral resource to JORC 2012 standard. Included in the additional work will be at least one additional diamond core hole for coal quality analyses and resource modelling.

MARYVALE 2 (EPC 1539):

Work during Year 2 will involve a desk top study of the coal mineralisation intersected in EPC 1539 in relation to intersections in EPC 1506 with possible further samples to be submitted for coal quality analysis.

BUDGET: \$100,000

WESTERN AUSTRALIA:

The Year 2 budget will be allocated to the drilling of up to 6 open hole chip holes to test the higher priority diamond and/ or phosphate exploration targets. Significant portions of the budget are for:

- drilling of the exploration holes;
- earthworks to allow drill access;
- downhole geophysical testing; and
- · heritage surveys to allow access for drill testing.

Given the expense of drilling in the remote Canning Basin it is likely only 2 to 3 holes could be drilled in each of the tenements.

BUDGET: \$300,000

TOTAL YEAR 2 BUDGET: \$1,000,000

GRAND TOTAL BUDGET FOR 2 YEARS: \$1,900,000

EXPERT GEOLOGIST'S REPORT continued

The actual drilling in Year 2 will be determined by the results of exploration in Year 1 and whether or not E04/1433, E04/1436 and/or EPC 1539 are renewed. The total budget of \$1,900,000 for Year 1 and Year 2 is sufficient to carry out the proposed exploration program. Allocation of additional funding from working capital of the Company may be required should the drilling program be extended at the election of the Company.

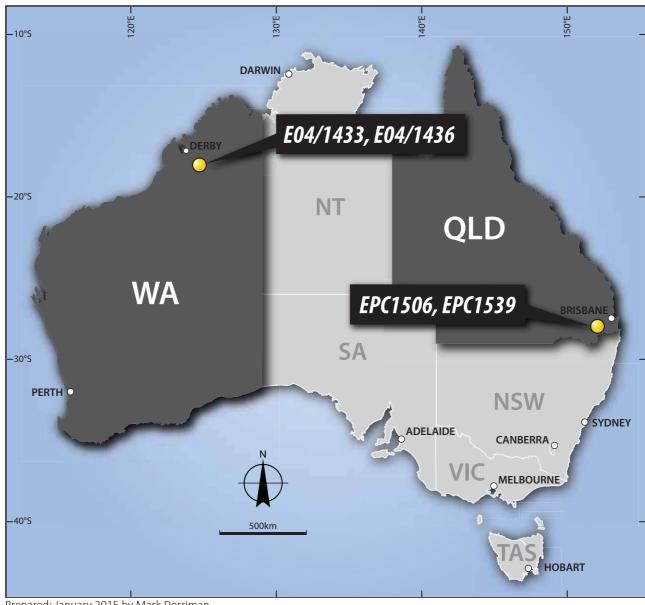
1.4 TENEMENT REGISTER

Kaili has 100% ownership of 4 granted mineral tenements, two exploration permits for coal in Queensland (EPC 1506 and EPC 1539) and two exploration licences in Western Australia (E04/1433 and E04/1406). All 4 tenements are currently granted with application for renewals to be made prior to their expiry: E04/1433 and E04/1436 in April 2015, EPC 1539 in August 2015 and EPC 1506 in May 2017.

Kaili believes the 3 tenements expiring in 2015 will be renewed.

Table 1: Tenement Register

Tenement ID	E04/1433	E04/1436	EPC 1506	EPC 1539
Name	Annette Bore	Lucky Bore	Maryvale 1	Maryvale 2
Holding Company	ASF Kaili Resource Pty Ltd	ASF Kaili Resource Pty Ltd	APEC Coal Pty Ltd	APEC Coal Pty Ltd
Percentage Held	100	100	100	100
Jurisdiction	Western Australia	Western Australia	Queensland	Queensland
Department	Department of Mines and Petroleum	Department of Mines and Petroleum	Department of Natural Resources and Mines	Department of Natural Resources and Mines
Area (Km²)	29.20	29.20	249.20	25.20
Sub-blocks	9	9	89	9
Date Granted	14/04/2005	26/04/2005	13/04/2009	6/08/2009
Current Expiry Date	13/04/2015	26/04/2015	12/05/2017	5/08/2015
Term Period	5 Years then extended	5 Years then extended	4 Years then extended	4 Years then extended
Current Commitment (AUD)	\$70,000	\$70,000	\$115,000	\$46,000
Native Title Agreement	No	No	No	No
Comment	Extension Application to be submitted. Native Title Agreement in Progress.	Extension Application to be submitted. No Native Title Claim in Place.	Freehold land. Native Title Extinguished	Extension Application to be submitted. Freehold Land. Native Title Extinguished



Prepared: January 2015 by Mark Derriman

Figure 1 Kaili Australian Projects

2. INTRODUCTION

2.1 TERMS OF REFERENCE

Rock Tiger was requested by Kaili, to complete an Expert Geologist's Report on the Australian coal, diamonds and phosphate properties of Kaili. Kaili is seeking to raise working capital to fund the future technical assessment of the tenements.

This report has been prepared in accordance with the Code and Guidelines for Assessment and Valuation of Mineral Assets and Mineral Securities for Independent Expert Reports (VALMIN Code, 2005) and the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (JORC 2012).

2.2 TENEMENT STATUS VERIFICATION

Rock Tiger has not independently verified the status of the tenements that are referred to in this report and as set out in the Tenement Register in Table 1. Details of the legal ownership of the tenements are dealt with elsewhere in the Prospectus.

2.3 DISCLAIMER

The authors of this report and Rock Tiger are unrelated to Kaili, its directors, senior management and advisors and have no economic or beneficial interest (present or contingent) in any of the mineral assets being reported on. Rock Tiger is remunerated for this report by way of a professional fee determined in accordance with a standard schedule of commercial rates, which is calculated based on time charges for review work carried out, and is not contingent on the outcome of this report. Rock Tiger will provide further consulting geological services after the date of this report and will be paid additional professional fees. Fees arising from the preparation of this report and previous services provided to Kaili are listed elsewhere in the Prospectus.

The relationship with Kaili is solely one of professional association between client and consultant geologist. Rock Tiger will provide Kaili with geological consultant services with regards to its exploration programs after the date of this report. None of the individuals employed or contracted by Rock Tiger are officers, employees or proposed officers of Kaili or any group, holding or associated companies of Kaili.

This report has been compiled based on information available up to and including the date of this report. The statements and opinions are based on the reference date of 1 January 2015 and could alter over time depending on exploration results, mineral prices and other relevant market factors.

2.4 CONSENT

Rock Tiger consents to this report being distributed, in full, in the form and context in which the technical assessment is provided, for the purpose for which this report was commissioned. Rock Tiger provides its consent on the understanding that the assessment expressed in the individual sections of this report will be considered with, and not independently of, the information set out in full in this report.

2.5 QUALIFICATIONS, EXPERIENCE, INDEPENDENCE

Rock Tiger is an independent, privately owned consulting firm and has been providing exploration consulting services to the minerals industry since 2008.

Primary Author: Mark Derriman, BSc (Hons) Geology, MAppSc GIS and Remote Sensing, MBA, MAIG

Principal Consultant

Mark Derriman is a geologist member of Australian Institute of Geoscientists with over 20 years' experience in near mine and regional mineral exploration, and the management of exploration programs. He has worked in a variety of geological environments in Australia, primarily in gold and base metals (including nickel), coal and iron ore. Prior to starting Rock Tiger Mark worked for ASF Group as General Manager in their Australian exploration, corporate and business development divisions, providing technical support, due diligence and rapid first-filter geological and economic analysis of various projects with a focus on coal projects. This role also included project asset identification including commercial negotiations with junior exploration companies, stakeholders and land & legal teams.

Previous to this, Mark held various principal and senior regional exploration management roles in all states of Australia. In the 1990's Mark worked as a near mine and regional exploration geologist for Normandy Mining Ltd and Ashton Gold and was part of several teams that discovered multimillion ounces gold deposits. In addition Mark assisted in the establishment of

Aquilas' iron ore portfolio by a mixture of project generation and joint venture negotiation. Mark holds the relevant qualifications and professional associations required by the ASX, JORC and VALMIN Codes in Australia.

GIS Consultant: Chris Bannerman, BAppSc Geology, MAppSc Geographical Information Systems Member American Society of Photogrammetry and Remote Sensing

Chris Bannerman is a qualified GIS specialist with 20 years working as a consultant for a wide range of clients on GIS, remote sensing, mapping projects and databases in Australia and around the world.

2.6 PRINCIPAL SOURCES OF INFORMATION

The principal sources of information used to compile this report comprise technical reports and data variously compiled by Kaili and their partners or consultants, publically available information such as ASX releases, government reports and discussions with Kaili technical and corporate management personnel. A listing of the principal sources of information is included in the bibliography attached to this report.

Rock Tiger has endeavoured, by making all reasonable enquiries, to confirm the authenticity, accuracy and completeness of the technical data upon which this report is based. A final draft of this report was also provided to Kaili, prior to finalisation by Rock Tiger, requesting that Kaili identify any material errors or omissions of facts prior to its final submission. Rock Tiger does not accept responsibility for any errors or omissions in the data and information upon which the opinions and conclusions in this report are based, and does not accept any consequential liability arising from commercial decisions or actions resulting from errors or omissions in that data or information.

This review is based on the information provided by the current title holders, the technical reports of consultants and previous explorers, as well as other published and unpublished data relevant to the areas.

2.7 COMPETENT PERSON STATEMENT

The information in this Prospectus that relates to exploration results, mineral resources or ore reserves is based on information complied by Mark Derriman, who is a Member of the Australian Institute of Geoscientists. He is a consulting geologist, trading as Rock Tiger, and is not employed by the Company. He has more than 25 years' experience in the style of mineralisation and type of deposit under consideration, and to the activity that he is undertaking, to qualify as a Competent Person as defined in JORC 2012. He consents to the inclusion in this Prospectus of the matters based on his information in the form and context in which they appear.

3. WESTERN AUSTRALIAN PROJECTS

3.1 CLIMATE AND PHYSIOGRAPHY

The Western Australian projects are located in the Canning Basin, and approximately 160km east of Derby and 100km west of Fitzroy Crossing in Western Australia (**Figure 2**). Access is via the Great Northern Highway, which transects the tenement package to the north, and then by unsealed pastoral tracks or the unsealed Noonkanbah access road.

The area is generally flat and vegetated mainly with native and introduced pastoral grass and weeds, spinifex (**Photo 1**), native shrubs and trees. Sand ridges and termite mound (**Photo 2**) are a common feature which can range up to 10m in height above the general land surface. The topsoil is generally very thin (<10cm), composed mainly of sand and minor silt with little organic matter. The uppermost 1m of strata predominantly comprises aeolian sand and dune deposits.

The region has a tropical monsoon climate with about 90% of the region receiving its rainfall during the short wet season, from November to April, when cyclones are common and the rivers flood especially the Fitzroy River (**Photo 3**) to the south of the Kaili projects. In the dry season, from May to October, south easterly breezes bring sunny days and cool nights. The average annual mean temperature is around 27°C, and with mean maximum temperatures almost always above 30°C.

3.2 TECTONIC AND GEOLOGICAL OVERVIEW

The Canning Basin tenements are located in the Fitzroy Trough, one of four sub-basins separated by basement highs that together comprise the Canning Basin. The basin fill is of Permian age (**Figure 3**), similar to the Sydney Basin in eastern Australia, and comprises a sequence of continental sediments dominated by mudstones to cross-bedded fine sandstones with occasional coarser units (**Table 2**). Thin coal seams are reported from most of the units in the Fitzroy Trough; however, the most persistent and thick seams has been reported from the Lightjack Formation of the Liveringa Group. The surface geology in the tenement areas is dominated by formations of the Liveringa group. The depth of weathering is reported as generally shallow (<25 m) and despite the presence of gentle east-southeast trending anticlines and synclines, bedding is generally shallow dipping at less than 6°.

In the area surrounding E04/1433 and E04/1436 the Permian sequence has been intruded by lamproite pipes and dykes during the Miocene. The lamproite pipes tend to fall into three distinct fields: Ellendale (Ellendale Diamond Mine Area, **Figure 2**) to the north of the Great Northern Highway, Calwynyardah which is located between E04/1433 and E04/1436 and shown as east-west known lamproite pipes in **Figure 8** and Noonkanbah on Noonkanbah Station (**Figure 2**) to the south of the project area. The age of the lamproite pipes exhibits a decrease from north to south, with pipes at Ellendale aged from 20-22 Mya (Million years ago) to 18-20 Mya at Noonkanbah. Numerous pipes have been discovered in all three fields, and while all fields have contained diamonds, only the Ellendale Lamproite Field has produced economic diamond pipes to date. Diamonds tend to be associated with the olivine-rich lamproites but many of the lamproites discovered to date, particularly in the Calwynyardah Field, tend to be leucite-rich and generally low in diamond content, however there has been very minor drill testing of the lamproite pipes outside the Ellendale Field.

Table 2: Regional Stratigraphy of Kaili's Canning Basin Project

Age	Group	Formation	Description
Early Triassic	riassic Blina Shale Grey and br		Grey and brown siltstone and sandy shale
		Hardman Formation	Mudstone, fine sandstone, cross-bedded. Coal intersected.
	Liveringa		Shallow marine
Early to Late Permian	Group	Lightjack Formation	Shale and siltstone, fine cross-bedded sandstone. Coal intersected near base of unit
Early Permian		Noonkanbah Formation	Interbedded mudstone, shale, fine grained sandstone. Minor coal intersections

3.3 EXPLORATION TARGETS AND MINERALIZATION STYLES

3.3.1 COAL

Rey Resources's Duchess Paradise coal project is located about 175km by road southeast of Derby, Western Australia, south of the Great Northern Highway (historical and recent exploration drilling in the area has confirmed that. The P1-seam (308Mt thermal coal resource) is laterally extensive and significantly consistent in terms of thickness and quality. The P1-seam is located within the Permian Lightjack formation which is the basal stratigraphic sequences of the Permian Liveringa formation. The P1-seam occurs near the base of the Lightjack formation above the contact with the underlying Permian Noonkanbah formation.

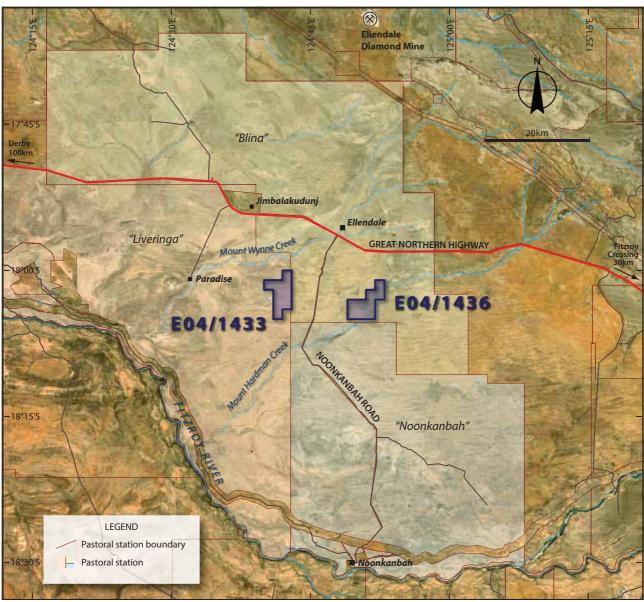
Geological structure in the Duchess Paradise area is influenced by the northeast-southwest trending Mount Wynne anticline. Locally, a bifurcated section of the Mount Wynne anticline (**Figure 7** approximately 2km south of the Great Northern Highway) oriented southeast-northwest and possibly plunging slightly to the southeast, imposes a 7° to 10° dip towards the south in the Duchess area of the deposit and a 2° to 5° dip to the east in the Paradise area towards E04/1433.

Kaili will be exploring for Duchess Paradise style coal mineralisation within E04/1433 and E04/1436.

3.3.2 DIAMONDS

Kimberley Diamonds Mines is producing commercial diamonds from the Ellendale diamond deposit (**Figure 3**) which was discovered in the mid-1970s by the Ashton Joint Venture and is contained in lamproite pipes formed around 21 to 22 Mya.

The rise of hot volatile magma to the surface under high pressure raised the diamonds from 120km to 200km beneath the Earth's crust through fractures in the rock. More than 50 lamproite pipes have been discovered in the region. Around 60% of these pipes are found to bear diamonds. Around 71% of these diamondiferous pipes are olivine-bearing lamproites, while 36% are leucite lamproites. The olivine rich lamproites host higher grades of diamonds as they are older in age and less fractionated with higher magnesium content.

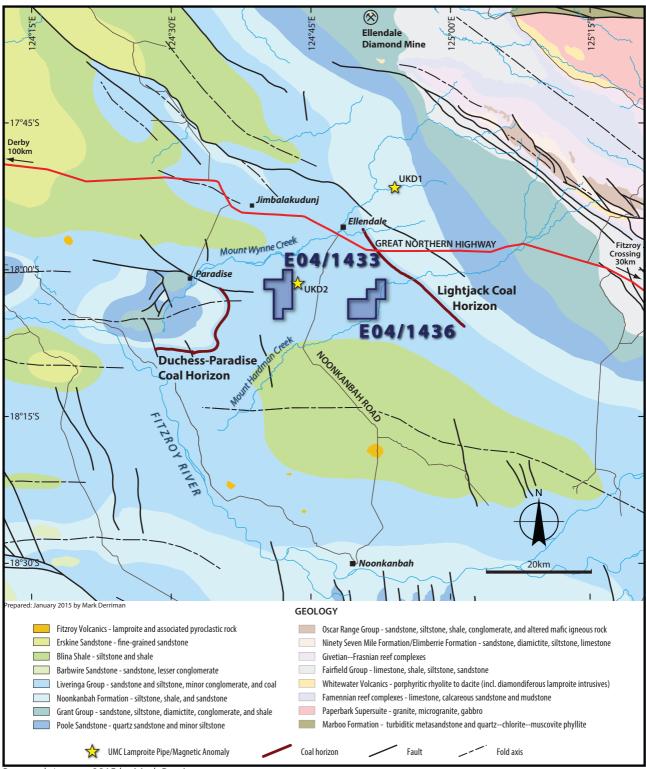


Prepared: January 2015 by Mark Derriman

Figure 2 Landsat Image showing Western Australian projects

The lamproites occur within the Triassic whitewater volcanics comprising lamproite to dacitic volcanics. The Triassic volcanics tend to have a distinctive bullseye magnetic signature which at times can also be subtle. There has been no drilling for diamonds in E04/1433 or E04/1436.

Kaili will be exploring for diamondiferous lamproites within E04/1433 and E04/1436.



Prepared: January 2015 by Mark Derriman

Figure 3 Geology map showing Western Australian projects

4. QUEENSLAND PROJECTS

4.1 CLIMATE AND PHYSIOGRAPHY

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 30km north of Warwick and 50km south of Toowoomba, in southeast Queensland (**Figure 4**). 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, is known as the Southern Downs.

The majority of the Darling Downs has a humid subtropical climate although some areas experience a semi-arid or subtropical highland climate. Summer maximum temperatures range from 28°c to 34°c, while winter maximum range from 13°c to 19°c. The annual rainfall ranges from 600mm in the far west of the region, to 1,000mm in the east. In the south-east of the Darling Downs winter temperatures can drop below –5°c with heavy frost and occasional snow, while in the north-west summer temperatures can surpass 45°c. Severe thunderstorms and damaging floods are a threat at times, as are bushfires in dry years.

4.2 TECTONIC AND GEOLOGICAL OVERVIEW

The tenements are situated in the Triassic to Cretaceous Clarence-Moreton Basin, which formed in conditions of predominately fluviatile sedimentation. The development of the Clarence-Moreton Basin was contemporaneous with the Surat Basin and broad stratigraphic units can be correlated between the basins. However, the underlying tectonics and sources of sediment were different, resulting in a differentiation of specific sedimentary sequences. Much of the basin is dominated by the late Triassic to Jurassic Bundamba group, comprising the older Woogaroo Sub Group, a sequence of predominantly conglomerates and sandstones deposited in a fluvial to lacustrine environment. The overlying Marburg Sub Group comprises predominately quartz sandstones interbedded with grey shales and mudstones (Figure 5).

The Walloon Sub Group (also known as Walloon Coal Measures) sit conformably on the Marburg Sub Group and represent widespread fluvial and lacustrine to paludal deposition over the entire basin. They consist of siltstone, banded coal horizons or packages and fine to medium grained lithic sandstone, and have been subdivided into the Taroom and Jundah Coal Measures, which are separated by the Tangalooma Sandstone (**Photos 5 and 6**). Coal-bearing "packages", rather than distinct seams, are common, and this is a result of seam splitting, resulting in several seams with variable thicknesses (**Table 3**).

It is noted that in the tenement areas, the Walloon Sub Group seams occur typically 40m–50m above the Marburg Formation. The individual seams are generally thin (less than 1m) and are high in inherent ash content due to their highly stone-banded nature. Many of the thicker sequences containing individual seams are overlain by thick water-bearing gravels.

Deposition occurred within fluvial channels which were relatively stable for extended periods of time, allowing peat deposition with minor interruption by overbank deposits; this geometry is similar to pod shaped lenses. Channel migration has restricted these deposits over large areas.

The Walloon Sub Group are overlain by litho-feldspathic sandstones of the Kangaroo Creek sandstone, with thick Tertiary basalts occurring throughout the basin. The Tertiary basalt cover type is variable, with form such as high valley walls and ridges present in the area.

AGE	SUB GROUP	FORMATION	DESCRIPTION
Triassic		Main Range	Vesicular Basalt
		Volcanics	
Late		Kangaroo	Quartz
Jurassic		Creek	Sandstone and
		Sandstone	Conglomerate
Middle	Walloon Sub	Jundah Coal	
Jurassic	Group	Measures	
		Tangalooma	Sandstone and
		Sandstone	Shale
		Taroom Coal	
		Measures	
		Durabilla	Interbedded
			Sandstone and
			Mudstone

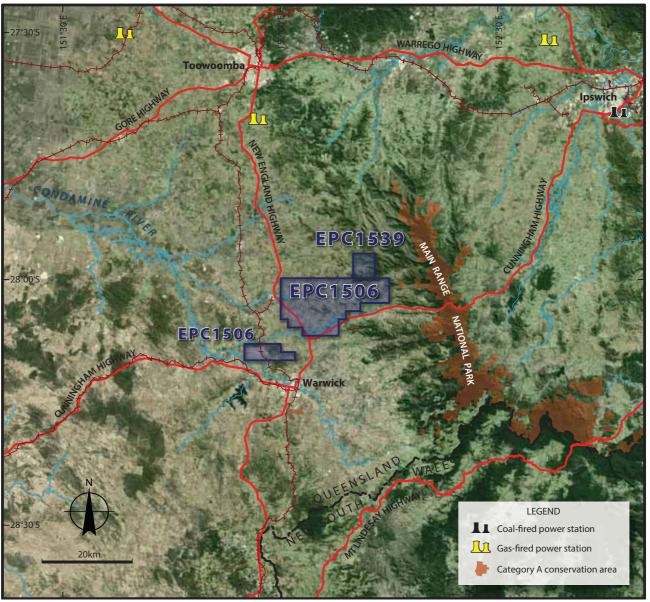
Table 3: Maryvale Project Stratigraphy

4.3 EXPLORATION TARGETS AND MINERALIZATION STYLES

Historical coal drilling has intersected several coal seams within the Jundah and Taroom Coal Measures within the Walloon Sub Group (**Table 3**). The Walloon Sub Group is likely to exist over parts of the EPC 1506 and EPC 1539 at variable depths. Historical drill holes have intersected coal-bearing intervals at less than 100m depth in the tenements, the individual seams intersected to date are generally thin, separated by stone banding, laterally discontinuous, and contain very high raw ash and low energy contents.

The primary target is the Bulwer seam package, while the secondary targets are the Condamine and Auburn seam packages. All these targets are expected to occur at less than 200m depth in the tenements, within coal-stone intervals ranging from about 2m-12m thick.

Kaili will be exploring for shallow dipping coal mineralization within EPC 1506 and EPC 1539.



Prepared: January 2015 by Mark Derriman

Figure 4 Satellite image showing the location of the Queensland tenements

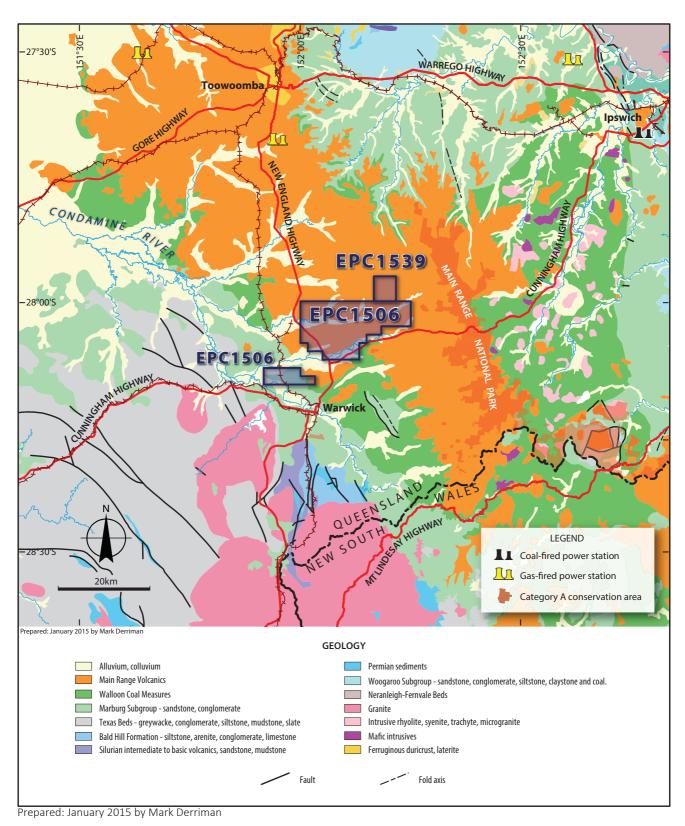


Figure 5 Geology of the Queensland tenements

E04/1433 ANNETTE BORE AND E04/1436 LUCKY BORE - WA

5.1 INTRODUCTION

The Kaili tenements are located approximately 160km east of Derby and 100km west of Fitzroy Crossing in Western Australia (**Figure 6**). Access is via the Great Northern Highway, which passes to the north of the tenements, and then by unsealed pastoral tracks or the unsealed Noonkanbah access road through the project. The Kaili tenements are situated at the north eastern margin of the Canning Basin within Phanerozoic marine and continental sedimentary rocks adjacent to the Proterozoic granite, gneiss and metasedimentary rocks of the King Leopold Mobile Zone. The tenements are situated within the Liveringa and Blina pastoral properties.

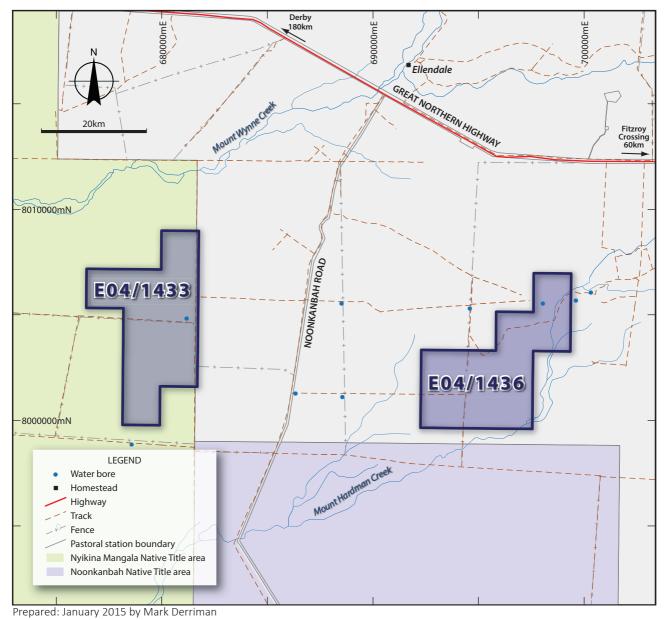


Figure 6 WA project locations and infrastructure

5.2 CULTURAL HERITAGE AND PHYSIOGRAPHY

The area is generally flat and vegetated mainly with native and introduced pastoral grass and weeds, spinifex (**Photo 1**), native shrubs and trees. In several tenements sand ridges are a common feature which can range up to 10m in height above the general land surface. The topsoil is generally very thin (<10cm), composed mainly of sand and minor silt with little organic matter. The uppermost 1m of strata predominantly comprises aeolian sand and dune deposits.



Photo 1 Spinifex covered sand plains



Photo 2 Termite mounds similar to these were used as sample media for diamond exploration



Photo 3 Fitzroy River near the town of Fitzroy

Several native title claims are in existence within and adjacent to E04/1433 and E04/1436. E04/1433 is covered by a determined native title claim WAD6009/1998 of the Nyikina Mangala people and administered by the Kimberley Land Council. Kaili Resources is working towards the completion of a native title and heritage protection agreement with the Native Title Claimants. E04/1436 is currently not covered by native title application however the area comprises numerous artifacts of Aboriginal settlement and as such the WA Heritage Act has application. Prior to any high impact exploration such as drilling the following procedures are to be adopted for both E04/1433 and E04/1436:-

- 1. Lodgment of a work program with the Kimberley Land Council (KLC).
- 2. Presentation of the work program at a community meeting organised by the KLC.
- 3. Participate in a heritage clearance survey of the proposed sites to be investigated along with KLC anthropologists and traditional owners.
- 4. Receive report from KLC detailing which areas can be explored and which are to be avoided due to cultural sensitivity.
- 5. Commence exploration program.

5.3 GEOLOGY

The Permian Liveringa group has been sub divided into the lowermost coal bearing Lightjack Formation and the uppermost Hardman Formation. Within the Hardman Formation the sub divisions from oldest to youngest are Kirkby Range, Hicks Range and Cherrabun Members. The Kaili tenements (Figure 7) are composed entirely of outcrop and sub crop of the Kirkby Range and Cherrabun Members. The Kirkby Member comprises mudstone, fine sandstone, calcareous, laminated to thin bedded, ripple marked; minor conglomerate lenses; fossiliferous while the overlying hicks range member comprises predominantly sandstone. North-south trending synclinal axes occur to the east of the tenements with the centre of the tenements being dominated by an anticlinal axis.

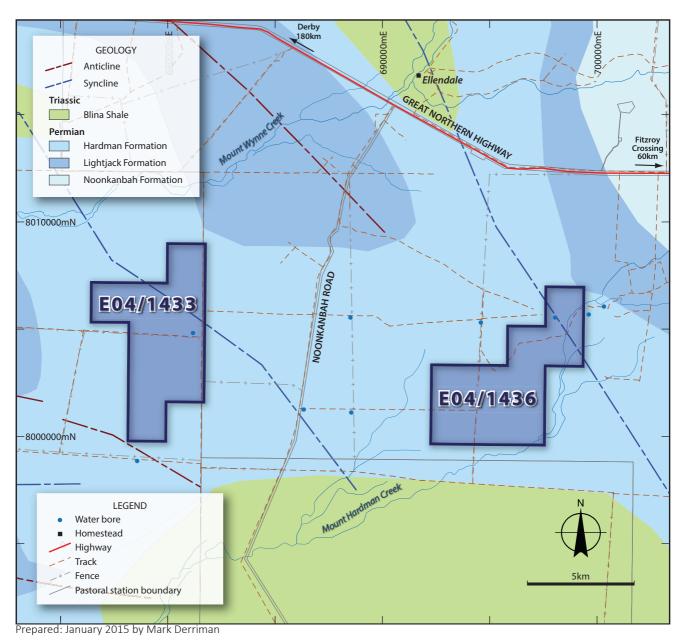


Figure 7 Project Geology – E04/1433 and E04/1436



Photo 4 Permian Hardman Formation – sandstone capped mesas

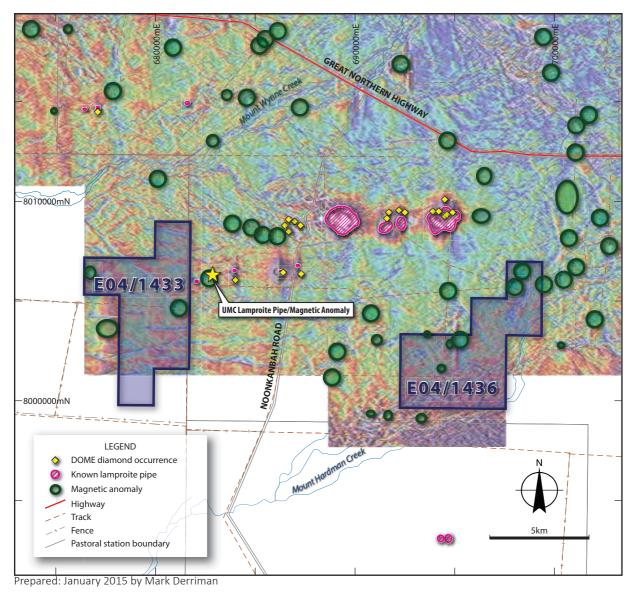


Figure 8 E04/1433 and E04/1436 - Aeromagnetic image showing diamond occurrences and exploration targets

5.4 HISTORICAL EXPLORATION

The Kaili tenement areas have been the subject of intensive diamond exploration from the mid-1970s to the present. Coal was intersected in oil and coal wells (**Figure 9**) drilled from the mid-1960s to the early 1990s although the main period of activity was during the 1960s, during which time coal exploration was focused on locating coking quality coal.

Exploration for diamonds commenced in the mid-1970s and became intensive after the discovery of Ellendale-4 pipe by the Ashton Joint Venture in 1976. Exploration activity has continued to the present.

5.4.1 COAL

Exploration adjacent to the Kaili tenements was previously conducted by Premier Mining, Australian Inland Mining, Esso Exploration and Dampier Mining. Only ED-13 completed by Esso Exploration was drilled within Kaili tenements and it is within E04/1436. Most holes were drilled by Premier Mining which focused on the Mount Wynne anticline (Figure 7), where the prospective Lightjack Formation is relatively shallow and which is the same area as Rey Resources's Duchess Paradise coal project. In addition to holes drilled specifically for coal, one petroleum exploration well (Scarpia-1) has been drilled in the current Kaili tenements and within E04/1436.

5.4.2 DIAMONDS

The Calwynyardah Lamproite Field was discovered by the Ashton Joint Venture after investigation of aeromagnetic anomalies following the discovery of the Ellendale Lamproite Field. Further exploration was undertaken by Selection Trust (Australia) Ltd, Gem Exploration and others (Jaques, et al., 1986).

More recent exploration was undertaken by United Mineral Corporation (UMC). A total of 20 pipes have been discovered on the tenements through the exploration efforts of these companies including the Calwynyardah pipe (**Figure 8**) with a surface area of 124 acres and by far the largest of the pipes discovered in the field. Testing of some of the pipes has shown that some are diamond bearing and comprise leucite.

UMC commissioned a high resolution aerial magnetic survey (Figure 8) which covers the current Kaili tenements in 2005 with 50m line spacing and 20m flying height. A total of 48 of the 57 dipole anomalies identified from the interpretation of the survey were found to be caused by cultural sources and the remaining 19 anomalies were followed up by geochemical sampling of termite mounds. This work resulted in the discovery of a small (0.5Ha) phlogopite-leucite lamproite body, UKD 1 (Figure 3) which was originally defined as the MAG1 target and a possible inferred lamproite at anomaly MAG 54 which was later named UKD1.

In 2006 the magnetic data were interpreted again for more subtle dipole signatures and a total of 47 weak anomalies were identified, 40 of which were followed up using similar methodology to the previous year. This work resulted in the discovery of UKD 2 (Formerly MAG54 – **Figure 3**), a small dyke-like lamproite body of some 0.25 Ha in inferred area. The lamproite is olivine poor and crops out at the western end of the magnetic anomaly. Petrographic work indicated a magnesium oxide content of 7.5%. Neither the lamproites at UKD1 and UKD2 have been drilled.

In addition to the work described above, geochemical sampling of termite mounds was undertaken over 45 targets. Some targets were anomalous in one element, UMC concluded that none of the targets exhibited an anomalous multi-element response that would be expected of a lamproite, and however no bulk sampling or drilling was completed.

5.5 GEOPHYSICS

5.5.1 SURFACE SEISMIC EXPLORATION

The Canning Basin in which the Kaili tenements are located has been and is currently an active area for petroleum exploration. As a prelude to petroleum drill testing, information regarding sub surface stratigraphic layers are obtained by using Reflection Seismology (or seismic reflection) which is a method of geophysical exploration that uses the principles of seismology to estimate the properties of the earth's subsurface from reflected seismic waves. The method requires a controlled seismic source of energy, such as dynamite, a specialized air gun or a seismic vibrator attached to large trucks. The seismic data is collected along cleared lines (**Figure 9**) and processed by the geophysical company. Several such lines of seismic data have been collected within E04/1433 and E04/1436.

Historical seismic data collected within E04/1433 and E04/1436 was purchased by a previous owner and processed by MBA

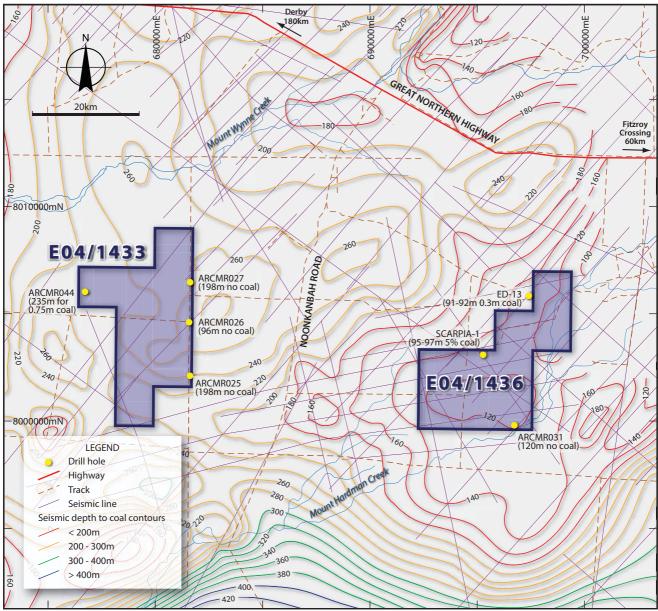
Petroleum Consultants (MBA) based in Brisbane. Polygons showing the possible distribution of the "Lightjack Coal Horizon" at the base of the Permian Liveringa group at the contact with the underlying Permian Noonkanbah Formation <200m below the present land surface which has a total change in elevation of approximately 50m across the tenements. The resultant contoured sub surface information (corrected for elevation) is shown in Figure 9 with seismic determined depth to coal mineralisation closely matching coal seam depths intersected in drilling. This data set will be used to assist in drill targeting of the shallower portions of sub surface coal mineralisation.

5.6 FUTURE EXPLORATION

Exploration within E04/1433 and E04/1436 comprise a continuing focus on thermal coal mineralisation due to the tenements proximity to Rey Resources's Duchess Paradise coal project where a 305Mt JORC 2012 compliant resource has been defined (Rey Resources's September 2014 quarter report). In addition exploration in both tenements have prospectivity for diamonds, uranium and phosphate and exploration programs are planned accordingly.

5.6.1 COAL

In Year 1 coal exploration will focus on a full review of all historical coal exploration within and adjacent to E04/1433 and E04/1436 and the relationships between depth to coal as determined by reprocessing of the surface seismic data and the coal intervals intersected by drilling. The aim will be to drill test coal mineralisation in Year 2 (subject to E04/1433 and E04/1436 being renewed). Exploration will focus in E04/1436 where the interpreted seismic depth to coal is indicated at 120m to 140m below the surface (**Figure 9**). Seismic depth to coal in E04/1433 is deeper at about 200m-250m and coal exploration will be a secondary target to exploration in E04/1436.



Prepared: January 2015 by Mark Derriman

Figure 9 E04/1433 and E04/1436 - Seismic depth to coal from interpretation of ground seismic data

5.6.2 DIAMONDS

Recent historical diamond exploration has focused on exploration for diamondiferous lamproites similar to those currently being mined by Kimberly Diamonds Ltd at Ellendale 40km to the north of E04/1433 and E04/1436. The lamproites have a distinctive "bullseye" magnetic signature due to the high % of magnetite in the lamproite. UMC commissioned a high resolution aerial magnetic survey over a broad area including E04/1433 and E04/1436 to highlight "bullseye" magnetic features for follow up. Several of the magnetic targets were followed up by collecting termite mound samples which were analysed for indicator minerals (Figure 8). Not all the magnetic anomalies were followed up and there was no drill testing of any of the samples. Select samples were submitted for petrological analysis which indicated the lamproites were leucite bearing rather than olivene bearing as is the case for the lamproites at the Ellendale diamond mine

In Year 1, all magnetic data will be reviewed with a view to field mapping/sampling all the "bullseye" magnetic anomalies with the goal being to drill test the highest priority targets in Year 2 (subject to E04/1433 and E04/1436 being renewed). It is likely several ground magnetic traverses will be carried out so as to more accurately define the surface position of the magnetic anomalies.

5.6.3 URANIUM

Uranium mineralisation was discovered at the Myroodah Dome 40km south west of the Kaili tenements by Conzinc Rio Tinto Exploration (CRAE) in 1978. The mineralisation was thought to be of the rollfront- sandstone hosted style with grades calculated from down hole gamma logging of 0.1 kg/t (100 ppm) to 0.48 kg/t (480 ppm) of U3O8 over widths of 1.0m to 3.0m. There has been no exploration for uranium conducted since 1981.

Roll-front uranium deposits are generally hosted within permeable and porous sandstones or conglomerates. The mechanism for deposit formation is dissolution of uranium from the formation or nearby strata and the transport of this soluble uranium into the host unit. When the fluids change redox state, generally in contact with carbon-rich organic matter, uranium precipitates to form a 'front'.

The Kaili tenements are located on the eastern flank of the Mount Wynne anticline (dome) within a sequence of rocks comprising sandstones, siltstones and carbonaceous shales, all of the key lithological units for hosting sandstone uranium deposits.

In Year 1, Kaili will use a combination of surficial geochemical exploration for uranium and its indicator elements in conjunction with using the high resolution radiometric survey of UMC to search for radiometric anomalies possibly associated with uranium mineralisation. In Year 2 (subject to E04/1433 and E04/1436 being renewed), Kaili may carry out drill testing of selective uranium targets.

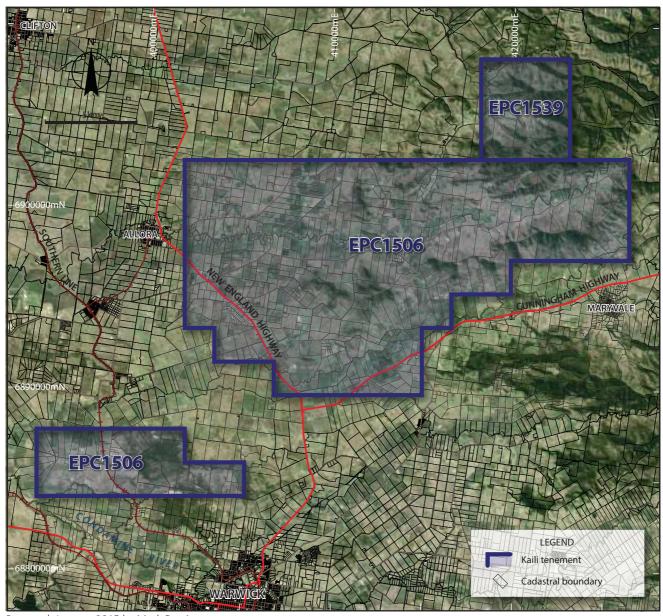
5.6.4 PHOSPHATE

Phosphate mineralisation in the inland parts of the Kimberley region has been recorded as sedimentary deposits in Triassic to Cretaceous sediments. Calcrete mapped in the vicinity of E04/1433 and E04/1436 and in Year 1 mapping within the tenements will be carried out to investigate for phosphate. In conjunction with the surface mapping a portable hand held X-ray Fluorescence (XRF) analyser will be to collect surface element data targeting phosphate mineralisation.

Following successful delineation of phospate targets in Year 1 drilling will be considered for Year 2

Table 4: Western Australian Project - Historical Drilling

Hole ID	Easting (m)	Northing (m)	RL (m)	Azimuth (degrees)	Dip (degrees)	Depth to Coal (m)	Coal Interval(m)	Total Depth (m)
ARCMR025	681627	8002112	125	0	-90	-	198	198
ARCMR026	681627	8004583	110	0	-90	-	96	96
ARCMR027	681622	8006465	125	0	-90	-	198	198
ARCMR031	696726	7999801	105	0	-90	-	120	120
ARCMR044	676726	8006009	100	0	-90	235	235	235
ED-13	697601	8005129	105	0	-90	91	306	306
SCARPIA-1	695271	8003083	98.4	0	-90	95	1600	1600



Prepared: January 2015 by Mark Derriman

 $\textbf{Figure 10} \ \mathsf{EPC} \ \mathsf{1506} \ \mathsf{and} \ \mathsf{EPC} \ \mathsf{1539} \ \mathsf{-} \ \mathsf{Land} \ \mathsf{tenure} \ \mathsf{and} \ \mathsf{topography} \ \mathsf{-} \ \mathsf{satellite} \ \mathsf{image}$

6. EPC 1506 MARYVALE 1 AND EPC 1539 MARYVALE 2 - QLD 6.1 INTRODUCTION

Kaili's Queensland coal tenements are situated 30km north of Warwick within the Darling Downs region of south Queensland. The tenements are adjacent to a railway line that connects Warwick to Toowoomba in the north and then to the capital city of Brisbane (190km) from where the coal is planned to be exported. The region has a large skilled workforce and excellent infrastructure for the development of coal resources.

6.2 LAND TENURE AND PHYSIOGRAPHY

Land tenure is dominated by freehold pastoral land of various block sizes and roadside council verges administered by the Southern Downs regional council. The pastoral properties are used for a mixture of intensive agriculture and cattle on basalt derived soils.

The tenement is adjacent to the junction of the New England and Cunningham Highways (Figure 10) with access through the tenements provided by a network of sealed and unsealed roads. The Main Range National Park to the east of the tenements forms part of the Great Dividing Range and is capped by Tertiary basalt lava flows. EPC 1539 is dominated by elevated topography of the Main Range National Park as are small portions within EPC 1506 which is dominated by flatter terrain comprising basalt derived soils.

6.2.1 STRATEGIC CROPPING LAND

The Strategic Cropping (SCL) Land Act 2011 ("SCL Act") was repealed by the Regional Planning Interests Act June 2014 ("RPI"). SCL is land that is, or is likely to be, highly suitable for cropping because of a combination of the land's soil, climate and landscape features. SCL trigger areas cover a substantial portion of both tenement blocks, and are aligned predominately along watercourses (**Figure 11**). The SCL Act is still in force and is now part of the RPI.

The RPI identifies and protects areas of regional interest from inappropriate resource or regulated activities. The strategic cropping area ("SCA") is an area of regional interest under the RPI and consists of the areas shwon on the SCL Trigger Map as SCL. SCL is defined in the RPI as:

"land that is highly suitable for cropping, or likely to be highly suitable for cropping, based on a particular combination of soil, climate and landscape features."

Through the RPI the government is seeking to manage the impact of resource activities and regulated activities on SCL in the SCA.

The SCL criteria use definitive threshold levels for 8 criteria to determine compliance, which limits the scope for subjectivity or opinion in evaluating land and demonstrating whether land meets the SCL criteria.

The criteria are:

- slope
- rockiness
- gilgai
- soil depth
- soil wetness
- · soil ph.
- salinity
- · soil water storage

6.2.2 WATERCOURSES

Dalrymple and Glengallan Creeks traverse from west to east across the tenements with the headwaters in the Main Range National Park to the east of the tenements. These creeks flow into the Condamine River to the west of the tenement.

6.2.3 URBAN RESTRICTED AREAS (URA)

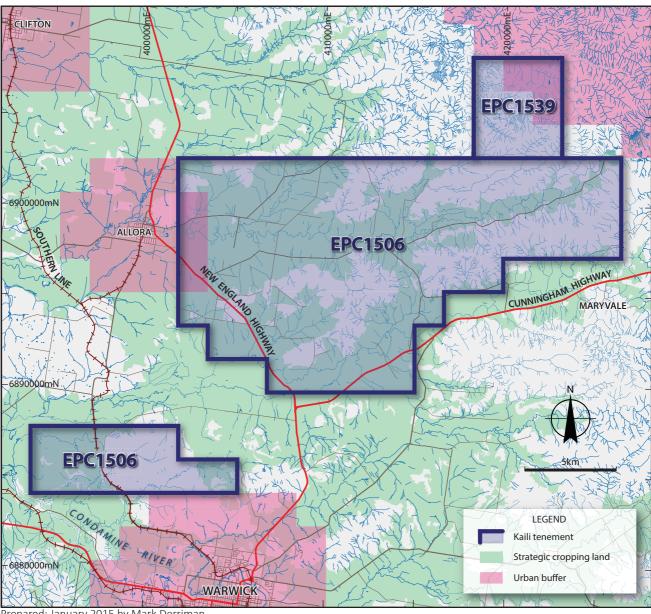
On 16 August 2011, the Queensland Government used the powers of the Mineral Resources Act 1989 ("MRA") to declare Restricted Area 384 ("RA 384"), effectively calling a temporary halt to the granting of new coal and mineral exploration permits (excluding industrial minerals) within RA 384. At the same time, the Minister announced that no new land would be released for petroleum and gas within RA 384 (**Figure 11** shown as Urban Buffer).

RA 384 covers the town area of regional towns that have a population of 1,000 or more, plus a buffer zone of about 2km from the boundary of these towns. The regional town of Allora is located to the north west of EPC 1506 with the 2km buffer slightly impinging on the north west margin of EPC 1506.

6.3 CULTURAL HERITAGE

The Githabul people traditional country spans the border of south east Queensland and north east New South Wales with the native title claim south of the border having been recently determined in favour of the Githabul people. There is currently no registered native title claim north of the border and EPC 1506 and EPC 1539 comprise predominantly freehold land where native title has been extinguished however cultural heritage still applies.

The *Aboriginal Cultural Heritage Act 2003* ("ACH") commenced on 16 April 2004. The ACH binds all persons, including the State, and is intended to provide effective recognition, protection and conservation of Aboriginal cultural heritage.



Prepared: January 2015 by Mark Derrimar

Figure 11 EPC 1506 and EPC 1539 - Surface Constraints

Principles underlying the ACH are outlined below:

- the recognition, protection and conservation of Aboriginal cultural heritage should be based on respect for Aboriginal cultural and traditional practices;
- Aboriginal people should be recognised as the primary guardians, keepers and knowledge holders of Aboriginal cultural heritage;
- it is important to respect, preserve and maintain knowledge, innovations and practices of Aboriginal communities and to promote understanding of Aboriginal cultural heritage;
- activities involved in recognition, protection and conservation of Aboriginal cultural heritage are important because they allow Aboriginal people to reaffirm their obligations to "law and country"; and

• there is a need to establish timely and efficient processes for the management of activities that may harm Aboriginal cultural heritage.

Prior to the commencement of drilling operations, traditional owners of the Githabul people will inspect all proposed drill sites to ensure that all areas of cultural significance are protected.

6.4 GEOLOGY

The tenements are situated in the Triassic to Cretaceous Clarence-Moreton Basin, which formed in conditions of predominately fluviatile sedimentation. The development of the Clarence-Morton Basin was contemporaneous with the Surat Basin and broad stratigraphic units can be correlated between the basins. However, the underlying tectonics and sources of

sediment were different, resulting in a differentiation of specific sedimentary sequences. Much of the basin is dominated by the late Triassic to Jurassic Bundamba Group comprising the older Woogaroo Sub Group, a sequence of predominantly conglomerates and sandstones deposited in a fluvial to lacustrine environment. The overlying Marburg Sub Group comprises predominately quartz sandstones interbedded with grey shales and mudstones.

The Walloon sub group (**Figure 12**) sits conformably on the Marburg Sub Group and represents widespread fluvial and lacustrine to paludal deposition over the entire basin. The sub group consist of siltstone, banded coal horizons or packages and fine to medium grained lithic sandstone, and has been subdivided into the Taroom and Juandah Coal Measures, which are separated by the Tangalooma Sandstone (**Photos 5 and 6**) while the Durabilla Formation underlies the Taroom Coal Measures. Coal-bearing "packages", rather than distinct seams, are common, and this is a result of seam splitting, resulting in several seams with variable thicknesses.

It is noted that within the area of EPC 1506 and EPC 1539, the Walloon Coal Measure seams occur typically 40m–50m above the Marburg Formation and as such is likely to represent the Taroom Coal Measures. The individual seams are generally thin (less than 1m) and are high in inherent ash content due to their highly stone-banded nature. Many of the thicker sequences containing individual seams are overlain by thick water-bearing gravels. The Walloon Sub Group outcrops in the southern portion of EPC 1506 as pale grey quartz sandstone likely of the Tangalooma Sandstone.

Deposition occurred within fluvial channels which were relatively stable for extended periods of time, allowing peat deposition with minor interruption by overbank deposits; this geometry is similar to pod shaped lenses. Channel migration has restricted these deposits over large areas.

The high topographic areas are dominated by Tertiary Main Range Volcanics which regionally comprise alkali-olivine basalt, minor tuff, sandstone, and mudstone. Within EPC 1506 and EPC 1539 the dominant lithology of the Main Range Volcanics (**Photo 7**) is dark grey vesicular basalt. Quaternary/Cainozoic alluvium and colluvium dominates the current Dalrymple and Glengallan creeks and adjacent flood plains with input from both the current creeks and adjacent basalt covered hills. The resultant soil from the eroding basalt hills has resulted in a fertile growing medium adjacent to the creeks.

6.5 HISTORICAL EXPLORATION

A search of the Queensland Government's website shows several historic tenements overlapping EPC 1506 and EPC 1539 as listed below:

- EPC 104C (Killarney) held by Global Minerals Pty Ltd between 1971-1972:
- EPC 144C (Killarney) and EPC 145 (Clifton), held by Millmerran Coal Pty Ltd between 1974-1975;
- EPC 203C (Felton West), held by Millmerran-Amax-Mitsui JV between 1976-1989;
- EPC 293C (North Warwick), held by Andrew Wright Holdings
 Pty Ltd between 1980-1984; and
- EPC 1506 and EPC 1539 (current tenure of Kaili) held by Clean Global Energy between 2009-2011.

Historical drillhole locations within EPC 1506 and EPC 1539 are shown in (Figure 12) and comprise water bores which were drilled to shallow depths of usually less than 50m and company coal exploration chip and diamond core holes drilled to depths of several hundred metres. Several of the coal exploration drill holes were geophysically surveyed to look for lithological and coal signatures and to be submitted for coal quality analyses in Brisbane. A single petroleum well was drilled to the south of EPC 1506 and has provided broad lithostructural information.

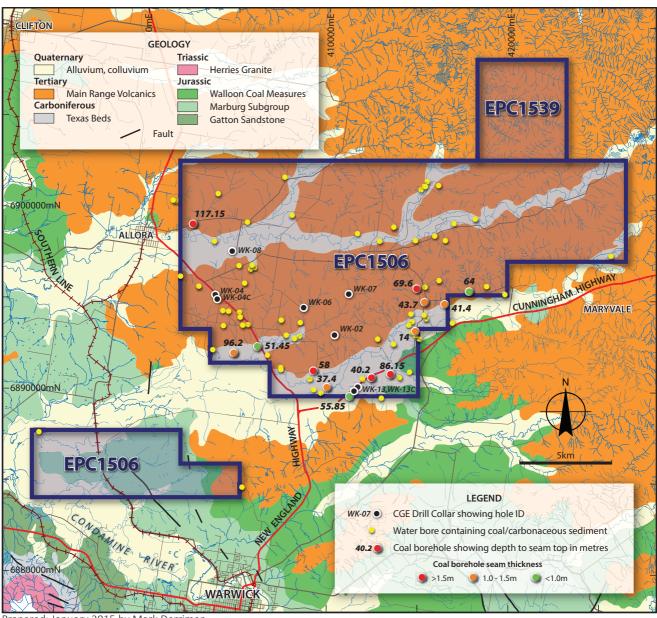
6.5.1 PETROLEUM

In 1965, Swan Creek No.1 petroleum well was drilled to around 500m depth by Phillips Petroleum Company, southeast of EPC 1506 and about 20km east of Warwick township. The well site was interpreted to lie on a northwest trending structural anticline. The Hutton Sandstone was shown to sub crop here with the overlying Walloon Sub Group not being present at the drill collar.

6.5.2 COAL

Global Minerals: Of the 48 holes drilled in the area by previous operators, 22 intersected coal. The sub-horizontally dipping Walloon Coal Sub Group was reported to have been intersected beneath Tertiary flow basalt and/or Quaternary alluvium cover. Sample results for five banded coaly intervals returned very high ash contents ranging from 43% to 69% (presumably air dried basis).

Millmerran Coal: No drilling was conducted, with only a literature review of previous drillhole data, water bore data and data from Clifton Colliery located nearby, and that mined coal from the Walloon Sub Group prior to 1900. The reasons for the tenements being later relinquished were not stated, although Milmerran Coal was later involved in a joint venture ("JV") covering the general area.



Prepared: January 2015 by Mark Derriman

Figure 12 EPC 1506 and EPC 1539 - project geology and historical drilling

Millmerran JV: Within the Clifton and Warwick areas of the tenement, a total of 164 open holes and 30 cored holes were drilled by previous operators averaging around 100m in depth. A number of the holes drilled by AMAX (Millmerran JV) intersected the near surface Tertiary Basalt and then the underlying strata. However, some holes (such as WRO0006, WRO0065, WRO0066, WRO0112 and WRO0113) did not penetrate through the basalt and were terminated early.

Drilling results suggested that the coal intersected was in the lower Walloon Sub Group associated with the Taroom Coal Measures. A total of 53 laboratory samples were analysed by previous operators. In general, the coal was found to contain high raw ash (typically ranging from 40%-55% adb (air dried basis): the coal is air dried to remove moisture), high volatile matter,

low sulphur, and specific energy ranging from 12-18 MJ/kg (adb). Although coal intersections were occasionally several metres thick (i.e. WRD0001: 4.1m, WRD0031: 3.8m, WRD0070: 3.1m and WRD0073: 5.5m), there was a lack of continuity between holes for these intersections.

Andrew Wright Holdings: While this tenement overlapped both EPC 1506 and EPC 1539, the drilling was to the north of both tenements and was reported to have intersected "Walloon-type coal". Most drillholes intersected heavily banded coaly intervals containing numerous claystone lenses and inclusions that were considered to possibly be tuffaceous in origin, although occasional holes intersected seams reported to be several meters thick.



 $\begin{tabular}{ll} \textbf{Photo 5} Outcropping Tangalooma Sandstone in a road cut within the southern portion of EPC 1506 \end{tabular}$



Photo 6 View looking south from outcropping Tangalooma Sandstone towards dark brown basalt derived soils from the basalt hills adjacent to Dalrymple Creek



Photo 7 Basalt covered hills of the Main Range Volcanics within EPC 1506

EXPERT GEOLOGIST'S REPORT continued

Clean Global Energy: In 2010, Clean Global Energy ("CGE") commissioned GeoConsult to undertake a drilling program comprising 8 drillholes (Table 4), 6 open holes and 2 twinned partially cored holes within EPC 1506 (Figure 12). These holes specifically targeted the Taroom Coal Measures of the lower Walloon Sub Group in the depth range 192m-318m. Two primary coal seam targets were identified, the Bulwer Seam and the Condamine Seam, with thicknesses typically ranging from 2m-3.5m. Other coal intervals were intersected above the Bulwer Seam.

Correlations of the Bullwer Seam Package was carried out across the drillholes prior to the completion of a resource model. GeoConsult carried out correlations across the deposit, based on the well-established units of the Walloon Coal Measures and based on four stratigraphic units: the Tangalooma Sandstone (**Photos 5 and 6**), Auburn Package, Bulwer Package and Condamine Package. Coal seam units were correlated using geophysical logs.

6.5.3 WATER

Up to 85 waterbores have been completed by previous operators within EPC 1506 and EPC 1539, however, the waterbores do not contain wireline density logs and drilling depths were generally less than 70m. Water bore information will be used when siting of further drill hole positions.

6.6 FUTURE EXPLORATION

The future exploration focus for the Maryvale project will be to increase the size and confidence level of the current resource/exploration target areas by a combination of diamond and open hole drilling.

The Year 1 exploration program will focus on the definition of resource in EPC 1506 and involve the use of a multi-purpose rig capable of chip drilling and coring, due to varying ground conditions in the area (including the presence of in excess of 40m of basalt at the surface). Pre-collar and overburden material would be drilled using hammer running on air prior to coring. Coring would commence a few metres above the expected coal depth and terminate at 0.5m-1.0m below the coal seam floor. Chip hammer drilling would resume until the next coal seam depth is due to be intersected.

The drilling method may switch to mud rotary or water injection if large volumes of water are intersected, in order to stabilise the hole whilst drilling. A non-hazardous polymer mud system may be applied to the drilling process to stabilise the holes for geophysical logging immediately upon completion of drilling. All drillholes would be fully grouted with cement to reduce any environmental risk.

A comprehensive risk assessment of the possible intersection of gas will be conducted prior to commencement of the program, and the outcomes will determine whether or not a blow-out preventer (BOP) is required.

The aim of the Year 1 drilling is to define coal resource to JORC 2012 status and obtain further coal quality data. A single hole will be drilled in EPC 1539 to determine the depth to the coal mineralisation, thickness.

If E04/1433,1436 and EPC 1539 are not renewed the funds will be used on an expanded eploration program for EPC1506. The program will involve further mud rotary chip hole and diamond core holes. If E04/1433,1436 and EPC1539 are renewed the exploration and budgets outlined at the start of the Expert Geologists report will remain in place.

 Table 5: Queensland Project - Historical Drilling

Hole ID	Easting (m)	Northing (m)	*RL (m)	Azimuth (degrees)	Dip (degrees)	Depth to Coal (m)	Coal Interval/ Package (m)	Total Depth (m)
CGE holes								
WK-02	410347	6893074	566.771	0	-90	187	3.67	270
WK-04	403796	6895279	515.931	0	-90	160	2.41	270
WK-04C	403796	6895279	521.161	0	-90	160	2.41	192
WK-06	409000	6893254	542.309	0	-90	140	3.38	306
WK-07	411272	6895000	590.945	0	-90	154	3.05	318
WK-08	404800	6897691	480.673	0	-90	126	3.25	270
WK-13	411272	6889922	475.477	0	-90	150	2.40	302
WK-13C	411272	6889922	475.283	0	-90	150	2.40	244
Historic AMA (Unknown Se	AX and Millmerr eams)	an drill holes						
WRO005	402500	6899100	485.056	0	-90	117.15	0-1	141
WRO006	405600	6899200	486.665	0	-90	-	-	44
WRO007	407650	6896800	522.723	0	-90	-	-	22
WRO008	404800	6892050	461.562	0	-90	96.2	1-2	116
WRD009	407000	6890200	464.254	0	-90	-	1-2	26.05
WRO010	409950	6890200	466.093	0	-90	37.4	1-2	106
WRO011	413500	6890900	483.226	0	-90	86.15	1-2	131
WRO012	417750	6895500	497.618	0	-90	64	1-2	116
WRO061	416400	6894800	481.126	0	-90	41.4	1-2	76
WRO062	414900	6895600	506.928	0	-90	69.6	2-3	81
WRO063	415300	6894900	489.121	0	-90	43.7	1-2	71
WRO064	414800	6893300	477.753	0	-90	-	-	26
WRO066	407100	6892400	481.618	0	-90	-	-	17
WRO067	406100	6892400	468.658	0	-90	51.45	1-2	76
WRO075	411200	6889700	477.242	0	-90	55.85	0-1	71
WRO098	412400	6890700	479.335	0	-90	40.2	0-1	61
WRO100	409200	6891100	470.366	0	-90	58	1-2	71
WRO112	412300	6897400	537.877	0	-90	-	-	6

^{*}RL taken from 50m topographic data

TECHNICAL TERMS

TECHNICAL TERMS	
ANTICLINE	A fold in rock strata with a convex upward shape.
AEOLIAN	The winds ability to shape the surface of the earth.
ASH	Particles of inorganic matrial such as silicon dioxide (SiO_2) and calcium oxide (CaO)within coal.
BASALT	Common extrusive igneous (volcanic) rock formed from the rapid cooling of basaltic lava.
BASIN	Aggregations of sediment that filled up a depression or accumulated in an areas.
BEDDING	The characteristic structure of sedimentary rocks with oldest at the bottom and youngest at the top.
BIFURCATED	To separate into two parts or branches.
BULLSEYE MAGNETIC SIGNATURE	A circular to near circular magnetic anomaly resulting from variations in the chemistry or magnetism of the rocks.
BUNDAMBA GROUP	Package of sedimentary rocks within the Clarence-Moreton and Surat Basins.
CANNING BASIN	The Canning Basin is a geological basin located in Western Australia.
CLARENCE-MORETON BASIN	Geolocial sedimentary basin in south east Queensland.
COAL	A brown or black sedimentary rock that forms from accumulated plant debris.
CONGLOMERATE	Rock consisting of individual clasts within a finer-grained matrix that have become cemented together.
CRETACEOUS	The Cretaceous is a geologic period and system from circa 145 \pm 4 to 66 million years ago (Mya)
CROSS-BEDDED	A sedimentary structure in which a horizontal rock unit is composed of inclined layers.
DACITIC VOLCANICS	It has an aphanitic to porphyritic texture and is intermediate in composition between andesite and rhyolite.
DIAMOND	The most popular gemstone and hardest natural material.
DIPOLE	An electric dipole is a separation of positive and negative charges.
DYKES	A subsurface igneous rock body that is tabular in shape and cuts across the bedding.
FITZTROY TROUGH	Sub basin within the Canning Basin on the northern margin.
FLUVIATILE	Processes associated with rivers and streams and the deposits and landforms created by them.
GAMMA LOG	A method of measuring naturally occurring gamma radiation to characterize the rock or sediment in a borehole or drill hole.
JUNDAH COAL MEASURES	Incorporates high volatile perhydrous, and bituminous rank coal, with high ash content.
JURASSIC	Geologic period and system that extends from 201 Mya (million years ago) to 145 Mya.
LACUSTRINE	Lacustrine means "of a lake" or "relating to a lake".
LAMPROITE	Lamproites are ultrapotassic mantle-derived volcanic and subvolcanic rocks.
LEUCITE	Leucite is a rock-forming mineral composed of potassium and aluminium tectosilicate K[AlSi ₂ O ₆]
LIGHTJACK FORMATION	Lower most unit of the Permian Liveringa Group.
LIVERINGA GROUP	A group of Permain sedimentary rocks comprising sandstone, siltstone and mudstone.
MAGMA	Molten rock material that occurs below Earth's surface. When it erupts onto the surface it is known as "lava".
MARBURG SUB GROUP	Sedimentary sub division of the Bundamba Group.
MIOCENE	First geological epoch of the Neogene period and extends from about 23.03 to 5.332 Mya.
MUDSTONE	A fine grained sedimentary rock whose original constituents were clays or muds.
NOONKANBAH FORMATION	Permian sedimentary formation comprising sandstone and siltstone.

EXPERT GEOLOGIST'S REPORT continued

OLIVINE	The mineral olivine is a magnesium iron silicate with the formula $(Mg^{+2}, Fe^{+2})_2SiO_4$.
P1-SEAM	Coal seam within the Lightjack Formation.
PEAT	Peat (turf) is an accumulation of partially decayed vegetation or organic matter.
PERMIAN	The Permian is a geologic period which extends from 299 to 251 Mya (Million years ago).
PETROGRAPHY	Study of the mineral content and the textural relationships within the rock are described in detail.
PHLOGOPITE	Phlogopite is a variety of mica with the chemical formula ${\rm KMg_3AlSi_3O_{10}(F,OH)_2}$.
REDOX FRONT	Redox fronts divide relativley oxidized from relativley reduced groudwater/rock.
REFLECTION SEISMOLOGY	Reflection seismology is a method of exploration geophysics that uses the principles of seismology to estimate the properties of the Earth's subsurface from reflected seismic waves.
RIPPLE MARK	Sedimentary structures (i.e. bedforms of the lower flow regime) and indicate agitation by water (current or waves) or wind.
SANDSTONE	Sandstone is a sedimentary rock composed mainly of sand-sized minerals or rock grains.
SEISMIC VIBRATOR	A seismic vibrator is a truck-mounted device that is capable of injecting low-frequency vibrations into the Earth.
SHALE	Shale is a fine-grained, clastic sedimentary rock composed of mud.
STONE BAND	Layers of sediment that separates individual coal seams.
SURAT BASIN	The Surat Basin is a geological basin in eastern Australia.
SYNCLINE	A fold with younger layers closer to the center of the structure.
TANGALOOMA SANDSTONE	Commonly appears as an upper and lower sandstone separated by a shale layer which often includes a coal seam.
TAROOM COAL MEASURES	Sub division of Walloon Sub Group comprising several coal seams and stone bands.
TECTONICS	The processes which control the structure and properties of the Earth's crust, and its evolution through time.
TRIASSIC	The Triassic is a geologic period that extends from about 250 to 200 Mya.
WALLOON SUB GROUP	Subdivision of the Injune Creek Group comprising coal seams separated by sandstone layers.
WOOGAROO GROUP	Subdivision of the Bundamba Group comprising sandstone and conglomerate.
X-RAY FLOURESCENCE	Emission of characteristic "secondary" (or fluorescent) X-rays from a material that has been excited by bombarding with high-energy X-rays or gamma rays.

BIBLIOGRAPHY

- 1. **Crowe. R,W,A.**, and Towner., 1981. SE 51-12 Noonkanbah 1:250,000 Explanatory Notes 2nd Edition Western Australian Geological Survey.
- 2. **Crowe**. **R,W,A**., **and Towner**., **1975**. Permian stratigraphic nomenclature Noonkanbah 1:250,000 map sheet Western Australian Geological Survey.
- 3. Derriman, M., 2010. 6th Combined Annual Technical Report, Exploration report for ASF Resources (unpublished).
- 4. **Derriman, M., 2009.** 5th Combined Annual Technical Report No. C90/2005 Ellendale South Project WA E04/1428, 1433, 1434, 1435, 1436, & 1512 for the period 01/03/2009., Exploration report for ASF Resources Pty Ltd (unpublished).
- 5. **Derriman, M. & Lee, T., 2008.** 4th combined annual technical report, s.l.: Exploration report for ASF Resources Pty Ltd (unpublished).
- 6. **Jaques, A. L., Lewis, J. D. & Smith, C. B., 1986.** The Kimberlites and Lamproites of Western Australia, Bulletin 132. Geological Survey of Western Australia.
- 7. **Mory. A. J., 2010.** A review of the Mid-Carboniferous to Triassic stratigraphy, Canning Basin, Western Australia, Geological Survey of Western Australia Report 107.
- 8. **Scott, S. et al., 2007**. Coal petrology and Coal Seam Gas Contents of the Walloon Subgroup- Surat Basin, Queensland, Australia. International Journal of Coal Geology, Volume 70 (1-3), pp. 209-222.
- 9. Skwarko. S.K., 1993. Paleontology of the Permian of Western Australia, Geological Survey of Western Australia, Bulletin 136.
- 10. Wells, A.T. and O'Brien, P.E., 1995. Geology and Petroleum Potential of the Clarence-Moreton Basin, New South Wales and Queensland. Scale 1:500000 Bulletin 241 Australian Geological Survey Organisation, Canberra.
- 11. Whitaker, W.G., Green. P.M., and Stephens. R.W., 1980. Moreton Geology Queensland and New South Wales, Geological Survey of Queensland.

Appendix 1 – Kaili Resources Limited Projects

Western Australian E04/1433 and E04/1436, Queensland EPC 1506 and EPC 1539

JORC Code, 2012 Edition – Table 1 Section 1 Sampling Techniques and Data

(Criteria in this section apply to all succeeding sections.)

(Criteria in this section	Criteria in this section apply to all succeeding sections.)			
Criteria	JORC Code explanation	E04	E04/1433 and E04/1436 Commentary	EPC 1506 and EPC 1539 Commentary
Sampling techniques	 Nature and quality of sampling (eg cut channels, random chips, or 	•	No coal sampling was carried out on any of the	Coal sampling included sampling of
	specific specialised industry standard measurement tools appropriate		drill holes – merely a visual estimate of the coal	the entire coal interval in addition to
	to the minerals under investigation, such as down hole gamma sondes,		intervals. Downhole gamma and density data	ply sampling of CGEs diamond core
	or handheld XRF instruments, etc). These examples should not be		was collected for all drill holes.	holes WK-04C and WK-13C and
	taken as limiting the broad meaning of sampling.	•	All geophysical tools were calibrated prior to	Millmerran's hole WRO009. All other
	 Include reference to measures taken to ensure sample representivity and 		the surveys.	holes were chip holes with no coal
	the appropriate calibration of any measurement tools or systems used.	•	Visual geological logging of the coal intervals	quality analyses.
	 Aspects of the determination of mineralisation that are Material to 		only, in the case of the Scarpia 1 drill hole a %	 All geophysical tools were calibrated
	the Public Report.		estimate was used.	prior to the surveys and ply sampling
	 In cases where 'industry standard' work has been done this would be 			was carried out to reduce the level of
	relatively simple (eg 'reverse circulation drilling was used to obtain 1 m			dilution of the sampled ply.
	samples from which 3 kg was pulverised to produce a 30 g charge for			 The coal thickness in WK-04C and
	fire assay'). In other cases more explanation may be required, such as			WK013C are material to this report
	where there is coarse gold that has inherent sampling problems. Unusual			as are the coal intervals within the
	commodities or mineralisation types (eg submarine nodules) may warrant			open chip holes where coal thickness
	disclosure of detailed information.			is uncertain.
				 The cored intervals of WK004C and
				013C were sampled as individual coal
				plies, the entire interval was wrapped
				in plastic and transported to GeoConsults'
				coal laboratory in Brisbane in a PVC
				tube for coal quality analysis.
Drilling techniques	 Drill type (eg core, reverse circulation, open-hole hammer, rotary 	•	Hole prefixed ARCMR and ED-13(Table 4 of the	All holes were completed using a
	air blast, auger, Bangka, sonic, etc) and details (eg core diameter,		Expert Geologists Report in Section 5) were	combination mud rotary and diamond
	triple or standard tube, depth of diamond tails, face-sampling bit		completed using the Mud Rotary drilling,	core drilling, The holes were all vertical
	or other type, whether core is oriented and if so, by what method, etc).		Scarpia 1 was completed using a petroleum	and as such not oriented. The cored
			drill rig using the Mud Rotary (MR) technique.	holes are HQ3, 61mm diameter
				diamond cores and cored for the
				entire length of the hole.

Criteria	JORC Code explanation	E04/1433 and E04/1436 Commentary	EPC 1506 and EPC 1539 Commentary
Drill sample recovery	 Method of recording and assessing core and chip sample recoveries and results assessed. Measures taken to maximise sample recovery and ensure representative nature of the samples. Whether a relationship exists between sample recovery and grade and whather cample hids may have occurred due to preferantial. 	ARCMR holes and ED15 (Table 4) were geologically logged at 1m intervals with the samples laid out in 1m piles for geological logging and photography. A small sub sample of each 1m interval was collected as a visual reference cample in a plastic chin tray with Edmy 20my.	The recovery associated with the core drilling was a visual estimate based on the know down hole interval against the "recovered" interval in the core tray. The chip sample recovery
	loss/gain of fine/coarse material.	As the drilling was MR chip drilling and intervals were logged every metre so intervals may contain coal and non-coal. Coal intervals were verified by down hole density and gamma geophysical logs.	against a possible maximum recovery for a 1 meter interval. Cored samples were removed directly from the tube to the core tray. Coal intervals were verified by down hole density and gamma geophysical logs. Sampling strategy of the Bulwer Seam through the study area has generally been lithologically based. Samples have been taken at a scale detailed enough to allow compositing into the correlated ply's. Working section proximate analysis composites were used to assess the resource.
Logging	 Whether core and chip samples have been geologically and geotechnically logged to a level of detail to support appropriate Mineral Resource estimation, mining studies and metallurgical studies. Whether logging is qualitative or quantitative in nature. Core (or costean, channel, etc) photography. The total length and percentage of the relevant intersections logged. 	Logging of the MR holes was completed in detail including rock type, weathering, grain size, texture, colour, alteration and mineralsiation. The logging of the ARCMR holes was undertaken using a Toshiba Toughbook Laptop and Coreview software. The geological logs were then downloaded in an Access database for storage and data manipulation.	The chip logging is not a level to support Mineral Resource Estimation merely as an indication of the presence of coal. The detailed ply sampling of the Bulwer seam package is appropriate for Mineral Resource Estimates. The geological core of WK-04C and 13C logging is both qualitative and quantitative with all core intervals submitted for coal quality analysis and photographed. All core was logged on a geological basis and the open holes were geologically logged on a one meter basis.

Criteria	JORC Code explanation	E04/1433 and E04/1436 Commentary	EPC 1506 and EPC 1539 Commentary
Sub-sampling	 If core, whether cut or sawn and whether quarter, half or all core taken. 	 No sub-sampling has been carried out. 	 The coal core intervals were
techniques and	 If non-core, whether riffled, tube sampled, rotary split, etc and whether 		submitted as 100% core samples.
samule nrenaration	sampled wet or dry.		 The samples were not split with
	 For all sample types, the nature, quality and appropriateness of the 		some samples wet and some dry.
	sample preparation technique.		 The coal intervals were wrapped in
	 Quality control procedures adopted for all sub-sampling stages to 		plastic, placed in PVC tubes and
	maximise representivity of samples.		transported to GeoConsult's Brisbane
	 Measures taken to ensure that the sampling is representative of 		laboratory.
	the in situ material collected, including for instance results for field		 The coal packages (Both Bulwer and
	duplicate/second-half sampling.		Condamine were logged in geological
	 Whether sample sizes are appropriate to the grain size of the material 		detail differentiation coal plies for
	being sampled.		sampling and stone bands (non coal).
			The coal plies of variable thickness
			were submitted for coal quality analysis
			thus reducing any possible dilution of
			the coal plies by the stone bands.
Quality of assay data	• The nature, quality and appropriateness of the assaying and laboratory	 Not Applicable 	 The whole analysis for raw ash(ad*),
and laboratory tests	procedures used and whether the technique is considered partial or total.		total sulphur(ad), inherent moisture(ad),
`	 For geophysical tools, spectrometers, handheld XRF instruments, etc, 		calorific value (kcal/kg), fixed carbon
	the parameters used in determining the analysis including instrument		and specific energy(Mj/kg**) ad-air
	make and model, reading times, calibrations factors applied and their		dried" and Megajoules/kg are
	derivation, etc.		appropriate for coal quality analysis.
	 Nature of quality control procedures adopted (eg standards, blanks, 		 All downhole geophysical tools were
	duplicates, external laboratory checks) and whether acceptable levels		calibrated on a hole by hole basis
	of accuracy (ie lack of bias) and precision have been established.		using industry standard calibration tools.
Verification of	 The verification of significant intersections by either independent or 	Not Applicable	 All coal intervals were verified by two
sampling and	alternative company personnel.		persons at GeoConsult, one being
assavina	 The use of twinned holes. 		the principal of the company
	 Documentation of primary data, data entry procedures, data verification, 		 The core holes WK-04C and 013C
	data storage (physical and electronic) protocols.		were twined holes of WK-04 and
	 Discuss any adjustment to assay data. 		WK-013

Criteria	Q	JORC Code explanation	E04/	E04/1433 and E04/1436 Commentary	EPC	EPC 1506 and EPC 1539 Commentary
Location of data points	• • •	Accuracy and quality of surveys used to locate drill holes (collar and down-hole surveys), trenches, mine workings and other locations used in Mineral Resource estimation. Specification of the grid system used. Quality and adequacy of topographic control.		Hand held GPS location of drill collars using a Garmin GPS System for the ARSMR drill holes. The grid system used for the ARCMR holes was GDA 94 Zone 51 (UTM) and AGD66 Zone 51 was used for ED-13 and Scarpia 1. Topographic control not used. There is a 50m height variation across the tenements.		Hand held GPS location of drill collars. The grid system used for the ARCMR holes was GDA 94 Zone 51 (UTM) and AGD66 Zone 51 was used for ED-13 and Scarpia 1. Topographic control not used. There is a 50m height variation across the tenements.
Data spacing and distribution	• •	Data spacing for reporting of Exploration Results. Whether the data spacing and distribution is sufficient to establish the degree of geological and grade continuity appropriate for the Mineral Resource and Ore Reserve estimation procedure(s) and classifications applied. Whether sample compositing has been applied.	•	Not Applicable	•	Drillhole spacing across EPC1506 is variable, typically between 2-6km. Two cored coal quality holes are associated with the Bulwer Seam. 23 drillholes with across the EPC contain BU30 Seam intersections form the basis of the Maryvale Area model. There has been no sample compositing.
Orientation of data in relation to geological structure	• •	Whether the orientation of sampling achieves unbiased sampling of possible structures and the extent to which this is known, considering the deposit type. If the relationship between the drilling orientation and the orientation of key mineralised structures is considered to have introduced a sampling bias, this should be assessed and reported if material.	•	Not Applicable	•	Not applicable as vertical holes intersected near vertical coal seams and no faulting has been interpreted.
Sample security	•	The measures taken to ensure sample security.	•	Not Applicable	•	GeoConsult supervised all drilling activities at the Maryvale Project, carried out the geological logging and sampling. GeoConsult personnel then transported the coal samples to the GeoConsult coal laboratory in Brisbane for coal quality analyses.
Audits or reviews	•	The results of any audits or reviews of sampling techniques and data.	•	Not Applicable	•	A successful audit of the coal sampling was conducted by the principal of GeoConsult.

Section 2 Reporting of Exploration Results

(Criteria listed in the preceding section also apply to this section.)

(בוונרווש ווסנרש ווו ניור איו	ו בנונבנות וואנבת זון נווב אוברבתוות אברנוסון מואס מאטון נס נווא אברנוסוו.)		
Criteria	JORC Code explanation	E04/1433 and E04/1436 Commentary	EPC 1506 and EPC 1539 Commentary
Mineral tenement and land tenure status	 Type, reference name/number, location and ownership including agreements or material issues with third parties such as joint ventures, partnerships, overriding royalties, native title interests, historical sites, wilderness or national park and environmental settings. The security of the tenure held at the time of reporting along with any known impediments to obtaining a licence to operate in the area. 	 E04/1433 and E04/1436 are held 100% by ASF Kaili Resource Pty Ltd and are located 150km from Derby in Western Australia. There is a native title claim over E04/1433 but not over E04/1436 however the WA heritage act applies to both tenements. The tenements are currently 100% secure and an application for renewal will be lodged in February 2015. The renewal process is managed by the Western Australian Department of Mine and Petroleum. 	EPC 1506 AND 1539 are held 100% by APEC COAL Pty Ltd and are located 30km north of Warwick in Queensland. There no native title claim as all tenure is freehold and as such native title is extinguished however the Queensland heritage act covers both tenements and heritage surveys may be required. The tenements are 100% secure and will be renewed as required.
Exploration done by other parties	 Acknowledgment and appraisal of exploration by other parties. 	 ASF Resources completed holes prefixed with ARCMR in 2009-2010. Esso Exploration completed hole ED-13 in 1975. Kufpec Australia Pty Ltd completed hole Scarpia 1 the 1970s. 	 WK-02,04,04C,06,07,08,13 and 13C were drilled be Clean Global Energy — the "C" indicates a cored hole. WRD009 was drilled by Milmerran Coal as a partially cored hole. WRO005-7,10-12,61-64,66-65,75,98, 100 and 112 were drilled as open hole with chips collected by AMAX.
Geology	 Deposit type, geological setting and style of mineralisation. 	Trough of the Canning Basin. Within the tenements the Permian Liveringa Group dominates with known coal mineralisation located in the Lightjack Formation at the base of the Liveringa Group. Near flat lying sub bituminous coal seams are the target in the Lightjack Formation.	• The tenements are situated in the Clarence Moreton Basin which is contemporaneous with the Surat Basin. Within the tenements the Walloon Sub Group hosts the known coal mineralisation within the Jundah and Taroom Coal Measures. Individual sub bituminous coal seams dip at shallow (< 7 degrees) from south to north across the tenements from near surface in the south to >300m towards the northern boundary.

Criteria	JORC Code explanation	E04/1433 and E04/1436 Commentary	EPC 1506 and EPC 1539 Commentary
Drill hole Information	 A summary of all information material to the understanding of the exploration results including a tabulation of the following information for all Material drill holes: o easting and northing of the drill hole collar o elevation or RL (Reduced Level – elevation above sea level in metres) of the drill hole collar o down hole length and interception depth o hole length. If the exclusion of this information is justified on the basis that the information is not Material and this exclusion does not detract from the understanding of the report, the Competent Person should clearly explain why this is the case. 	For drill hole information refer to Table 4 in Section 5 of the Expert Geologists Report in the prospectus.	 For drill hole information refer to Table 5 of the Expert Geologists Report in the prospectus. WK-02,04,04C,06,07,08,13 and 13C were drilled be Clean Global Energy – the "c" indicates a cored hole. WRD009 was drilled by Milmerran Coal as a partially cored hole. WRO005-7,10-12,61-64,66-65,75,98, 100 and 112 were drilled as open hole with chips collected.
Data aggregation methods	 In reporting Exploration Results, weighting averaging techniques, maximum and/or minimum grade truncations (eg cutting of high grades) and cut-off grades are usually Material and should be stated. Where aggregate intercepts incorporate short lengths of high grade results and longer lengths of low grade results, the procedure used for such aggregation should be stated and some typical examples of such aggregations should be shown in detail. The assumptions used for any reporting of metal equivalent values should be clearly stated. 	 Only visual methods were used to determine the percentage of coal in any interval as no single one metre interval was 100% coal. Not Applicable. Not applicable. 	Only visual methods were used to determine the percentage of coal in any interval as no single one metre interval was 100% coal. Not Applicable. Not applicable.
Relationship between mineralisation widths and intercept lengths	 These relationships are particularly important in the reporting of Exploration Results. If the geometry of the mineralisation with respect to the drill hole angle is known, its nature should be reported. If it is not known and only the down hole lengths are reported, there should be a clear statement to this effect (eg 'down hole length, true width not known'). 	 Not Applicable. The geometry is not known. The true widths are not known and visual estimates were used on chip samples. 	 The coal mineralisation dips at angles of <7 degrees from south to north. Down hole lengths of the two cored holes WK-04C and 13C are based on measured geological mapping of the coal plies and intersections determined by downhole geophysics.
Diagrams	Appropriate maps and sections (with scales) and tabulations of intercepts should be included for any significant discovery being reported These should include, but not be limited to a plan view of drill hole collar locations and appropriate sectional views.	A map showing drill collars is included as Figure 12 in Section 6 of the Expert Geologists Report in the prospectus.	A map showing drill collars is included as Figure 12 in Section 6 of the Expert Geologists Report in the prospectus.

Criteria	JORC Code explanation	E04/1433 and E04/1436 Commentary	EPC 1506 and EPC 1539 Commentary
Balanced reporting	 Where comprehensive reporting of all Exploration Results is not practicable, representative reporting of both low and high grades and/ or widths should be practiced to avoid misleading reporting of Exploration Results. 	No coal sampling was completed for coal quality and only a visual estimate of the coal intervals was completed during the geological logging.	Coal widths are shown in Tables 4 and 5.
Other substantive exploration data	 Other exploration data, if meaningful and material, should be reported including (but not limited to): geological observations; geophysical survey results; geochemical survey results; bulk samples – size and method of treatment; metallurgical test results; bulk density, groundwater, geotechnical and rock characteristics; potential deleterious or contaminating substances. 	 Re processing of historical surface seismic data was carried out to provide an indication of depth to the Lightjack Formation (See Figure 9 of the expert geologists report). Downhole geophysical logging (gamma/density) was completed for all drill holes In addition refer to Section 5 of the Expert Geologists Report. 	Downhole geophysical logging (gamma/density) was completed for all drill holes across EPC 1506 and this data will be used to assist in seam correlation across the tenements.
Further work	 The nature and scale of planned further work (eg tests for lateral extensions or depth extensions or large-scale step-out drilling). Diagrams clearly highlighting the areas of possible extensions, including the main geological interpretations and future drilling areas, provided this information is not commercially sensitive. 	MR drilling is planned to test for coal mineralisation based primarily on Figure 9 of Section 6 of the Expert Geologists Report where the Lightjack Formation is interpreted to be <200m below the ground surface.	• Mud rotary and diamond core drilling is planned to test for coal mineralisation in the central portion of EPC 1506 to the north east of the New England Highway, north west of the New England Highway and south of Dalrymple Creek – see Figure 12 of Section 6 of the Expert Geologists Report. The drilling will be no closer than 2.5km and will be infill drilling to the Clean Global Energy drilling of 2010.



Board of Directors Kaili Resources Limited Suite 2/3B Macquarie Street Sydney, NSW, 2000

5 February 2015

Level 17, 383 Kent Street Sydney NSW 2000

Correspondence to: Locked Bag Q800 QVB Post Office Sydney NSW 1230

T +61 2 8297 2400 F +61 2 9299 4445 E info.nsw@au.gt.com W www.grantthornton.com.au

Dear Directors.

INDEPENDENT LIMITED ASSURANCE REPORT ON THE HISTORICAL AND PRO FORMA HISTORICAL FINANCIAL INFORMATION AND FINANCIAL SERVICES GUIDE

Introduction

We have been engaged by Kaili Resources Limited ("Kaili, or the "Company") to report on the Historical Consolidated and Pro forma Historical Consolidated Financial Information of the Company for inclusion in the Prospectus (the "Prospectus") to be dated on or about 5 February 2015, relating to the issue of ordinary shares in the Company.

Expressions defined in the Prospectus have the same meaning in this report, unless otherwise specified.

Grant Thornton Corporate Finance Pty Ltd ("Grant Thornton Corporate Finance") holds an Australian Financial Services Licence (AFS Licence Number 247140). This report is both an Independent Limited Assurance Report, the scope of which is set out below, and a Financial Services Guide, as attached at **Appendix A**.

Scope

You have requested Grant Thornton Corporate Finance to review the following Historical Financial Information of the Company included in the Prospectus:-

Historical Financial Information

The Historical Financial Information, as set out in the Prospectus comprises:

- The historical consolidated statement of profit and loss and other comprehensive income for FY2012, FY2013 and FY2014;
- The historical consolidated statement of cash flows for FY2012, FY2013 and FY2014; and
- The historical consolidated statement of financial position as at 31 December 2014.

Grant Thornton Corporate Finance Pty Ltd ABN 59 003 265 987 ACN 003 265 987 a subsidiary or related entity of Grant Thornton Australia Ltd ABN 41 127 556 389

Holder of Australian Financial Services Licence No. 247140

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires. Grant Thornton Australia Ltd is a member firm of Grant Thornton International Ltd (GIIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not biligate one another and are not liable for one another? as cats or omissions. In the Australian context only the use of the term 'Grant Thornton' may refer to Grant Thornton Australia Limited ABN 41 127 556 389 and its Australian subsidiaries and related entities. GTIL is not an Australian related entity to Grant Thornton Australia Limited.

Liability limited by a scheme approved under Professional Standards Legislation. Liability is limited in those States where a current scheme applies.



Pro forma Financial Information

• The Pro forma historical consolidated statement of financial position as at 31 December 2014,

(Hereafter the "Historical Financial Information").

The Historical Financial Information has been extracted from the audited financial statements for FY2012, FY2013 and FY2014, which were audited by Moore Stephens Hong Kong (FY2012) and John Shute (FY2013 and FY2014) who issued unqualified audit opinions respectively.

The Pro forma Historical Consolidated Statement of Financial Position as at 31 December 2014 assumes completion of the proposed transactions outlined in **paragraph 5.1** of the "Financial Information" section which includes the Offer (the "Pro Forma Transactions") as though they had occurred on that date.

The stated basis of preparation is the recognition and measurements principles contained in the International Financial Reporting Standards ("IFRS") and Kaili's adopted accounting principles applied to the Historical Financial Information.

The Historical Financial Information is presented in an abbreviated form insofar as it does not include all of the presentation and disclosures required and other mandatory professional reporting requirements applicable to general purpose financial reports.

Directors' Responsibility

The Directors of Kaili are responsible for the preparation and presentation of the Historical Financial Information. The Directors are also responsible for the determination of the Pro Forma Transactions set out in **paragraph 5.1** of the "Financial Information" section and the basis of preparation of the Historical Financial Information.

This responsibility also includes compliance with applicable laws and regulations and for such internal controls as the directors determine necessary to enable the preparation of the Historical Financial Information that are free from material misstatement.

Our Responsibility

Our responsibility is to express a limited assurance conclusion on the Historical Financial Information based on the procedures performed and evidence we have obtained. We have conducted our engagement in accordance with the Standard on Assurance Engagements ASAE 3450: "Assurance Engagements involving Corporate Fundraisings and/ or Prospective Historical Financial Information", and ASAE 3420: "Assurance Engagements to Report on the Compilation of Pro Forma Historical Financial Information".

Our procedures consisted of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and review procedures applied to the accounting records in support of the Historical Financial Information.

These procedures are substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain reasonable assurance that we would become aware of all significant matters that might be identified in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion on the Historical Financial Information.

Our engagement did not involve updating or re issuing any previously issued audit reports on any Historical Financial Information used as a source of the Historical Financial Information.



Conclusion

Historical Financial Information

Based on our independent review, which is not an audit, nothing has come to our attention which causes us to believe that the Historical Financial Information of Kaili as described in the "Financial Information" section of the Prospectus does not present fairly:

- The historical consolidated statement of profit and loss and other comprehensive income for FY2012, FY2013 and FY2014;
- The historical consolidated statement of cash flows for FY2012, FY2013 and FY2014,
- The historical consolidated statement of financial position as at 31 December 2014;
- The pro forma historical consolidated statement of financial position as at 31 December 2014; and
- The Pro Forma Transactions set out in **paragraph 5.1** of the "Financial Information" section are a reasonable basis for the pro forma consolidated statement of financial position as at 31 December 2014;

in accordance with the measurement and recognition requirements (but not all of the presentation and disclosure requirements) of applicable Accounting Standards and other mandatory professional reporting requirements under the IFRS as if the Pro Forma Transactions set out in in **paragraph 5.1** of the "Financial Information" section had occurred at 31 December 2014.

Restriction on Use

Without modifying our conclusion, we draw attention to the "Financial Information" section, which describes the purpose of the Historical Financial Information, being for inclusion in the Prospectus. As a result, the Historical Financial Information may not be suitable for use for another purpose.

Consent

Grant Thornton Corporate Finance has consented to the inclusion of this Independent Limited Assurance Report in the Prospectus in the form and context in which it is included.

Liability

The liability of Grant Thornton Corporate Finance is limited to the inclusion of this report in the Prospectus. Grant Thornton Corporate Finance makes no representation regarding, and has no liability, for any other statements or other material in, or omissions from the Prospectus.

Independence or Disclosure of Interest

Grant Thornton Corporate Finance does not have any pecuniary interests that could reasonably be regarded as being capable of affecting its ability to give an unbiased conclusion in this matter. Grant Thornton Corporate Finance will receive a professional fee for the preparation of this Independent Limited Assurance Report.

Yours faithfully

GRANT THORNTON CORPORATE FINANCE PTY LTD

Neil Cooke

Partner

Andrew Archer

Partner - Audit & Assurance

1 Circler



Appendix A (Financial Services Guide)

Level 17, 383 Kent Street Sydney NSW 2000

Correspondence to: Locked Bag Q800 QVB Post Office Sydney NSW 1230

T +61 2 8297 2400 F +61 2 9299 4445 E info.nsw@au.gt.com W www.grantthornton.com.au

This Financial Services Guide is dated 5 February 2015.

About us

Grant Thornton Corporate Finance Pty Ltd (ABN 59 003 265 987, Australian Financial Services Licence no 247140) ("Grant Thornton Corporate Finance") has been engaged by Kaili Resources Limited ("the Company") to provide a report in the form of an Independent Limited Assurance Report for inclusion in a Prospectus dated on or about 5 February 2015 ("the Prospectus") relating to the offer of shares in the Company ("the Issue"). You have not engaged us directly but have been provided with a copy of the report as a retail client because of your connection to the matters set out in the report.

This Financial Services Guide

This Financial Services Guide ("FSG") is designed to assist retail clients in their use of any general financial product advice contained in the report. This FSG contains information about Grant Thornton Corporate Finance generally, the financial services we are licensed to provide, the remuneration we may receive in connection with the preparation of the report, and how complaints against us will be dealt with.

Financial services we are licensed to provide

Our Australian financial services licence allows us to provide a broad range of services, including providing financial product advice in relation to various financial products such as securities and superannuation products and to deal in a financial product by applying for, acquiring, varying or disposing of a financial product on behalf of another person in respect of securities and superannuation products.

General financial product advice

The report contains only general financial product advice. It was prepared without taking into account your personal objectives, financial situation or needs. You should consider your own objectives, financial situation and needs when assessing the suitability of the report to your situation. You may wish to obtain personal financial product advice from the holder of an Australian Financial Services Licence to assist you in this assessment.

Grant Thornton Corporate Finance Pty Ltd ABN 59 003 265 987 ACN 003 265 987 a subsidiary or related entity of Grant Thornton Australia Ltd ABN 41 127 556 389

Holder of Australian Financial Services Licence No. 247140

Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires. Grant Thornton Australia Ltd is a member firm is a separate legal entity. Services are delivered by the member firms or Grant Thornton international Ltd (GTIL), GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms, GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate one another and are not liable for one another's acts or omissions, in the Australian context only, the use of the term 'Grant Thornton' may refer to Grant Thornton Australial Limited.

Limited ABN 41 L27 556 389 and its Australian subsidiaries and related entities. GTIL is not an Australian related entity to Grant Thornton Australial Limited.

 $Liability\ limited\ by\ a\ scheme\ approved\ under\ Professional\ Standards\ Legislation.\ Liability\ is\ limited\ in\ those\ States\ where\ a\ current\ scheme\ applies\ the professional\ Standards\ Legislation\ and\ the professional\ Standards\ and\ the professiona$



Fees, commissions and other benefits we may receive

Grant Thornton Corporate Finance charges fees to produce reports, including this report. These fees are negotiated and agreed with the entity who engages Grant Thornton Corporate Finance to provide a report. Fees are charged on an hourly basis or as a fixed amount depending on the terms of the agreement with the person who engages us. In the preparation of this report our fees are charged on a fixed basis. Partners, Directors or employees of Grant Thornton Corporate Finance, Grant Thornton Australia Ltd, or other associated entities, may receive dividends, salary or wages from Grant Thornton Australia Ltd. The fees charged for the preparation of this report agreed by the Company amount to \$21,000 plus GST.

Associations with issuers of financial products

Grant Thornton Corporate Finance and its authorised representatives, employees and associates may from time to time have relationships with the issuers of financial products. For example, Grant Thornton Australia Ltd may be the auditor of, or provide financial services to the issuer of a financial product and Grant Thornton Corporate Finance may provide financial services to the issuer of a financial product in the ordinary course of its business.

Complaints

Grant Thornton Corporate Finance has an internal complaint handling mechanism and is a member of the Financial Ombudsman Service (membership no. 11800). All complaints must be in writing and addressed to the National Head of Corporate Finance at Grant Thornton Corporate Finance. We will endeavour to resolve all complaints within 30 days of receiving the complaint. If the complaint has not been satisfactorily dealt with, the complaint can be referred to the Financial Ombudsman Service who can be contacted at:

PO Box 579 – Collins Street West Melbourne, VIC 8007 Telephone: 1800 335 405

Grant Thornton Corporate Finance is only responsible for this report and FSG. Grant Thornton Corporate Finance will not respond in any way that might involve any provision of financial product advice to any retail investor.

Contact Details

Grant Thornton Corporate Finance can be contacted by sending a letter to the following address:

National Head of Corporate Finance Grant Thornton Corporate Finance Pty Ltd Level 17, 383 Kent Street Sydney, NSW, 2000

1 INTRODUCTION

The financial information for the Company contained in this Section includes.

Historical financial information for the Company comprising:

- summary statutory consolidated historical profit and loss and other comprehensive income for the 12 months ended 31 December 2012 ("FY2012"), 12 months ended 31 December 2013 ("FY2013"), and 12 months ended 31 December 2014 ("FY2014") ("Statutory Historical Profit and Loss");
- summary statutory consolidated historical cash flow statements for FY2012, FY2013, and FY2014 ("Statutory Historical Cash Flows"); and
- statutory consolidated historical balance sheet as at 31 December 2014 ("Statutory Historical Balance Sheet"),

and pro forma historical financial information for the Company comprising:

• the Pro forma historical consolidated statement of financial position as at 31 December 2014,

together the ("Historical Financial Information").

All amounts disclosed in this section are presented in Australian dollars, unless otherwise noted, and are rounded to the nearest \$'000.

2 BASIS OF PREPARATION OF THE FINANCIAL INFORMATION

2.1 Background

The Historical Financial Information included in this section has been prepared in accordance with the recognition and measurement principles of International Financial Reporting Standards ("IFRS"), issued by the International Accounting Standards Board ("IASB"). The Historical Financial Information is presented in an abbreviated form insofar as it does not include all the presentation, disclosures, statements or comparative information as required by Australian Accounting Standards applicable to annual financial reports prepared in accordance with the Corporations Act 2001. Significant accounting policies of the Company relevant to the Historical Financial Information are noted at the end of this section under the heading "Significant Accounting Policies".

Grant Thornton Corporate Finance Pty Limited has prepared an Independent Limited Assurance Report on the Historical Financial Information which is contained in this section of the prospectus. Investors should note the scope and limitations of the report.

2.2 Preparation of the Historical Financial Information

The Historical Financial Information is presented on a statutory basis only.

Statutory Historical Financial Information

The Statutory Historical Financial Information has been derived from the Company's audited consolidated financial statements for FY2012, FY2013 and FY2014.

The FY2012, FY2013 and FY2014 consolidated financial statements were audited by Moore Stephens (Hong Kong) (FY2012) and John Shute (FY2013 and FY2014), who issued unqualified audit opinions in respect of these periods.

No modified audit reports were issued for the Company in FY2012, FY2013 or FY2014.

Pro Forma Historical Financial Information

The Pro Forma Historical Financial Information has been derived from the Historical Financial Information described above and adjusted for the effects of the pro forma adjustments summarised below and detailed in paragraph 5.1 of this section. It has been prepared in a manner consistent with the recognition and measurement principles of IFRS, issued by the IASB, applied to the Statutory Historical Financial Information and the events or transactions to which the pro forma adjustments relate.

Paragraph 5.1 reconciles the Statutory Historical Balance Sheet to the Pro Forma Historical Balance.

Investors should note that historical results are not a guarantee of future performance.

Statutory Historical Profit and Loss

The table below presents the Statutory Historical Profit and Loss for FY2012, FY2013 and FY2014.

		Audited	
\$'000	FY2012	FY2013	FY2014
Administrative expenses	(185)	(263)	(637)
Impairment of goodwill	-	-	(58)
Write back of provisions	41	-	-
Exchange gain on a related party loan	-	459	-
EBITDA	(144)	196	(695)
Depreciation	-	-	-
EBIT	(144)	196	(695)
Net interest (expense)/revenue	-	(31)	3
NPBT	(144)	165	(692)
Income tax benefit/(expense)	-	-	-
NPAT	(144)	165	(692)

2.3 General factors affecting the operating results of the Company

Below is a discussion of the main factors which affected the Company's operations and relative financial performance in FY2012, FY2013, and FY2014 which the Company expects may continue to affect it in the future. The discussion of these general factors is intended to provide a summary only and does not detail all factors that affected the Company's historical operating and financial performance, nor everything which may affect the Company's operations and financial performance in the future. The information in this section should also be read in conjunction with the risk factors set out in the section "Investment Risks", and the other information contained in this Prospectus.

2.3.1 Expenses

The Company's costs have largely been compliance focussed due to the limited operations. Expenses have historically been comprised of administrative expenses.

No income tax expense or benefit has been recorded historically, as the Company has operated at a loss and there has been no expectation those tax losses will be recouped.

Total expenses increased to \$0.3 million in FY2013 compared with \$0.2 million in FY2012. The movement in expenses was a consequence of an increase in administration expense by \$78,000, which related to legal and professional fees.

In FY2013, an exchange gain (\$0.46 million) was realised from a loan repayment to a related party, Treasure Unicorn Ltd (the immediate holding company), and denominated in FX (HKD).

Total expenses increased to \$0.7 million in FY2014 compared with \$0.3 million in FY2013. The movement in expenses was due to:

- An increase in consultants costs of \$0.1 million which related to Offer costs being expensed;
- Directors fees of \$0.14 million;
- Non KMP employees of \$0.15 million; and
- An impairment of goodwill in FY2014 (\$58,000).

3 CONSOLIDATED CASH FLOW STATEMENTS

Statutory Historical Cash Flows

The table below presents the Statutory Historical Cash Flows for FY2012, FY2013, and FY2014.

	Audited			
\$'000	FY2012	FY2013	FY2014	
CASH FLOWS FROM OPERATING ACTIVITIES				
EBITDA	(144)	196	(695)	
Non cash adjustments:				
Share based payment	-	-	80	
Exchange gain from a related party loan	-	(459)	-	
Impairment of goodwill	-	-	58	
Changes in assets and liabilities:				
(Increase)/decrease in working capital	(43)	55	(123)	
Net cash outflow from operating activities	(187)	(208)	(680)	
CASH FLOWS FROM INVESTING ACTIVITIES				
Payments for tenements and exploration costs	-	(268)	(21)	
Net cash acquired from the acquisition of ASF Kaili Resource Pty Ltd	-	-	655	
Payment of goodwill on acquisition of APEC Coal Pty Ltd	-	(41)	-	
Net cash (outflow)/inflow from investing activities	-	(309)	634	
CASH FLOWS FROM FINANCING ACTIVITIES				
New shares issued	240	657	2,278	
Net interest (paid)/received	-	(31)	3	
Net proceeds/(repayments on) related party loans	27	-	(12)	
Net cash inflow from financing activities	267	626	2,269	
Net increase in cash held	80	109	2,223	
Cash and cash equivalents at the beginning of the period	-	80	177	
Effects of exchange rate changes on assets and liabilities	-	(12)	-	
Cash and cash equivalents at the end of the period	80	177	2,400	

4 MANAGEMENT DISCUSSION AND ANALYSIS OF THE HISTORICAL FINANCIAL INFORMATION

4.1 Non cash expenses

The non cash item in FY2013 relates to the exchange gain from the related party loan amounting to \$0.5 million. Non cash items in FY2014 relate to share based payments for corporate services (\$80,000), and the impairment to goodwill (\$41,000) relating to the goodwill on acquisition of APEC Coal Pty Limited in the prior year, and a further \$17,000 impairment of goodwill on the acquisition of ASF Kaili Resource Pty Ltd. The total impairment for this period amounted to \$58,000.

4.2 Operating cash flows

The Company has continued to incur corporate operating costs over the Historical Period, with no offsetting operational revenue, which has resulted in operating cash out flows.

4.3 Investing cash flows

Capital expenditure in FY2013 comprises payments for tenements and exploration costs of \$0.27 million and payment of goodwill on acquisition of APEC Coal Pty Ltd of \$41,000. Capital expenditure in FY2014 was minimal, relating to payments for tenements and exploration costs (\$21,000).

In FY2014, Kaili acquired ASF Kaili Resource Pty Ltd for a non cash share consideration of \$0.6 million, with an immediate impairment of this company's tenements being realised (after a fair value assessment was undertaken) amounting to \$17,000. Approximately \$0.66 million of cash was acquired.

4.4 Financing cash flows

The issue of \$0.7 million of new shares in FY2013 (compared with \$0.2 million in FY2012), resulted in significant cash inflows for the Company, with \$31,000 of interest being paid on related party loans.

Cash generated from the issue of shares amounted to \$2.3 million in FY2014, as a result of 2 private placements in the period.

5 CONSOLIDATED HISTORICAL BALANCE SHEETS

5.1 Statutory Historical and Pro Forma Historical Balance Sheets

The table below sets out the Statutory Historical Balance Sheet, the pro forma adjustments that have been made to the Statutory Historical Balance Sheet and the Pro Forma Historical Balance Sheet as at 31 December 2014.

The pro forma adjustments reflect the impact of the Offer as if they had occurred at 31 December 2014.

The Pro Forma Historical Balance Sheet is provided for illustrative purposes only and is not represented as being necessarily indicative of the Company's view of its future financial position.

Statutory Historical Balance Sheet, pro forma adjustments and Pro Forma Historical Balance Sheet as at 31 December 2014

Audited Statutory

		Audited Statutory		
\$'000 December year end	Notes	historical balance sheet	Impact of the Offer	Pro Forma historical balance sheet
ASSETS	140162	SHEET	impact of the Offer	Dalatice street
CURRENT ASSETS				
Cash and cash equivalents	1	2,400	1,209	3,609
Trade and other receivables		23	25	48
Other assets		28	-	28
TOTAL CURRENT ASSETS		2,451	1,234	3,685
NON CURRENT ASSETS				
Tenements		288	-	288
Deposit bond		5	-	5
TOTAL NON CURRENT ASSETS		293	-	293
TOTAL ASSETS		2,744	1,234	3,978
LIABILITIES				
CURRENT LIABILITIES				
Trade and other payables		46	-	46
TOTAL CURRENT LIABILITIES		46	-	46
TOTAL LIABILITIES		46	-	46
NET ASSETS		2,698	1,234	3,932
EQUITY				
Contributed equity	1	22,729	1,234	23,963
Reserves		6,194	-	6,194
Retained losses		(26,225)	-	(26,225)
TOTAL EQUITY		2,698	1,234	3,932

Notes:

The Company expects that it will have sufficient cash to fund its operational requirements and business needs following the Offer.

^{1.} Impact of the Offer: the Company intends to raise \$1.6 million in new equity, less Offer costs of \$0.5 million. Approximately \$0.4 million has been attributed to contributed equity. Approximately \$0.1 million of the costs were expensed in FY2014. An assessment of the GST recoverable has been undertaken, any GST unable to be recouped from the ATO has been capitalised into contributed equity.

Significant Accounting Policies

(a) Basis of preparation

The financial information is presented in Australian dollars and set out in the Prospectus and has 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.

(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 a subsidiary 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.

(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 entity.

(d) 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.

(e) Exploration and development expenditure

Exploration, evaluation and development expenditures incurred are capitalised in respect of each identifiable area of interest. These costs are only capitalised 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 capitalise costs in relation to that area of interest.

FINANCIAL INFORMATION continued

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 regulation 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 expectation 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.

(f) 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 utilisation.

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

(g) 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.

TENEMENTS TITLE REPORT

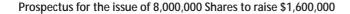
Our Ref: RCP.391449

Your Ref:

5 February 2015

Kaili Resources Limited Suite 1312, Level 13 87-89 Liverpool Street SYDNEY NSW 2000

Dear Sir



This report is prepared for inclusion in a prospectus for the proposed public offering of ordinary shares in the capital of Kaili Resources Limited (**Company**) at an issue price of \$0.20 for a maximum subscription of 8,000,000 shares to raise \$1,600,000. The prospectus for the proposed offering is to be dated on or about 5 February 2015 (**Prospectus**).

1. Scope

- 1.1 We have been requested to report on mining tenements E04/1433 and E04/1436 located in Western Australia in which a subsidiary of the Company, ASF Kaili Resource Pty Ltd, has an interest (WA Tenements). Details of the WA Tenements are set out in Part I of the attached Schedule, which forms part of this report.
- 1.2 We have also been requested to report on mining tenements EPC1506 and EPC1539 located in Queensland in which another subsidiary of the Company, APEC Coal Pty Ltd, has an interest (QLD Tenements). Details of the QLD Tenements are set out in Part I of the attached Schedule.
- 1.3 For the purposes of this report, the WA Tenements and the QLD Tenements will be collectively referred to as the Tenements.

2. Searches and Source Information

- 2.1 We have conducted searches and made enquiries in respect of the Tenements as follows:-
 - (a) We have obtained overlap analysis reports from the National Native Title Tribunal (NNTT) which involves searches of the Schedule of Applications, the Register of Native Title Claims, the National Native Title Register, the Register of Indigenous Land Use Agreements and the Notified Indigenous Land Use Agreements database maintained by the NNTT. The overlap analysis reports were obtained on 5 February 2015 for the Queensland Tenements and 3 February 2015 for the WA Tenements.
 - (b) We have obtained an extract of a native title determination that applies to part of the area of E04/1433. This material was obtained on 3 February 2015. Details of the native title determination are set out in Section 6.4 of this report.



Lawyers

Sydney • Melbourne Brisbane • Adelaide

ABN 42 843 327 183

Level 23 Governor Macquarie Tower 1 Farrer Place Sydney NSW 2000 Australia

DX 10216 Sydney Stock Exchange

t +61 2 9253 9999 f +61 2 9253 9900

www.piperalderman.com.au

Partner and Notary Public:

Robert Postema t+61 2 9253 3835 rpostema@piperalderman.com.au



- (c) We have obtained an extract of a registered Indigenous Land Use Agreement that applies to part of the area of E04/1433. This material was obtained on 3 February 2015.
- (d) We have conducted Mining Tenement Register Searches in respect of the WA Tenements through the Mineral Titles Online System of the Department of Mines and Petroleum in Western Australia. Reports from the register searches were issued pursuant to s 103F(4) of the *Mining Act 1978* (WA) (WA Mining Act) on 3 February 2015.
- (e) We have obtained Public Enquiry Reports in respect of the QLD Tenements through the Mines Online database maintained by the Department of Natural Resources and Mines in Queensland. Public Enquiry Reports, which provide an extract of current tenure information recorded on the register maintained by that Department under the *Mineral Resources Act 1989* (Qld) (QLD Mining Act), were issued on 3 February 2015.
- (f) We have reviewed an agreement relating to the WA Tenements provided to us by the Company and have summarised the material terms (details of which are set out in Part II of the attached Schedule) (Native Title and Heritage Agreement).
- (g) We conducted searches of the Koori Mail's online archives for native title notices relating to the proposed grants of the WA Tenements. These searches were conducted on 21 January 2015.
- 2.2 On the basis of the searches conducted and subject to the notations and qualifications in this report, we consider that this report (including the attached Schedule) provides an accurate statement as to the status and standing of the Tenements and the Company's interest therein as at 3 February 2015.

3. Overview

- 3.1 Subject to the qualifications and assumptions in this report, we consider the following to be material issues in relation to the Tenements:-
 - (a) (Holders of the Tenements and Third Party Interests): The current holder of the WA Tenements is ASF Kaili Resource Pty Ltd, a subsidiary of the Company. The current holder of the QLD Tenements is APEC Coal Pty Ltd, also a subsidiary of the Company. There are currently no third party interests affecting title to the Tenements.
 - (b) (Native Title WA Tenements): There is currently one determination of native title over the majority of land within the area of E04/1433, which determination expressly recognises E04/1433 as a right or interest in the determination area. The grant of any future mining lease over land within the area of the WA Tenements will need to comply with the future act regime in the *Native Title Act 1993* (Cth) (Native Title Act) in order to be valid if they will affect native title. In particular, the grant of a mining lease within that part of E04/1433 which is the subject of the determination of native title will need to be negotiated with the registered native title body corporate and either be consented to in a registered ILUA or be granted following compliance with the right to negotiate procedure outlined in Section 6.3 below. There is currently no determination of native title or native title claim over any part of E04/1436.



- (c) (Native Title QLD Tenements): There is currently no determination of native title or native title claim over any part of EPC 1506 or EPC 1539. EPC 1506 and EPC 1539 exclude any areas of land other than those in respect of which native title has been extinguished by specified previous exclusive possession acts, such as the grant of certain freehold estates and leasehold interests which confer a right of exclusive possession.
- (d) (Aboriginal heritage): There may be areas or objects of Aboriginal heritage located within the area of the Tenements. We recommend heritage surveys be conducted to determine if any Aboriginal areas or objects exist within the area of the Tenements. It may be necessary for the Company to enter into agreements with the traditional owners of the sites (or their representative) for the purposes of obtaining heritage surveys.
- (e) (Native Title and Heritage Agreement): We are instructed by the Company that the Native Title and Heritage Agreement has not been assigned to the holder of the WA Tenements. The Company proposes that the holder of the WA Tenements enter into a new agreement with the Kimberley Land Council and the Walalakoo Aboriginal Corporation RNTBC on similar terms and conditions as the Native Title and Heritage Agreement. If such an agreement is not entered into, an alternative agreement which provides for obtaining heritage surveys may be necessary (which agreement may be in the form of any standardised heritage agreement adopted by the Kimberley Land Council).

4. Tenements

4.1 WA Tenements

- (a) The WA Tenements are exploration licences granted under the WA Mining Act. Details of the exploration licences are set out in Part I of the attached Schedule.
- (b) The exploration licences entitle the holder to enter the relevant land for the purposes of exploration for minerals and to carry on such operations and work as necessary for that purpose.
- (c) An exploration licence is granted for a term of 5 years. The term may be extended for a further 5 years, followed by a further period (or periods) of 2 years. During the first year of the term of an exploration licence, the licence (or a legal or equitable interest in or affecting the licence) can not be transferred or otherwise dealt with without the prior written consent of the Minister.
- (d) While an exploration licence is still in force, the holder of the licence may apply for one or more mining leases (or one or more general purpose leases) in respect of any part or parts of the land the subject of the licence. Where granted, a mining lease remains in force for a period of 21 years and may subsequently be renewed for successive periods of 21 years.
- (e) The WA Tenements are granted subject to conditions prescribed by the WA Mining Act (including as to the payment of rent, minimum expenditure requirements, reporting obligations and mandatory relinquishment of blocks comprised in the area of the licence) as well as such terms and conditions as the Minister may determine. The WA Tenements are also subject to the requirements of certain other State and Commonwealth legislation, including Aboriginal heritage legislation, environmental protection legislation and rights in water legislation. These conditions are not detailed in the attached Schedule.



4.2 QLD Tenements

- (a) The QLD Tenements are exploration permits for coal granted under the QLD Mining Act. Details of the exploration permits are set out in Part I of the attached Schedule.
- (b) The exploration permits generally entitle the holder of the permit to enter land for the purpose of exploring for any mineral to which the exploration permit relates (in this case, coal).
- (c) An exploration permit is granted for an initial term not exceeding 5 years. An exploration permit may be renewed by the Minister for a term of not more than 5 years. A dealing with a mining tenement has no effect until it is registered and is generally subject to the approval of the Minister.
- (d) While an exploration permit is still in force, an application for a mining lease can be made in regard to those parts of land subject to the exploration permit. The initial term of a mining lease is the period of time which is approved by the Minister. The granting of or renewal of a mining lease may specify that the holder is not entitled to a mining lease renewal or further renewal.
- (e) The QLD Tenements are subject to conditions prescribed by the QLD Mining Act (including as to the payment of rent, reporting obligations and mandatory relinquishment of area of the licence) as well as such terms and conditions as the Minister may determine. The QLD Tenements are also subject to the requirements of certain other State and Commonwealth legislation, including Aboriginal heritage legislation and environmental protection legislation. These conditions are not detailed in the Schedule.

5. Aboriginal Heritage

- 5.1 This section of the report examines the effect of Aboriginal heritage legislation on the Tenements as there may be areas or objects of Aboriginal heritage located within the area of the Tenements.
- 5.2 We have not undertaken searches to ascertain if any Aboriginal sites or objects have been registered within the area of the Tenements. There is no obligation under the relevant legislation to register sites or objects and sites or objects are protected by the relevant State legislation regardless of whether they are registered.
- 5.3 To ensure the Company does not contravene the relevant Aboriginal heritage regime, we recommend the Company conduct heritage surveys to determine if any Aboriginal areas or objects exist within the area of the Tenements. It may be necessary for the Company to enter into agreements with the traditional owners of the sites (or their representative) for the purposes of obtaining heritage surveys (which agreements may be in the form of any standardised heritage agreement adopted by the relevant representatives of the traditional owners). We also recommend the Company undertake searches of the registers maintained under the relevant State and Commonwealth heritage legislation to determine whether there are any registered sites or objects within the areas of the Tenements. Any identified sites or objects would either need to be avoided by the Company when carrying out exploration activities, or alternatively, any interference with those sites or objects would need to be consistent with the provisions of the relevant heritage legislation.



5.4 Commonwealth legislation

The Aboriginal and Torres Strait Islander Heritage Protection Act 1984 (Cth) (Cth Heritage Act) preserves and protects from injury or desecration areas and objects of particular significance to Aboriginal people in accordance with Aboriginal tradition, by providing for the making of declarations in relation to significant Aboriginal areas or significant Aboriginal objects. The Cth Heritage Act makes it an offence to engage in conduct in contravention of a provision of a declaration made under the Act.

5.5 Western Australian Legislation

The WA Tenements are subject to an endorsement requiring the holder to comply with the requirements of the *Aboriginal Heritage Act 1972* (WA) (**WA Heritage Act**).

The WA Heritage Act makes it an offence to alter or damage sacred, ritual or ceremonial Aboriginal sites and areas of significance to Aboriginal persons.

Aboriginal sites may be registered under the WA Heritage Act. However, registration is not mandatory and sites are protected by the WA Heritage Act regardless of whether they are registered sites.

The Minister's consent is required where any use of land is likely to result in the excavation or other alteration of or damage to an Aboriginal site or any objects on or under that site.

5.6 *Queensland Legislation*

The *Aboriginal Cultural Heritage Act 2003* (Qld) (**QLD Heritage Act**) provides for the recognition, protection and conservation of Aboriginal cultural heritage.

The QLD Heritage Act imposes a general duty of care on persons to take all reasonable and practicable measures to ensure an activity does not harm Aboriginal cultural heritage.

The QLD Heritage Act creates an offence for a person to unlawfully harm Aboriginal cultural heritage. It also creates a specific offence involving unlawful excavation, relocation, taking away or unlawful possession of, Aboriginal cultural heritage and sets out the penalties for contravening the QLD Heritage Act.

The QLD Heritage Act sets out the circumstances in which a cultural heritage management plan is or may be required to be developed and approved for a project.

The QLD Heritage Act establishes a database whereby Aboriginal cultural heritage can be registered. However, there are no registration requirements and the QLD Heritage Act protects all Aboriginal cultural heritage in Queensland.

Authority to excavate, relocate or take away Aboriginal cultural heritage maybe granted under the QLD Heritage Act.



6. Native Title

6.1 This section of the report examines the effect of native title on the Tenements.

6.2 Overview of Native Title

Native title rights and interests exist where the rights and interests are possessed under the traditional laws currently acknowledged and the traditional customs currently observed by the relevant Indigenous people, those Indigenous people have a "connection" with the area in question by those traditional laws and customs and the rights and interests are recognised by the common law of Australia.

6.3 Application of the future act regime to the grant of mining tenements

The Native Title Act contains a regime, known as the "future act regime", which establishes ways in which future dealings affecting native title may proceed. The starting point is that an "act" (such as the grant of a mining tenement) which "affects" native title is invalid unless a provision of the Native Title Act provides otherwise. An act "affects" native title if it extinguishes the native title rights and interests or it is otherwise wholly or partly inconsistent with their continued existence, enjoyment or exercise. Part 2, Division 3 of the Native Title Act sets out the circumstances in which an act which affects native title (a "future act") is valid.

The grants of the Tenements were required to comply with the future act regime if those grants would have affected native title in the manner described above. Further, any future grant of a mining lease must also comply with the future act regime if the grant of the mining lease will affect native title.

The grant of a mining tenement consented to in an ILUA entered on the Register of Indigenous Land Use Agreements will be valid. An ILUA is an agreement which meets the requirements of the Native Title Act, including as to the persons who must be a party to the agreement.

An ILUA can set out conditions on which the grant of a mining tenement is consented to. If the grant would otherwise be subject to the "right to negotiate" procedure referred to below, the agreement must include a statement to the effect that the procedure it is not intended to apply. Once an ILUA is registered, it binds all persons holding native title in relation to any of the land or waters in the area covered by the agreement, whether or not they are a party to the agreement.

The grant of a mining tenement will also be valid if the "right to negotiate" procedure in the Native Title Act has been complied with. The right to negotiate procedure commences with the relevant State Government giving notice of the proposed grant. There are then a number of avenues the matter can take.

If four months after notice of the proposed grant there are no registered native title claimants or registered native title bodies corporate for the area (**native title parties**), the grant of the licence may validly proceed. If there are native parties, then the matter will follow either the expedited procedure or the normal negotiation procedure.

The expedited procedure is a simplified process which applies where the grant of the relevant mining tenement is unlikely to have a significant adverse impact on native title. The expedited procedure commences when a State Government includes in its notice of the proposed grant a statement that it considers the grant is an "act attracting the expedited procedure". A future act involving the grant of a mining tenement is an "act attracting the expedited procedure" if:



- (a) the grant is not likely to interfere directly with the carrying on of the community or social activities of the persons who are the holders of native title in relation to the land or waters concerned;
- (b) the grant is not likely to interfere with areas or sites of particular significance, in accordance with their traditions, to the persons who are the holders of the native title in relation to the land or waters concerned: and
- (c) the grant is not likely to involve major disturbance to any land or waters concerned or create rights whose exercise is likely to involve major disturbance to any land or waters concerned.

If no objection is made within four months after the giving of a notice that the act attracts the expedited procedure (or any such objection is withdrawn or there has been a subsequent determination that the act is an act attracting the expedited procedure) the grant of the tenement may be validly made.

Where the expedited procedure does not apply, the normal negotiation procedure must be followed. A period of good faith negotiation follows the giving of notice of the intended grant. Good faith negotiations are held between the Government party, the grantee of the tenement and the native title parties with a view to obtaining the agreement of the native title parties to the proposed grant. If there is no agreement after six months of good faith negotiations, any negotiation party can apply to an arbitral body (presently only the NNTT) for a determination about whether or not the grant can be made. The NNTT then determines whether or not the grant may be made (and, if so, any conditions of the grant). A determination of the NNTT can be overruled by the Commonwealth Attorney-General in certain limited circumstances. The grant of a mining tenement will be valid if at the end of the normal negotiation procedure, an agreement is reached to the granting of the tenement or a determination is made by the NNTT that the grant may be done.

Where the grant of a mining tenement is valid because of compliance with the right to negotiate procedure, the renewal or extension of that mining tenement will be valid under the Native Title Act even if it affects native title providing the area to which the earlier right relates is not extended, the term of the tenement is not longer than previously and no rights are created that were not created in connection with the original tenement. Where a mining tenement is granted in accordance with a consent given in a registered ILUA, the terms of the ILUA would also ordinarily consent to the renewal or extension of the tenement.

Where a mining tenement that is a future act is validly done, the Native Title Act provides the "non extinguishment principle" will apply to the grant. This means native title is not extinguished by the grant. However, if the grant is wholly inconsistent with the continued existence, enjoyment or exercise of the native title rights and interests, the native title continues to exist in its entirety but the rights and interests have no effect in relation to the grant. If the grant is partly inconsistent with the continued existence, enjoyment or exercise of the native title rights and interests, the native title continues to exist in its entirety, but the rights and interests have no effect in relation to the act to the extent of the inconsistency. Further, the Native Title Act makes it clear that a valid mining tenement, and any activity done under it, prevail over any native title rights and interests and their exercise.

Compensation may be payable under the Native Title Act to native title holders in respect of the effect the grant (or renewal or extension) of a mining tenement has on native title in circumstances where the native title holders would have been entitled to compensation if they instead held freehold title. However, the Native Title Act specifically provides that where compensation is provided under the terms of the ILUA, any entitlement to compensation is generally limited to that provided under the ILUA.



6.4 WA Tenements

There is a determination of native title over the majority of the land within the area of E04/1433 (Native Title Determination WAD6099/1998 Watson on behalf of the Nyikina Mangala People v State of Western Australia (No 6) (WCD2014/003)). There is also a registered ILUA over part of the area of E04/1433 however, that ILUA is not relevant to the grant of mining tenements. There are no native title determinations or native title claims over the small remaining portion of E04/1433. There are no native title determinations or native title claims over the land within the area of E04/1436.

To the extent the grant of the WA Tenements would have affected native title those grants were future acts which needed to comply with the future act regime in order to be valid under the Native Title Act.

Notices of the proposed grant of E04/1433 and E04/1436 were published in the Koori Mail on 22 October 2004 and 22 September 2004 respectively. We have assumed the Western Australian Government otherwise complied with the notification requirements of the Native Title Act set out in the right to negotiate procedure. In both notices, the Government included a statement that it considered the grant of the exploration licences was an act attracting the expedited procedure. As both licences were granted more than four months after the notices (which included a statement that the grants were acts attracting the expedited procedure) were given, we assume that either no objection was made to the inclusion of this statement in the notice (or any such objection was withdrawn) and that therefore the grant of the tenements were validly made. We note this assumption is supported by the Native Title and Heritage Agreement entered into prior to the grants being made. The Native Title and Heritage Agreement (summary details of which one set out in Part II of the attached Schedule) contains the agreement of the Kimberly Land Council (KLC) (on behalf of any native title claimants and holders) not to object to the expedited procedure and to withdraw any objections already lodged. Although the Native Title and Heritage Agreement has not been assigned to the Company's subsidiary which now holds the WA Tenements, at the time of the grant of E04/1433 and E04/1436, the original grantees of the WA Tenements were parties to the agreement.

Further, to the extent the area of E04/1433 is covered by the determination of native title referred to above, the terms of that determination expressly recognise E04/1433 as being a valid right and interest in the determination area and one which prevails over the determined native title (although does not extinguish it).

The grant of any future mining lease over land within the area of E04/1433 and E04/1436 will need to comply with the future act regime in the Native Title Act in order to be valid if they will affect native title. In particular, the grant of a mining lease within that part of E04/1433 which is the subject of the determination of native title will need to be negotiated with the registered native title body corporate and either be consented to in a registered ILUA or be granted following compliance with the right to negotiate procedure outlined above.

6.5 QLD Tenements

To the extent the grant of the QLD Tenements would have affected native title the grants were future acts which needed to comply with the future act regime in order to be valid under the Native Title Act.

The Public Enquiry Reports for EPC 1506 and EPC 1539 gives the tenure the native title category "Native Title Excluded". Those Reports then note that both EPC 1506 and EPC 1539 exclude all areas of land other



than those areas over which "previous exclusive possession acts" have been granted as defined under s 238 of the Native Title Act (unless that land is now held or currently set aside for the benefit of Aboriginals or Torres Strait Islanders or is unallocated State land and is occupied by Aboriginal People or Torres Strait Islanders) and validly dedicated roads (including stock routes and esplanades where dedicated as roads) that are previous exclusive possession acts. Previous exclusive possession acts include the grant on or before 23 December 1996 of certain valid or validated interests (such as particular freehold estates and leasehold interests that confer a right of exclusive possession). They also include the valid or validated construction or establishment of any public work that commenced to be constructed or established on or before 23 December 1996. The combined effect of the Native Title Act and the Queensland Native Title (Queensland) Act 1993 (Qld) is that previous exclusive possession acts in Queensland have extinguished native title.

The exclusions noted in the Reports for both EPC 1506 and EPC 1539 result in the QLD Tenements excluding any land in respect of which native title has not been extinguished. As native title has been extinguished over the areas of land included within QLD Tenements, the grants of the QLD Tenements did not affect any native title and therefore the grants did not need to comply with the future act regime in the Native Title Act in order to be valid.

7. Qualifications

While the status of the Tenements is dealt with in detail hereunder, we note that:-

- 7.1 We have assumed the accuracy and completeness of all searches, register extracts and other information or responses which were obtained from government departments or authorities, including the NNTT.
- 7.2 This report does not cover any third party interests, including encumbrances, in relation to the Tenements that are not apparent from our searches and the information provided to us.
- 7.3 We have assumed that any agreements provided to us in relation to the Tenements are authentic, complete, were within the powers and capacity of those who executed them, were duly authorised, executed, delivered and stamped and are binding on the parties to them.
- 7.4 With respect to the determination of native title and registered ILUA in relation to land within the area of E04/1433, we have relied on the extracts which we have received from the NNTT.
- 7.5 The holding of the Tenements and their standing is subject to compliance with their respective terms and conditions and the provisions of the applicable State mining legislation.
- 7.6 We have assumed the accuracy and completeness of any instructions or information which we have received from the Company or any of its officers, agents and representatives.
- 7.7 Where compliance with requirements necessary to maintain a Tenement in good standing is not disclosed on the face of the searches referred to in this report, we express no opinion on such compliance.
- 7.8 The information in this report and the Schedule is accurate as at the date the relevant searches were obtained. We cannot comment on whether any changes have occurred in respect of the Tenements between the date of the searches and the date of the Prospectus.



8. Consent

This report is given solely for the benefit of the Company and the directors of the Company in connection with the issue of the Prospectus and is not to be relied on or disclosed to any other person or used for any other purpose or quoted or referred to in any other public document or filed with any government body or other person (other than as part of the Prospectus) without our prior consent.

Piper Alderman has consented to the inclusion of this report in the Prospectus (including the electronic form of the Prospectus) in the form and context in which it is included and has not withdrawn that consent before the lodgement of the Prospectus with the Australian Securities and Investments Commission.

Yours faithfully

Piper Alderman

Per:

Robert Postema

Partner and Notary Public



Part I - Tenements

WA Tenements

TES		21
NOTES	11	7
NATIVE TITLE CLAIMS / DETERMINATIONS OF NATIVE TITLE / ILUAS	WCD2014/003 Native Title Determination Watson on behalf of the Nyikina Mangala People v State of Western Australia (No 6) WI2005/001 SDWK Nyikina Mangala ILUA (re consent to certain future acts by the Shire of Derby West Kimberley)	None
BONDS	None	None
ENCUM- BRANCES / DEALINGS	None	None
EXPENDITURE STATUS	Expended Year End 13/04/2014: Expended in Full Current Year (13/04/2015) Commitment: \$70,000.00	Expended Year End 26/04/2014: Expended in Full Current Year (26/04/2014) Commitment: \$70,000.00
ANNUAL RENT (NEXT RENTAL YEAR)	For Year End 13/04/2016 \$4,391.10	For Year End 26/04/2016 \$4,391.10
CURRENT AREA SIZE (SUB- BLOCKS)	9 Blocks	9 Blocks
EXPIRY	13/04/2015	26/04/2015
TERM	5 Years (Renewed)	5 Years (Extended)
GRANT	14/04/2005	27/04/2005
APPLICATION DATE	29/01/2004	10/02/2004
SHARES HELD %	100	100
CURRENT	ASF Kaili Resource Pty Ltd	ASF Kaili Resource Pty Ltd
TENEMENT CUF	E04/1433	E04/1436

NOTES:

- equirements and late lodgement of Form 5. The Mining Tenement Register Search also reveals that three of those penalties were imposed following the initiation of forfeiture processes. egulations made thereunder) and/or licence conditions, being non-compliance with the annual mineral exploration reporting provisions, non-compliance with the minimum expenditure The Mining Tenement Register Search for E04/1433 contains details of six penalties imposed on the holder of the exploration licence for various breaches of the WA Mining Act (and he Mining Tenement Register Search lists each forfeiture process as being finalised and each penalty as being paid or finalised.
- The Mining Tenement Register Search also reveals that three of those penalties were imposed following the initiation of forfeiture processes. The Mining Tenement Register Search egulations made thereunder) and/or licence conditions, being non-compliance with the minimum expenditure requirements, late lodgement of Form 5 and non-compliance with rent he Mining Tenement Register Search for E04/1436 contains details of four penalties imposed on the holder of the exploration licence for various breaches of the WA Mining Act (and ists each forfeiture process as being finalised and each penalty as being paid or finalised.

2

Queensland Tenements

NOTES	\vdash	2
NATIVE TITLE CLAIMS / DETERMINATIONS OF NATIVE TITLE / ILUAS	None	None
ENCUMBRANCES / DEALINGS	None current	None current
ANNUAL	\$12,095.10	\$1,223.10
CURRENT AREA SIZE (SUB- BLOCKS)	89 Sub- blocks	9 Sub-blocks
EXPIRY	12/05/2017	05/08/2015
TERM	4 Years (Renewed)	2 Years (Renewed)
GRANT	13/05/2009	06/08/2009
APPLICATION DATE	16/07/2008	01/08/2008
SHARES HELD %	100	100
TENEMENT CURRENT SHARES HOLDER HELD %	APEC Coal Pty Ltd	APEC Coal
TENEMENT	EPC 1506	EPC 1539

NOTES:

the Public Enquiry Report for EPC 1506 notes the following land excluded from the area of the exploration permit:

"Exclusions

Sterile Land NP933

This Permit is exclusive of other than the following:

been granted and is now held or currently set aside for the benefit of Aboriginals or Torres Strait Islanders or unallocated State land, and is occupied by Aboriginal People or Torres Strait 1. Land over which previous exclusive possession acts have been granted as defined under s.23B of the Native Title Act 1993 (Cth). (Land where previous exclusive possession acts have Islanders, is not included).

2. All validly dedicated roads (including stock routes and esplanades where dedicated as roads) that are previous exclusive possession acts.

Railway land containing current or past constructed railways and/or associated infrastructure that are previous exclusive possession acts."

The Public Enquiry Report for EPC 1539 notes the following land excluded from the area of the exploration permit:

"Exclusions

2

This Permit is exclusive of other than the following:

been granted and is now held or currently set aside for the benefit of Aboriginals or Torres Strait Islanders or unallocated State land, and is occupied by Aboriginal People or Torres Strait 1. Land over which previous exclusive possession acts have been granted as defined under s. 23B of the Native Title Act 1993 (Cth). (Land where previous exclusive possession acts have Islanders, is not included).

2. All validly dedicated roads (including stock routes and esplanades where dedicated as roads) that are previous exclusive possession acts.

Part II - Native Title and Heritage Agreement

- 1. A native title and heritage protection agreement (**Native Title and Heritage Agreement**) was entered into on 11 February 2005 between Kimberley Land Council Aboriginal Corporation (**KLC**) (for an on behalf of the Nyikina and Mangala Traditional Owners) and Australian Diamond Resources Pty Ltd (the original grantee of the E04/1436) and OzWest Holdings Pty Ltd (the original grantee of E04/1433) (collectively the **Explorer**). The Native Title and Heritage Agreement arose from the Explorer's application for certain tenements in Western Australia, including E04/1433, E04/1435 and E04/1436 (**Exploration Tenements**).
- 2. The stated intention of the parties was that the agreement would only apply to that area of each Tenement as shall fall within the Nyikina and Mangala Lands as shown on the plan annexed as Attachment 1. The executed copy of the Native Title and Heritage Agreement provided to us by the Company contains no plan annexed at Attachment 1.
- 3. The Native Title and Heritage Agreement contain the agreement of the KLC on behalf of the Traditional Owners:
 - 3.1 to the Explorer carrying out exploration on Nyikina and Mangala Lands;
 - 3.2 to the grant of current and future applications by the Explorer for Tenements (which are defined as certain Tenements necessary or desirable for the carrying out of Exploration); and
 - 3.3 not to object under the expedited procedure in section 32 of the Native Title Act or under the Mining Act to the grant of any tenement and, if objections are or have already been lodged, to immediately withdraw those objections.
- 4. The Native Title and Heritage Agreement also contains:
 - 4.1 a process for certain Future (exploration) Tenements granted to the Explorer to be deemed to be the subject of the Agreement;
 - 4.2 a process for heritage impact assessments and work clearance surveys to be carried out prior to on-ground exploration activities (including the making of payments by the Explorer in relation to those assessments and surveys);
 - 4.3 the imposition of various obligations on the Explorer, including:
 - (a) to use best endeavours during the course of its exploration on the Exploration Tenement to provide employment and economic opportunities to the Traditional Owners;
 - (b) to minimise the social and environmental impact of its activities; and
 - (c) to provide community benefits to the Traditional Owners, being:
 - (1) with respect of the first year of the grant of the Exploration Tenement, the Explorer shall deposit with the KLC on trust for the Traditional Owners, an amount calculated as 5 percent of the Minimum Annual Expenditure Commitment relating to the 12 months immediately proceeding the Grant Date;
 - (2) on or before each anniversary of the Grant Date the Explorer shall deposit with the KLC on trust for the Traditional Owners, an amount calculated as 5 percent of the Minimum Annual Expenditure Commitment relating to the 12 months immediately proceeding the relevant anniversary.
 - 4.4 In so far as the agreement provides for the payment of community benefits, it contains provisions for the calculation of the amounts payable. If the area is the subject of more than one Native Title Claim or only in part subject to a Native Title Claim the amount payable will be a pro rata amount based on the proportion of the Exploration Tenement which is the subject of the Claim or Claims if more than one. If more than one Exploration Licence is the subject of the Agreement, the payments are to be made in respect of each of the Exploration Licences.
 - 4.5 The benefits and consideration provided under the Native Title and Heritage Agreement shall not be taken into account or in any way prejudice further negotiations with Traditional Owners for the comprehensive mining agreement that is to be negotiated on the application of the Explorer for a mining lease or other productive tenement (which the Native Title and Heritage Agreement obliges the Explorer to enter into negotiations for). Further, the Native Title and Heritage Agreement provides an acknowledgment that the agreement is not intended to affect any rights of the Traditional Owners to seek compensation under the Native Title Act in relation to the grant of the Exploration Tenement. It follows a claim may be made for compensation for the effect of the grant on native title notwithstanding the provision of community benefits under the Native Title and Heritage Agreement.

TENEMENTS TITLE REPORT continued

- 4.6 The Native Title and Heritage Agreement prohibits the Explorer from assigning, selling or transferring all or any part of its interest in the Tenements, unless the Explorer first ensures the assignee, purchaser, transferee or joint venturer enters into a Deed covenanting to be bound by, and be entitled to, all the provisions of the Agreement. We are instructed by the Company that when the WA Tenements were transferred to ASF Kaili Resource Pty Ltd, a deed of this kind was negotiated and settled, but not executed. Further, it is not now possible for a deed of this kind to be entered into because one of the Explorer parties, Australian Diamond Resources Pty Ltd, has been de-registered.
- 4.7 We are instructed by the Company that it proposes the holder of the WA Tenements enter into a new agreement with the Kimberley Land Council and the Walalakoo Aboriginal Corporation RNTBC on similar terms and conditions as the Native Title and Heritage Agreement. If such an agreement is not entered into, an alternative agreement which provides for obtaining heritage surveys may be necessary (which agreement may be in the form of any standardised heritage agreement adopted by the Kimberley Land Council).

INVESTMENT RISKS

The investment detailed in this Prospectus may not be suitable for all its recipients. Potential investors should consider carefully whether an investment in the Company is suitable for them in the light of their personal circumstances and the financial resources available to them.

The Company's business is early-stage coal and mineral exploration. Any profitability in the future from the Company's business will be dependent upon the successful exploration, development, production and marketing of coal and minerals from the Company's Tenements

The Shares being offered under this Prospectus are considered speculative due to the present stage of establishment of the Company and the significant risks inherent in the coal and minerals exploration business. This Prospectus carries no guarantee with respect to the payment of dividends, return of capital or price at which the Shares will trade. Applicants should read this Prospectus in its entirety before deciding whether or not to apply for Shares.

Prospective investors should be aware that the market price of Shares following official quotation may be influenced by many unpredictable factors and that subscribing for Shares involves various risks. 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 value of the Company's securities on ASX may rise and fall depending on factors beyond the control of the Company.

The risk factors detailed below should be considered by Applicants when evaluating whether or not to subscribe for Shares. This is not an exhaustive statement of potential risk factors applicable to the Company.

COMPANY SPECIFIC RISK FACTORS

Exploration

The business of exploration for coal and minerals is a speculative endeavour, and involves a high degree of risk. Further, to prosper, the Company depends on successful acquisition and retention of appropriate exploration and mining licences, successful exploration, and the establishment of coal and mineral resources and reserves; design, construction and operation of efficient production infrastructure (having regard to approvals); managerial performance and effective marketing of coal and mineral. Exploration operations can be hampered by force majeure circumstances, and cost overruns resulting from unforeseen events, including unexpected variations in location and grade of the coal and mineral resource and plant malfunction. The Company will seek to employ appropriately qualified and experienced professionals to carry out the operations.

There is no assurance that expenditures made on future exploration and/or development activities by the Company will result in discoveries of coal and minerals that can be commercially or economically exploited. The costs of exploration can exceed planned expenditure due to the inherent uncertainties of drilling in unknown geological formations.

The Company will be dependent on being able to employ and retain appropriately qualified and experienced professionals to carry out its planned operations. Coal and minerals exploration and development activities are dependent on the availability of skilled personnel, drilling and related equipment in the particular areas where such activities will be conducted. Demand for such personnel or equipment, access restrictions, or native title or heritage issues, may affect the availability of such equipment to the Company and may delay planned exploration and development activities.

Delays in planned exploration and development activities (which can arise as a result of a number of factors including inability to obtain necessary approvals, access rights, heritage clearances or unavailability of necessary resources) can affect the Company's ability to meet work programs agreed or required under the exploration and mining licences. This in turn can impact on the ability of the Company to maintain the good standing of or to renew the exploration and mining licences. In that case, the good standing of or renewal of the relevant licence may be dependent on the ability of the licence holder to negotiate changes to the work programme with the Government.

Funds Requirement

The Directors expect that the proceeds from this Offer together with existing cash at bank at the date of this Prospectus will provide sufficient funds to enable the Company to achieve its current business objectives as described in the section headed "Business Overview". However, if unforseen events occur in the Company's operations resulting in significant increases in costs, there can be no assurance that those objectives can be met without further financing, or if further financing is necessary, that it can be obtained on favourable terms or at all.

If coal and mineral resources are proven, their subsequent development will be dependent on the Company being able to generate sufficient cash flows from operations or obtain additional financing through equity capital raising, project financing and/or other forms of financing. There can be no assurance such additional financing will be available on favourable terms, or at all. Future equity raisings may have a dilutive effect on Shareholders' shareholdings.

Volatility of Prices of Coal and Minerals

The demand for, and price of, coal and minerals is highly dependent on a variety of factors including: international supply and demand; the level of global and domestic consumer product demand; actions taken by governments; and, global economic and political developments. Coal and minerals prices fluctuate and at times the fluctuations can be quite wide (which may significantly change the economic viability of the Company's projects).

Royalties, Licence Renewals and Commitments

Under the relevant State laws, mining and exploration licences and certain other contractual agreements to which the Company is or may in the future become a party, the Company is or may become subject to payment and other obligations. In particular, licence holders are required to expend the funds necessary to meet the minimum work commitments attaching to the exploration licences and once minerals are recovered, pay a royalty to the government at a prescribed rate (which is subject to change). Failure to meet work commitments may render the licence area liable to be cancelled or not renewed. In particular, 3 of the Tenements are schedule to expire in 2015 (E04/1433 on 13 April 2015, E04/1436 on 26 April 2015 and EPC 1539 on 6 August 2015). In the event that the Company is not able to satisfy its work commitments by the scheduled expiry dates for each of those Tenements, then the Company's ability to secure renewal of those Tenements will be adversely impacted.

Land Access and Native Title

Immediate and continuing access to all areas within the Tenements cannot in all cases be guaranteed. The Company is required to obtain the consent of owners and occupiers of land within the Tenements to carry out its planned activities on such land or otherwise pass through such land. The Company has not yet obtained all land access consents necessary to undertake its exploration program, but expects to have all such consents in place in time to allow if to complete its planned Year 1 exploration program before the expiration of E0/1433, E04/1436 and EPC 1539 (as applicable). If the Company is not able to obtain the necessary land access consents, it may not be able to complete its planned exploration program in time to satisfy its work commitments and further adversely impact the Company's prospects of securing renewal of E04/1433, E04/1436 and EPC 1539 (as applicable). Compensation may be required to be paid to the owners and occupiers of land in order for exploration and development activities to be carried out.

Native title and Aboriginal land rights may also affect the Company's ability to gain access to and otherwise develop prospective parts of the Tenements. The Company intends to enter into an indigenous land use agreement with respect to E04/1433, and may need to enter into an indigenous land use agreement with respect to the other Tenements. It may also be required to settle native title claims lodged over any of the Tenements. As at the date of this Prospectus, one has been lodged over E04/1433. Depending on the circumstances, compensation may be payable by the Company under an indigenous land use agreement and under any settled native title claim.

The Company will further need to undertake heritage impact surveys of its Tenements before undertaking any exploration activity on its Tenements which is likely to alter or damage an Aboriginal site. Any delay in undertaking such heritage surveys, or failure to take proper account of the result of such heritage surveys, could result in a failure by the Company to complete its planned exploration program in time to satisfy its work commitments and further adversely impact the Company's prospects of securing renewal of E04/1433, E04/1436 and EPC 1539 (as applicable).

Personnel

The success of the Company and its capacity to continue operations is dependent upon its ability to retain the services of key officers, consultants and contractors and generally to recruit personnel, who are adequately qualified and experienced. The Company's ability to retain such key personnel is not assured and the loss of their services to the Company may have a material adverse effect on the performance of the Company.

Dividends

The future payment of dividends on the Shares will be dependent upon the need for the Company to finance future growth, its financial condition and other factors which the Directors may consider appropriate in the circumstances. The Company has not paid any dividends since its change of nature of activities and it is not anticipated that dividends will be paid in the immediate or foreseeable future.

Risks Arising from the Company's Jurisdiction of Incorporation and Registration

As a company incorporated in Bermuda, the Company is subject to the Bermuda Companies Act and is not subject to many provisions of the Corporations Act. It is important to note that there are significant differences between Australian company law and Bermuda company law including in relation to share capital, membership, payment of dividends and distributions, and protection of minority shareholders.

The Bermuda Companies Act does not provide the same level of shareholder rights and protection that a shareholder of an Australian incorporated company may be accorded. In particular, no takeover protection is provided by the Bermuda Companies Act. Where a person seeks to obtain control of the Company by acquiring Shares, under Bermuda law, Shareholders may not be granted a reasonable opportunity to participate in the benefits of any successful takeover or receive any compensation in the form of a "control premium" which would ordinarily be paid by a person obtaining control of an Australian incorporated company.

In addition, as a result of being incorporated in Bermuda, it may be more difficult for investors to enforce judgements obtained in the courts of Australia against the Company.

COAL AND MINERALS INDUSTRY

Climatic

Adverse climatic conditions in the Company's operations areas may prevent access to those areas and delay or otherwise not allow the Company's exploration and development activities to be carried out in a timely manner, ultimately resulting in the costs of such exploration and development activities increasing.

Environmental Regulations

The Company's operations will be subject to the environmental risks inherent in the coal and minerals industry. The Company is subject to environmental laws and regulations in connection with all its operations. The Company will use its best endeavours to comply, in all material respects, with all applicable environmental laws and regulations. Nevertheless, there are certain risks inherent to its activities that could subject the Company to extensive liability. However, there can be no assurance 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 operations.

Further, the Company may require approval from the relevant 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.

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.

Health and Safety

The Company's operations will expose its personnel and contractors to health and safety risks inherent in coal and mineral exploration and development. The Company will be subject to health and safety laws and regulations in connection with all its operations. The Company will put in place a health and safety policy that complies in all material respects with applicable laws and regulations for adoption by all personnel and contractors for operations that are under its control. The Company will also be relying on third party operators and the contractors to have in place a health and safety policy that complies in all material respects with applicable laws and regulations. However, there are certain risks inherent in the Company's activities that could subject the Company to extensive liability. There can be no assurance that new health and safety laws, regulations or stricter enforcement policies, once implemented, will not oblige the Company to incur significant expense and undertake significant investments in that respect which could have a material adverse effect on the Company's business, financial conditions and results of operations.

GENERAL RISK FACTORS

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. Accordingly, the future profitability and Share prices may be affected by these factors. These factors are beyond the control of the Company.

Share Market and Liquidity Risk

The Shares are to be quoted on the ASX and investors will be able to offer their Shares for sale freely on that market. However, there is no assurance of the price at which listed Shares will trade or that there will be any buyers at all. Applicants should therefore be prepared to hold their Shares for extended periods pending the development of the Company and potential opportunities emerging in the future. The market price of Shares may be subject to general movements in local and international stock exchanges. economic conditions, price of gold, currency fluctuations and interest rates. The Shares may trade at a price above or below the Offer price depending on a range of factors including the performance of the securities market generally, the performance of the coal and minerals sector of the market, national and international economic performance, market perceptions of the Company, the degree of success in the Company's exploration and development endeavours and the financial performance of the Company.

SUMMARY OF MATERIAL CONTRACTS

Global Security Environment

Outbreak of hostilities or a material escalation of hostilities including a declaration of war or terrorist acts perpetrated in any major countries in the world or any diplomatic, military, commercial or political establishment of any major countries anywhere in the world may affect the global economic and commercial environment and in turn affect the Company's future revenues and operating costs, Share prices, and the ability of the Company to raise any needed additional equity funding or debt.

Competition

The Company competes with other companies, including major mineral companies. Some of these companies have greater financial and other resources than the Company and, as a result, may be in a better position to compete for future business opportunities and services from contractors. There can be no assurance that the Company can compete effectively with these companies.

Managing Growth

To achieve the objectives set out in this Prospectus, the Company will be required to implement operational and financial systems, procedures and controls, and develop, expand, retain, manage and, where appropriate, train its staff. No assurance can be given of the Company's ability to manage its future growth. However, the Company will seek to engage appropriately qualified and experienced operators, consultants and contractors to manage growth as appropriate and will rely on consultants and advisers where appropriate.

Negotiation with Third Parties

Various aspects of the Company's future performance and profitability are dependent on the outcome of future negotiations with third parties. These include negotiations on land access arrangements, funding, outsourced operations and services, operatorship of the licences, any Native Title issues referred to elsewhere in this Prospectus, licence renewals and work obligations owed to government, and financial security for rehabilitation of areas of operation within the Tenement areas. The Company cannot guarantee that it will be able to negotiate satisfactory outcomes with these or other third parties.

In the opinion of the Directors, the material contracts, in the context of the Offer, that have been entered into by the Company is summarised below:

ACQUISITIONS OF SUBSIDIARIES AND MINERAL TENEMENTS

On 28 February 2013, the Company entered into a Share Sale Agreement with Profit Achieve Holdings Limited, an unrelated entity, to acquire all the issued shares of APEC Coal Pty Ltd, which is the holder of exploration permits EPC 1506 and EPC 1539 in Oueensland, for a cash consideration of \$300,000.

On 11 April 2014, the Company entered into a Share Sale and Purchase Agreement with ASF Group Limited and Kaili Holdings Limited ("Vendors") to acquire all the issued shares of ASF Kaili Resource Pty Ltd, which is the holder of exploration licences E04/1433 and E04/1436 in Western Australia, for a consideration of \$605,000 that was satisfied by the issue and allotment by the Company of 2,200,000 and 8,800,000 fully paid ordinary shares at a deemed issue price of \$0.055 per share to ASF Group Limited and Kaili Holdings Limited respectively.

At the time of the transaction on 11 April 2014, Mr Jianzhong Yang, who was later appointed a director of the Company on 21 April 2014, controlled Kaili Holdings Limited and was a substantial shareholder of the Company. The 8,800,000 Shares issued to Kaili Holdings Limited in consideration for the shares in ASF Kaili Resource Pty Ltd are subject to escrow.

EMPLOYMENT CONTRACTS

ASF Kaili Resource Pty Ltd has executed three employment contracts with the following persons and on the following terms:

- (1) Chairman Mr Jianzhong Yang for a term to 14 August 2015 at a current salary of \$80,000 per annum. Either party may terminate the contract on 4 weeks' notice.
- (2) Mr Fenyong Yan as Corporate General Manager for a term to 26 March 2017 at a current salary of \$80,000 per annum. Either party may terminate the contract on 4 weeks' notice.
- (3) Mr Wendao Zhi as Corporate Services Manager for a term to 23 April 2018 at a current salary of \$100,000 per annum. The employer may terminate the contract on 4 weeks' notice and the employee on 8 weeks' notice.

Under each contract the salary is subject to annual review and usual leave entitlements in the State of New South Wales apply. Each contract is otherwise on industry standard terms for employment contracts, having regard for their value and the positions which they cover.

SUMMARY OF RIGHTS OF SHAREHOLDERS UNDER THE CONSTITUTION AND BERMUDA LAW

COMPANY'S OBJECTS

The objects of the Company are set out in paragraph 6 of its memorandum of association. The objects include:

- to act and to perform all the functions of a holding company in all its branches and to co-ordinate the policy and administration of any subsidiary company or companies wherever incorporated or carrying on business or of any group of companies of which the Company or any subsidiary company is a member of which are in any manner controlled directors or indirectly by the Company;
- 2) to act as an investment company and for that purpose to acquire and hold upon any terms and, either in the name of the Company of that of any nominee, shares, stock, debentures, debenture stock, annuities, notes, mortgages, bonds, obligations and securities, foreign exchange, foreign currency deposits and commodities, issued or guaranteed by any company wherever incorporated or carrying on business, or by any government, sovereign, ruler, commissioners, public body or authority, supreme, municipal, local or otherwise, by original subscription, tender, purchase, exchange, underwriting, participation in syndicates or in any other manner and whether or not fully paid up, and to make payments thereon as called up or in advance of calls or otherwise and to subscribe for the same, whether conditionally or absolutely, and to hold the same with a view to investment but with the power to vary any investments, and to exercise and enforce all rights and powers conferred by or incident to the ownership thereof, and to invest and deal with the moneys of the Company not immediately required upon such securities and in such manner as may be from time to time determined; and
- 3) as set out in paragraphs (b) to (n) and (p) to (u) inclusive of the Second Schedule to The Companies Act 1981.

SHARE CAPITAL

The Company's authorized share capital consists of 5,000,000,000 ordinary shares, par value AU\$0.01 per Share. Upon completion of the Offer, there will be 98,266,915 Shares issued and outstanding. All of the issued and outstanding Shares prior to completion of the Offer are and will be fully paid, and all Shares to be issued under the Offer will be issued fully paid.

Pursuant to the Constitution, subject to the requirements of the ASX Listing Rules and to any resolution of the Shareholders to the contrary, the Board is authorised to issue any of the authorised but unissued Shares. There are no limitations on the right of non-Bermudians or non-residents of Bermuda to hold or vote Shares.

COMMON SHARES

Holders of Shares have no pre-emptive, redemption, conversion or sinking fund rights. Holders of Shares are entitled to one vote per share on all matters submitted to a vote of Shareholders. Unless a different majority is required by law or by the Constitution, resolutions to be approved by Shareholders require approval by a simple majority of votes cast at a meeting at which a quorum is present.

In the event of the Company's liquidation, dissolution or winding up, the Shareholders are entitled to share equally and ratably in the Company's assets, if any, remaining after the payment of all of the Company's debts and liabilities, subject to any liquidation preference on any issued and outstanding preference shares.

DIVIDEND RIGHTS

Under Bermuda law, a company may not declare or pay dividends if there are reasonable grounds for believing that: (i) the company is, or would after the payment be, unable to pay its liabilities as they become due; or (ii) that the realisable value of its assets would thereby be less than its liabilities. Issued share capital is the aggregate par value of the Shares, and the share premium account is the aggregate amount paid for Shares over and above their par value. Share premium accounts may be reduced in certain limited circumstances. Under the Company's Constitution, each Share is entitled to dividends as and when dividends are declared by the Board, and if at any time the share capital of the Company is divided into different classes, subject to any preferential rights of the holders of any preference shares.

VARIATION OF RIGHTS

If at any time the Company has more than one class of shares, the rights attaching to any class, unless otherwise provided for by the terms of issue of the relevant class, may be varied either: (i) with the consent in writing of the holders of 75% of the issued shares of that class; or (ii) with the sanction of a resolution passed by a majority of the votes cast at a general meeting of the relevant class of shareholders at which a quorum consisting of at least two persons holding or representing one-third of the issued shares of the relevant class is present. The Constitution specifies that the creation or issue of shares ranking equally with existing Shares will not, unless expressly provided by the terms of issue of existing Shares, vary the rights attached to existing Shares. In addition, the creation or issue of preference shares ranking prior to the Shares will not be deemed to vary the rights attached to the Shares.

TRANSFER OF SHARES

The Board may in its absolute discretion and without assigning any reason refuse to register the transfer of a Share where (a) the

Company has a lien on the shares the subject of the transfer; or (b) the transfer is in respect of a partly paid share in respect of which a call has been made and is unpaid; or (c) the ASX Listing Rules otherwise permit. The Board may also refuse to recognise an instrument of transfer of a Share unless it is accompanied by the relevant Share certificate and such other evidence of the transferor's right to make the transfer as the Board shall reasonably require.

MEETINGS OF SHAREHOLDERS

Under Bermuda law, a company is required to convene at least one general meeting of shareholders each calendar year (the "annual general meeting"). However, the members may by resolution waive this requirement, either for a specific year or period of time, or indefinitely. When the requirement has been so waived, any member may, on notice to the company, terminate the waiver, in which case an annual general meeting must be called.

Bermuda law provides that a special general meeting of shareholders may be called by the board of directors of a company and must be called upon the request of shareholders holding not less than 10% of the paid-up capital of the company carrying the right to vote at general meetings. Bermuda law also requires that shareholders be given at least five days' advance notice of a general meeting, but the accidental omission to give notice to any person does not invalidate the proceedings at a meeting. The Constitution provides that the Board may convene an annual general meeting or a special general meeting. Under the Constitution, at least twenty-one (21) days' notice of an annual general meeting or a special general meeting must be given to each shareholder entitled to vote at such meeting. This notice requirement is subject to the ability to hold such meetings on shorter notice if such notice is agreed: (i) in the case of an annual general meeting by all of the Shareholders entitled to attend and vote at such meeting; or (ii) in the case of a special general meeting by a majority in number of the Shareholders entitled to attend and vote at the meeting holding not less than 95% in nominal value of the shares entitled to vote at such meeting. Where the ASX Listing Rules require that a greater period of notice be provided for the convening of a meeting of Shareholders, then such greater period of notice will be given.

The quorum required for a general meeting of shareholders is three or more persons entitled to vote and present in person or by proxy at the start of the meeting. At a general meeting, each Shareholder present in person or by proxy, company representative or attorney is entitled to one vote on a show of hands. Upon a poll, every Shareholder present in person or by proxy, company representative or attorney is entitled to one vote for each Share that the Shareholder holds.

TRANSACTIONS REQUIRING SHAREHOLDER APPROVAL

The types of transactions that require shareholder approval under Bermuda law are determined on a case by case basis and are governed by the Companies Act and the Company's Constitution. Generally speaking, the following types of transactions will require Shareholder approval: amalgamations and mergers, business combinations, mergers, schemes of arrangement, compromises among creditors and/or members, voluntary liquidations, certain repurchases of Shares, certain alterations of capital and variations of the rights attaching to Shares. The above does not purport to be an exhaustive list but sets out common transactions which require shareholder approval.

ACCESS TO BOOKS AND RECORDS AND DISSEMINATION OF INFORMATION

Members of the general public have a right to inspect the public documents of a company available at the office of the Registrar of Companies in Bermuda. These documents include the Company's memorandum of association, including its objects and powers, and certain alterations to the memorandum of association. The shareholders have the additional right to inspect the Constitution, minutes of general meetings and the Company's audited financial statements, which must be presented to the annual general meeting. The register of members of a company is also open to inspection by shareholders and by members of the general public without charge. The register of members is required to be open for inspection for not less than two hours in any business day (subject to the ability of a company to close the register of members for not more than thirty days in a year). A company is required to maintain its share register in Bermuda but may, subject to the provisions of the Companies Act, establish a branch register outside of Bermuda. A company is required to keep at its registered office a register of directors and officers that is open for inspection for not less than two hours in any business day by members of the public without charge. Bermuda law does not, however, provide a general right for shareholders to inspect or obtain copies of any other corporate records.

ELECTION AND REMOVAL OF DIRECTORS

Under the Constitution, the Board shall consist of at least three directors. There is no maximum number of directors unless otherwise determined by time to time by the Shareholders in general meeting.

A director may be removed by the Shareholders provided notice of the Shareholders meeting convened to remove the director is given to the director. The notice must contain a statement of the intention to remove the director and must be served on the director not less than fourteen days before the meeting. The director is entitled to attend the meeting and be heard on the motion for his removal.

SUMMARY OF RIGHTS OF SHAREHOLDERS UNDER THE CONSTITUTION AND BERMUDA LAW continued

In addition, the following directors automatically retire at the end of each annual general meeting: (i) any director appointed by the directors at the last annual general meeting; (ii) one-third of the other directors (not counting the managing director) and if their number is not a multiple of three, then the number nearest one-third (rounded upward in case of doubt); and (iii) any director (not counting the managing director) for whom it would be their third annual general meeting since their last appointment or three years since their last appointment (whichever is longer).

Any Shareholder wishing to propose for election as a director someone who is not an existing director or is not proposed by the Board must give notice in writing of the intention to propose the person for election. Where a director is to be elected at any general meeting, that notice must be given not less than seven days before the date appointed for the meeting. Notice in writing must also be given by the person to be proposed for election of his willingness to be elected.

Under Bermuda law, there are no provisions that require that a 'spill resolution' (being a resolution for the removal of all existing directors of the company and the election of new directors) be put to shareholders, at a subsequent general meeting of shareholders, in the event that more than 25% of the votes cast on the resolution for the adoption the Company's remuneration at the annual general meeting, are against that resolution on two consecutive annual general meetings¹.

PROCEEDINGS OF BOARD OF DIRECTORS

The Constitution provides that the business of the Company is to be managed and conducted by the Board. Bermuda law permits individual and corporate directors and there is no requirement in the Constitution or Bermuda law that directors hold any Shares. There is also no requirement in the Constitution or Bermuda law that a directors must retire at a certain age.

The remuneration of directors is determined by the Company in general meeting. The directors may also be paid all travel, hotel and other expenses properly incurred by them in connection with the business of the Company or their duties as directors.

Provided a director discloses a direct or indirect interest in any contract or arrangement with the Company as required by Bermuda law, such director is entitled to vote in respect of any such contract or arrangement in which he or she is interested unless he or she is disqualified from voting by the chairman of the relevant board meeting. The Constitution further provides that the Board shall advise the ASX without delay of any material contract involving directors' interests. Such advice shall include the names of the parties to the contract, the name or names of

the director or directors who has or have any material interests in the contract, the particulars of the contract and particulars of the relevant director's or directors' interest or interests in that contract

INDEMNIFICATION OF DIRECTORS AND OFFICERS

Section 98 of the Companies Act provides generally that a Bermuda company may indemnify its directors, officers and auditors against any liability which by virtue of any rule of law would otherwise be imposed on them in respect of any negligence, default, breach of duty or breach of trust, except in cases where such liability arises from fraud or dishonesty of which such director, officer or auditor may be guilty in relation to the company. Section 98 further provides that a Bermuda company may indemnify its directors, officers and auditors against any liability incurred by them in defending any proceedings, whether civil or criminal, in which judgment is awarded in their favour or in which they are acquitted or granted relief by the Supreme Court of Bermuda pursuant to section 281 of the Companies Act.

The Constitution provides for the indemnification of the Company's officers and directors in respect of their actions and omissions, except in respect of their fraud or dishonesty. The Constitution provides that the Shareholders waive all claims or rights of action that they might have, individually or in right of the Company, against any of the Company's directors or officers for any act or failure to act in the performance of such director's or officer's duties, except in respect of any fraud or dishonesty of such director or officer. This provision may not be effective if it is inconsistent with the mandatory provisions of Australian law, to the extent that they have application to the Company, or its directors or officers.

Section 98A of the Companies Act permits the Company to purchase and maintain insurance for the benefit of any officer or director in respect of any loss or liability attaching to him in respect of any negligence, default, breach of duty or breach of trust, whether or not we may otherwise indemnify such officer or director.

AMENDMENT OF MEMORANDUM OF ASSOCIATION AND RYF-I AWS

Bermuda law provides that the memorandum of association of a company may be amended by a resolution passed at a general meeting of shareholders. The Constitution provides that no bye-law shall be rescinded, altered or amended, and no new bye-law shall be made, unless it shall have been approved by a resolution of the Board and by a resolution passed by a majority of not less than three-fourths of the vote cast by such Shareholders entitled to vote at a general meeting.

¹ Note: Confirmed that there are no "spill resolutions" under Bermuda law.

Under Bermuda law, the holders of an aggregate of not less than 20% in par value of the Company's issued share capital or any class thereof have the right to apply to the Supreme Court of Bermuda for an annulment of any amendment of the memorandum of association adopted by shareholders at any general meeting, other than an amendment which alters or reduces a company's share capital as provided in the Companies Act 1981. Where such an application is made, the amendment becomes effective only to the extent that it is confirmed by the Bermuda court. An application for an annulment of an amendment of the memorandum of association must be made within twenty-one days after the date on which the resolution altering the company's memorandum of association is passed and may be made on behalf of persons entitled to make the application by one or more of their number as they may appoint in writing for the purpose. No application may be made by shareholders voting in favour of the amendment.

AMALGAMATIONS AND BUSINESS COMBINATIONS

The amalgamation or merger of a Bermuda company with another company or corporation (other than certain affiliated companies) requires the amalgamation or merger agreement to be approved by the company's board of directors and by its shareholders. Unless the company's bye-laws provide otherwise, the approval of 75% of the shareholders voting at such meeting is required to approve the amalgamation or merger agreement, and the quorum for such meeting must be two persons holding or representing more than one-third of the issued shares of the company.

Under Bermuda law, in the event of an amalgamation or merger of a Bermuda company with another company or corporation, a shareholder of the Bermuda company who did not vote in favour of the amalgamation and who is not satisfied that fair value has been offered for such shareholder's shares may, within one month of notice of the shareholders meeting, apply to the Supreme Court of Bermuda to appraise the fair value of those shares.

TAKEOVERS

An acquirer of a Bermuda company is generally able to acquire compulsorily the ordinary shares of minority holders in the following ways:-

(i) By a procedure under the Companies Act known as a ("scheme of arrangement"). A scheme of arrangement could be effected by obtaining the agreement of the company and of holders of ordinary shares, representing in the aggregate a majority in number and at least 75% in value of the ordinary shareholders present and voting at a court ordered meeting held to consider

the scheme or arrangement. The scheme of arrangement must then be sanctioned by the Supreme Court of Bermuda. If a scheme of arrangement receives all necessary agreements and sanctions, upon the filing of the court order with the Registrar of Companies in Bermuda, all holders of shares could be compelled to sell their shares under the terms of the scheme of arrangement.

(ii) If the acquiring party is a company, it may compulsorily acquire all the shares of the target company, by acquiring pursuant to a tender offer 90% of the shares or class of shares not already owned by, or by a nominee for, the acquiring party (the "offeror"), or any of its subsidiaries. If an offeror has, within four months after the making of an offer for all the shares or class of shares not owned by, or by a nominee for, the offeror, or any of its subsidiaries, obtained the approval of the holders of 90% or more of all the shares to which the offer relates, the offeror may, at any time within two months beginning with the date on which the approval was obtained, require by notice any non-tendering shareholder to transfer its shares on the same terms as the original offer. In those circumstances, non-tendering shareholders will be compelled to sell their shares unless the Supreme Court of Bermuda (on application made within a one-month period from the date of the offeror's notice of its intention to acquire such shares) orders otherwise.

(iii) Where one or more parties holds not less than 95% of the shares or a class of shares of a company, such holder(s) may, pursuant to a notice given to the remaining shareholders or class of shareholders, acquire the shares of such remaining shareholders or class of shareholders. When this notice is given, the acquiring party is entitled and bound to acquire the shares of the remaining shareholders on the terms set out in the notice, unless a remaining shareholder, within one month of receiving such notice, applies to the Supreme Court of Bermuda for an appraisal of the value of their shares. This provision only applies where the acquiring party offers the same terms to all holders of shares whose shares are being acquired.

The Companies Act does not prescribe a regime for the conduct of takeovers or contain a general prohibition on acquisitions of interests in Bermuda companies beyond a certain threshold.

SUBSTANTIAL SHAREHOLDINGS

The Companies Act does not require a Shareholder to provide notice to the company or any stock exchange regardless of the size of that Shareholder's shareholding.

SHAREHOLDER SUITS

Class actions and derivative actions are generally not available to Shareholders under Bermuda law. The Bermuda courts, however, would ordinarily be expected to permit a shareholder to commence an action in the name of a company to remedy a wrong to the company where the act complained of is alleged to be beyond the corporate power of the company or illegal, or would result in the violation of the company's memorandum of association or bye-laws. Furthermore, consideration would be given by a Bermuda court to acts that are alleged to constitute a fraud against the minority shareholders or, for instance, where an act requires the approval of a greater percentage of the company's shareholders than that which actually approved it.

When the affairs of a company are being conducted in a manner which is oppressive or prejudicial to the interests of some part of the shareholders, one or more shareholders may apply to the Supreme Court of Bermuda, which may make such order as it sees fit, including an order regulating the conduct of the company's affairs in the future or ordering the purchase of the shares of any shareholders by other shareholders or by the company.

The Constitution contains a provision by virtue of which Shareholders waive any claim or right of action that they have, both individually and on the Company's behalf, against any director or officer in relation to any action or failure to take action by such director or officer, except in respect of any fraud or dishonesty of such director or officer. This provision may not be effective if it is inconsistent with the mandatory provisions of Australian law, to the extent that they have application to the Company, or its directors or officers.

CAPITALISATION OF PROFITS AND RESERVES

Subject to the ASX Listing Rules, under the Constitution, the Board may (i) capitalise all or any part of any amount standing to the credit of any reserve or fund (including the profit and loss account) whether or not the same is available for distribution by applying such sum in paying up unissued shares to be allotted as fully paid bonus shares pro-rata (except in connection with the conversion of shares) to the Shareholders; or (ii) capitalise any sum standing to the credit of a reserve account or sums otherwise available for dividend or distribution by paying up in full, partly paid or nil paid shares of those shareholders who would have been entitled to such sums if they were distributed by way of dividend or distribution.

CERTAIN PROVISIONS OF BERMUDA LAW

The Company has been designated by the Bermuda Monetary Authority as a non-resident for Bermuda exchange control purposes. This designation allows the Company to engage in transactions in currencies other than the Bermuda dollar, and there are no restrictions on the Company's ability to transfer funds (other than funds denominated in Bermuda dollars) in and out of Bermuda or to pay dividends to Australian residents who are holders of Shares.

The Bermuda Monetary Authority has given its consent for the issue and free transferability of all of the Shares that are the subject of the Offer to and between non-residents of Bermuda for exchange control purposes, provided the Shares remain listed on an appointed stock exchange, which includes the ASX. Approvals or permissions given by the Bermuda Monetary Authority do not constitute a guarantee by the Bermuda Monetary Authority as to the performance or creditworthiness of the Company. Accordingly, in giving such consent or permissions, the Bermuda Monetary Authority shall not be liable for the financial soundness, performance or default of the Company's business or for the correctness of any opinions or statements expressed in this Prospectus. Certain issues and transfers of Shares involving persons deemed resident in Bermuda for exchange control purposes require the specific consent of the Bermuda Monetary Authority.

In accordance with Bermuda law, share certificates are only issued in the names of companies, partnerships or individuals. In the case of a Shareholder acting in a special capacity (for example as a trustee), certificates may, at the request of the Shareholder, record the capacity in which the Shareholder is acting. Notwithstanding such recording of any special capacity, the Company is not bound to investigate or see to the execution of any such trust.

Pursuant to the Companies Act, there is no requirement to file this prospectus with the Registrar of Companies in Bermuda. Neither the Bermuda Monetary Authority, the Registrar of Companies of Bermuda nor any other relevant Bermuda authority or government body accept any responsibility for the financial soundness of any proposal or for the correctness of any of the statements made or opinions expressed herein.

Registration

The Company was incorporated under the Companies Act 1981 of Bermuda on 25 September 1996 as Omnitech Holdings Limited and on 19 February 1997 it registered with the ASIC with the Australian Registered Body Number 077 559 525. On 30 May 2013, the Company changed its name to National Resources Limited in Bermuda, but that new name was rejected by the ASIC. On 13 August 2014, the Company changed its name to Kaili Resources Limited in Bermuda and that name was registered with the ASIC on 20 November 2014.

As the Company is not established in Australia, its general corporate activities (apart from any offering of securities in Australia) are not regulated by the Corporations Act of the Commonwealth of Australia or by the Australian Securities and Investments Commission but instead are regulated by the Companies Act and Registrar of Companies in Bermuda.

Listing on Australian Securities Exchange

The Company was listed on the ASX on 3 March 1997 carrying on the business of electronic components manufacture. On 31 July 2009 the Shares were suspended from quotation on ASX when it could not satisfy the Listing Rules 12.1 and 12.2 relating to sufficient level of operations and adequate financial conditions. Since that date the Shares have not regained quotation on the ASX.

Group Companies

The Company owns 100% of the issued capital of the following companies: (1) APEC Coal Pty Ltd ABN 33 154 871 557 - holder and operator of exploration permits EPC 1506 and EPC 1539 in Queensland (2) ASF Kaili Resource Pty Ltd ABN 73 152 673 375 - holder and operator of exploration licences E04/1433 and E04/1436 in Western Australia, and Kaili Corporation Pty Ltd ABN 95 159 553 689 - responsible for the administration of the companies in the group.

Balance Date

The balance date of the Company is 31 December.

Expenses of the Offer

The total estimated costs of the Offer, including capital raising, brokers, legal, Investigating Accountants, Expert Geologist, listing fees, maps production, share registry, printing, mailing, administration and other expenses are currently estimated to be approximately \$497,000 of which \$123,000 has already been paid at the date of this Prospectus and the balance of \$374,000 will be paid by the Company from the proceeds of the Offer and existing cash on hand at the date of the Prospectus.

Consents

The following have given their written consents to the issue of this Prospectus with their reports or references to them included in the form and context in which they are included:-

Piper Alderman has given its written consent to being named in this Prospectus as solicitor to the Offer, in the form and context in which it is named and the inclusion of the Tenements Title Report dated 5 February 2015 in the form and context in which it appears.

Computershare Investor Services Pty Limited has given its written consent to being named in this Prospectus as share registrar to the Company in the form and context in which it is named.

John Shute has given its written consent to being named in this Prospectus as auditor to the Company in the form and context in which it is named.

Grant Thornton Corporate Finance Pty Ltd has given its written consent to being named in this Prospectus as Investigating Accountants to the Offer, in the form and context in which it is named and the inclusion of the Independent Limited Assurance Report dated 5 February 2015 in the form and context in which it appears.

Rock Tiger has given its written consent to being named in this Prospectus as an Expert Geologist to the Company, in the form and context it is named and the inclusion of the Expert Geologist's Report dated 5 February 2015 in the form and context in which it appears.

Geoconsult Pty Ltd has given its written consent to being named in this Prospectus in the form and context in which it is named and the inclusion of the statements attributed to it, in the form and context in which it appears.

Each of the parties named above as consenting parties:

- has not, before the lodgement of this Prospectus with the ASIC, withdrawn its written consent to be named in this Prospectus;
- has not, before the lodgement of this Prospectus with the ASIC, withdrawn its written consent to the inclusion of its respective statement and reports noted next to its name above (where applicable), and the references to those statements and reports in the form and context in which they are included in this Prospectus;
- does not make, or purport to make, any statement in this Prospectus other than those statements attributed to it;
- has not caused or authorised the issue of this Prospectus; and
- to the maximum extent permitted by law, expressly disclaims and takes no responsibility for any statements in or omissions from this Prospectus.

Third parties named in this Prospectus, and not specifically referred to above as having given their consent, have not consented to the inclusion of their names in this Prospectus, or to any statement attributed to them, or statement upon which a statement has been based. The Directors assume responsibility for the references to those entities and statements which include those references.

Litigation

The Company is not involved in any legal proceedings nor, so far as the Directors are aware, are any such proceedings pending or threatened against the Company.

Taxation

The taxation obligations and the effects of participating in the Offer can vary depending on the circumstances of each individual investor, the particular circumstances relating to his or her holdings of securities and the taxation laws applicable to investors as residents of different jurisdictions.

Investors who are in doubt as to their taxation position should seek professional advice. It is solely the responsibility of individual applicants to inform themselves of their taxation position resulting from participation in the Offer.

Forecasts

The Company is a start-up in resources exploration with all past business discontinued with no track record and no existing customers. Revenue, profitability and cash flows for the Company are dependent on, among other things, exploration and development success, the ability of the Company to secure satisfactory commercial arrangements with suppliers and landowners and, if exploration and mining is successful, customers, and the future regulatory environment in which the Company operates. Resources exploration, evaluation, extraction and production is subject to significant risks and uncertainties. Any forecast or forward looking statements of the Company would contain a very broad range of potential outcomes. Given the above, the Directors believe that it is not possible to prepare reliable best estimate forecasts or projections of revenue, profits or cash flows for the operations of the Company. The Directors, having considered the matters set out in ASIC Regulatory Guide 170: Prospective Financial Information, believe that there are no reasonable grounds to include prospective financial information in this Prospectus.

Based on this belief, no forecasts or projections have been included in this Prospectus. Further details of the financial information of the Company may be found in the Independent Limited Assurance Report.

Regulatory Costs

The Federal and State Governments of Australia and the Government of Bermuda may impose additional costs on the Company by way of new or amending legislation that may not have been taken into account in the preparation of this Prospectus.

Directors' and Others' Interest

Other than as set out in this section or elsewhere in this Prospectus, no Director or proposed Director; person named in this Prospectus as performing a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Prospectus; or promoter of the Company holds, or has held within two years before the date of this Prospectus, any interest in the Offer or holds, or has held within two years before the date of this Prospectus, any interest in the formation or promotion of, or in any property acquired or proposed to be acquired by, the Company in connection with its formation or promotion or the Offer.

Set out below are the amounts that anyone has paid or agreed to pay and the nature and value of any benefit anyone has given or agreed to give to a Director or proposed Director to induce him to become, or to qualify him as a Director of the Company; or for services provided in connection with the formation or promotion of the Company or the Offer by any Director or proposed Director, any person named in this Prospectus as performing a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Prospectus or any promoter of the Company.

Piper Alderman has acted as solicitor to the Offer. Total fees paid and payable to Piper Alderman for work done in relation to this Offer are approximately \$80,000 plus GST. No fees have been due and payable to Piper Alderman during the two years before the lodgement of this Prospectus with the ASIC.

Computershare Investor Services Pty Limited provides share registry services to the Company. Share registry costs in relation to this Offer are estimated to be \$2,000 plus GST. During the two years before the lodgement of this Prospectus with the ASIC, fees due and payable to Computershare Investor Services Pty Limited for work other than in relation to this Prospectus are \$33,257 inclusive of GST.

Grant Thornton Corporate Finance Pty Ltd has prepared the Independent Limited Assurance Report which is included in this Prospectus and total fees payable for this work are approximately \$21,000 plus GST. No fees have been due and payable to Grant Thornton Corporate Finance Pty Ltd during the two years before the lodgement of this Prospectus with the ASIC.

John Shute, has been appointed auditor of the Company and is paid fees for rendering these services. During the two years before the lodgement of this Prospectus with the ASIC, fees due and payable to John Shute for audit services are \$21,395 inclusive of GST and \$5,088 inclusive of GST to JS Accounting Group an affiliate of John Shute for accounting and tax services.

Rock Tiger has prepared the Expert Geologist's Report which is included in this Prospectus. Total fees paid and payable to Rock Tiger for work done in relation to this Offer are approximately \$10,000 plus GST. During the two years before the lodgement of this Prospectus with the ASIC, fees due and payable for work other than in relation to this Propectus to RockTiger are \$12,659 inclusive of GST.

Geoconsult Pty Ltd has prepared in 2010 a report on resource modelling for a previous owner of EPC 1506 and reference is made to that report in this Prospectus. Total fees paid and payable to Geoconsult Pty Ltd for their consent to use their information and make reference to their report is \$2,500 plus GST. During the two years before the lodgement of this Prospectus with ASIC, no fees are due and payable to Geoconsult Pty Ltd for work other than in relation to this Prospectus.

The aggregate number of Shares held directly, indirectly or beneficially by the current Directors or Director-related entities at the date of this Prospectus are:

	% ²	Number of Shares
Jianzhong Yang ¹	46.4	45,569,904
Kaiyuan Yang	-	-
Chi Yuen Kuan	-	-

- ¹ 36,769,904 Shares and 8,800,000 Shares are registered in the name of Treasure Unicorn Limited and Kaili Holdings Limited respectively.
- ² The percentage holdings are based on total issued Shares when this Offer is fully subscribed.

In accordance with the Listing Rules, the Directors are not allowed to take up Shares under the Offer without Shareholders' approval and therefore will not apply for Shares under this Prospectus.

The Constitution provides that the Directors are entitled to such remuneration as the Directors determine, but the remuneration of Directors must not exceed in aggregate a maximum annual amount fixed by the Company in general meeting for that purpose. Shareholders of the Company have not resolved that maximum aggregate annual remuneration.

The Board has not resolved on the payment of Directors' fees for the Company.

Remuneration of Executive Directors is determined on normal commercial terms. Total remuneration of the Directors are as follows:

	Year ended	Year ended 31 December	
	2014	2013	
Jianzhong Yang	143,106	-	
Kaiyuan Yang	-	-	
Chi Yuen Kuan	-	-	
	143,106	-	

Mr Jianzhong Yang has an employment agreement with a subsidiary of the Company ASF Kaili Resource Pty Ltd for a term to 14 August 2015 at a current salary of \$80,000 per annum, subject to annual review. Usual leave entitlements in the State of New South Wales apply. Either party may terminate the agreement by giving 4 weeks' notice.

The Board has not resolved a remuneration for Ms Kelly Kaiyuan Yang's executive engagement. It is the Board's intention to resolve on payments of Directors' remuneration when the Company has completed the Offer. The fees will be determined on normal commercial terms having regards to the size and stage of development of the Company and within the aggregate limit approved by Shareholders.

Corporate Governance

The Company has adopted systems of control and accountability for the administration of corporate governance, including:

- a board charter;
- a policy for trading in Company securities;
- a diversity policy;
- a code of conduct for board and management;
- a performance evaluation process;
- procedures for compliance with ASX continuous disclosure requirements:
- procedures for shareholder communication; and
- a risk management policy.

The Company has adopted the ASX Corporate Governance Council Principles and Recommendations to the extent that they are appropriate having regards to the size and stage of development of the Company.

ADDITIONAL INFORMATION continued

A summary of the Company's corporate governance policies and practices is set out in the Corporate Governance Statement in the Company's 2014 Annual Report, which is incorporated by reference into this Prospectus in accordance with section 712 of the Corporations Act and can be obtained free of charge by contacting the Company on (+612) 9267 5988, or by email at contact@ kailigroup.com.au, and will be available on the Company's website at www.kailigroup.com.au

Some of the Company's practices do not conform to the ASX Corporate Governance Council Principles and Recommendations and the reasons for adopting those alternative practices are set out in the Corporate Governance Statement in the Company's 2014 Annual Report.

The table below sets out the extent to which the Company has not followed the recommendations of the ASX Corporate Governance Principles and Recommendations.

	ASX Corporate Governance	Notification of Departure	Explanation of Departure
2.	Structure the Board to Add Value		
2.4	A majority of the board of a listed entity should be independent directors	The Board does not have a majority of Directors who are independent	The Board consist of one independent Director Mr W Kuan, a non-executive, and two non-independent and executive Directors, Mr J Yang who is a substantial shareholder and Ms K Yang.
			The Company believes that the present size of its operations and current stage of its development do not justify the increased cost of a larger number of Directors and that non-compliance to Recommendation 2.4 will not adversely affect the Company. However, the Company will consider increasing the size of the Board with independent Directors as the business develops further.
2.5	The chair of the board of a listed entity should be an independent director and, in particular, should not be the same person as the CEO of the entity.	The Chair of the Board is not independent and is an executive	The Chairman Mr J Yang is an executive and a substantial shareholder. The independent Director, Mr W Kuan, is experienced in finance and corporate governance and will advise the chair of any situations of potential conflict.

Documentation

Copies of the Company's Constitution, material contracts and consents are available for inspection during normal business hours, free of charge, at the Company's representative office in Sydney for the 12 months after the date of this Prospectus.

Enquiries

Enquiries regarding this Prospectus should be directed to the Company Secretary of the Company on (02) 9267 5988 or via email to contact@kailigroup.com.au.

GLOSSARY OF TERMS

"Applicant" means an applicant for Shares who duly completes an Application Form and pays the applicable Application Money.

"Application" means an application for Shares pursuant to the Offer on an Application Form.

"Application Form" means the application form accompanying this Prospectus.

"Application Money" means the \$0.20 multiplied by the number of Shares for which an Applicant has applied.

"ASIC" means Australian Securities and Investments Commission.

"ASX" means ASX Limited ACN 008 624 691, also known as Australian Securities Exchange.

"Auditor" means John Shute ABN 73 118 831 624.

"Board" means the Board of Directors of KLR.

"CHESS" means the ASX's Clearing House Electronic Sub-Register System.

"Closing Date" means the last date by which Applications will be accepted, which is 5:00 pm NST on 20 March 2015 or such other date and time as the Directors determine.

"Constitution" means the Bye-laws of the Company.

"Companies Act" means the Companies Act 1981 of Bermuda.

"Corporations Act" means the Corporations Act 2001 (Commonwealth).

"Directors" mean directors of KLR.

"Dollars" or "\$" means dollars in Australian currency.

"EPC 1506" means the Exploration Permit for Coal Number EPC 1506 granted to APEC Coal Pty Ltd ACN 154 871 557 under the Queensland Mineral Resources Act 1989.

"EPC 1539" means the Exploration Permit for Coal Number EPC 1539 granted to APEC Coal Pty Ltd ACN 154 871 557 under the Queensland Mineral Resources Act 1989.

"E04/1433" means the Exploration Licence No. 04/1433 granted to ASF Kaili Resource Pty Ltd ACN 152 673 375 under the Western Australia Mining Act 1978.

"E04/1436" means the Exploration Licence No. 04/1436 granted to ASF Kaili Resource Pty Ltd ACN 152 673 375 under the Western Australia Mining Act 1978.

"Existing Shares" means Shares already allotted and issued as at the date of this Prospectus.

"Existing Shareholders" means holders of Existing Shares.

"Expert Geologist" means Mark Derriman trading as Rock Tiger ABN 28 069 772 384.

"Exposure Period" means the period of 7 days (or longer period, being no longer than 14 days, as ASIC may direct) from the date of the lodgement of the original prospectus in respect of the Offer, with ASIC.

"Full Subscription" means Application received for 8,000,000 Shares pursuant to this Prospectus.

"Ha" means hectare.

GLOSSARY OF TERMS continued

"Investigating Accountant" means Grant Thornton Corporate Finance Pty Ltd ACN 003 265 987.

"JORC" means the 2012 or 2004 edition of the Australian Code for Reporting Exploration Results, Mineral Resources and Ore Reserves of the Joint Ore Reserves Committee.

"Kg/t" means kilo per tonne.

"KLR" or "Company" means Kaili Resources Limited ARBN 077 559 525.

"Km" means kilometre.

"km2" means square kilometre.

"Listing Rules" means the official listing rules of ASX.

"m" means metre.

"MJ/Kg" means megajoule per kilo.

"Mt" means million tonnes.

"Native Title" means native title as defined by the Native Title Act 1993 (Commonwealth).

"Native Title Holder" means a person who holds or claims to hold Native Title rights and interests in exploration licences.

"NST" means NSW Standard Time in accordance with the Standard Time Act 1987 (NSW).

"Offer" means the offer of Shares pursuant to this Prospectus.

"Offer Price" means \$0.20 per Share.

"Official List" means the official list of ASX.

"Opening Date" means the first date for receipt of completed Application Forms, which is 13 February 2015 or such other date and time as the Directors determine.

"ppm" means parts per million.

"Prospectus" means this prospectus dated 5 February 2015.

"Share" means a fully paid ordinary share in the capital of KLR with a par value of \$0.01.

"Shareholder" means a holder of Shares.

"Share Registry" means Computershare Investor Services Pty Limited ACN 078 279 277.

"Tenements" means EPC 1506, EPC 1539, E04/1433 and E04/1436.

"Traditional Owners" means those present and future Aboriginal people who have in accordance with Aboriginal tradition, a social, economic and spiritual affiliation with and responsibilities for all or any part of the Land which is subject of the tenement, including the Native Title claimants and Native Title Holders;

DIRECTORS' STATEMENT AND CONSENT

The Prospectus is issued by the Company and its issue has been authorised by a resolution of the Directors.

In accordance with Section 720 of the Corporations Act, each Director has consented to the lodgement of this Prospectus with ASIC and has not withdrawn that consent.

Signed for and on behalf of Kaili Resources Limited

Chairman