

KAILI RESOURCES LIMITED

(Incorporated in Bermuda with limited liability)

ARBN 077 559 525

Annual Report – 2015

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CORPORATE DIRECTORY

Board of Directors

Jianzhong Yang

Executive Chairman

Kaiyuan Yang

Executive

Chi Yuen Kuan

Non-Executive

Company Secretary

Ranee Pang

Robert Lees

Registered Office

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

Independent Auditor

John Shute

Chartered Accountant

Suite 605,

321 Pitt Street,

Sydney NSW 2000

Australia

Principal Registry and Transfer Office

Butterfield Corporate Services Ltd

The Rosebank Centre

14 Bermudiana Road

Pembroke HM08

Bermuda

Telephone: +441 295 1111

Branch Share Registry and Transfer Office

Computershare Investor Services Pty Limited

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87-89 Liverpool Street,

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CHAIRMAN'S REPORT

Dear Shareholders,

I am pleased to present you the 2015 Annual Report.

As foreshadowed in the last annual report, after approximately 4 years of inactivity and suspension, we succeeded in the re-admission of quotation of the Company on the Australian Securities Exchange (“ASX”) on 31 March 2015 following the issue of a prospectus on 5 February 2015 and with the support of new investors raising of a total of \$1,600,000 on the issue of 8 million new ordinary shares.

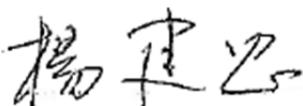
During the year we have pursued our aim to rebuild the Company working on the existing coal and minerals tenements while at the same time searching for new ventures. The resources industry has continued in its downturn but we believe that good long term investment opportunities may appear in this environment.

We have re-assessed all our tenements critically and decided to relinquish the mineral licences in Western Australia based on its low mineral prospectivity and economic potential. However, we have identified several areas within the Hamersley Basin and the Yilgarn Craton in Western Australia that have a history of iron ore and gold exploration respectively. Accordingly, we have applied for eight new gold and iron tenements directly with the Government and look forward to these tenements being granted in 2016.

We have also been assessing opportunities in the non-resources sector. The aim is to look for projects that can bring early profit and cash flows for our shareholders. Any such investment will have to be in compliance with the Listing Rules of the ASX.

As capital is hard to raise in the current economic condition we continue to manage our cashflow in a prudent manner and to keep our overheads as low as possible in order to preserve the funds for any investment opportunity that may arise in the future.

I look forward to your support for the coming years and the Board will continue to work to create value for shareholders for the longer term.



Jianzhong Yang
Chairman

17 March, 2016

REVIEW OF OPERATIONS

CORPORATE

- In March the Company raised new capital of \$1,600,000 by the issue of 8,000,000 fully paid ordinary shares at \$0.20 per share under a Prospectus dated 5 February 2015.
- The shares of the Company were reinstated for trading on 31 March 2015 on the Australian Securities Exchange on satisfying compliance with the Listing Rules.

EXPLORATION

- All tenements in WA and QLD due for expiry in 2015 were successfully renewed until 2016 and at the end of the year all granted tenements are up to date with regards to statutory requirements.
- Discussion on Native Title Agreement for WA tenements progressed and a Native Title access agreement for E04/1433 and E04/1436 was submitted to Kimberley Land Council for execution.
- A WA work program was submitted to Kimberley Land Council for review.
- Following an updated technical assessment on the prospects, decision is made to relinquish E04/1433 and 1436 in early 2016 prior to their expiry in April 2016.
- A Qld drilling program is finalised and drilling in EPC 1506 and 1539 is planned for the second quarter 2016.
- Eight (8) new gold and iron tenement applications were submitted to WA Department of Mines and Petroleum.

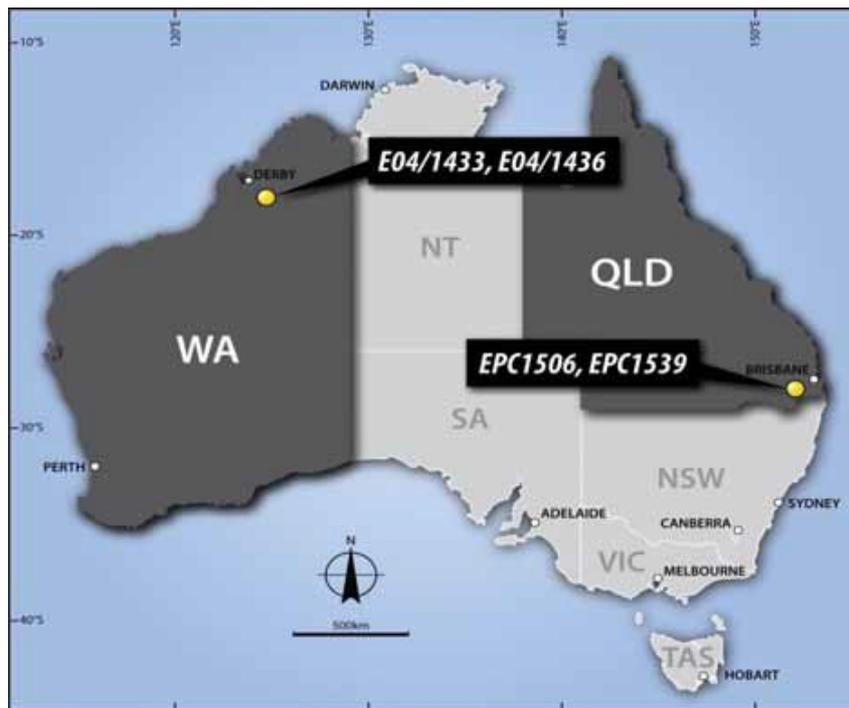


Figure 1: Projects locations in Australia (Granted Tenements)

REVIEW OF OPERATIONS

PROJECT LOCATION	TENEMENT AREA IN KM ²
Queensland	274.4
Western Australia	58.4
Total Area	332.8

Table 1: Tenement areas, all held 100%

WESTERN AUSTRALIA

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

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

An earlier review of historical exploration had indicated prospectivity for coal, diamonds and phosphate. The Group had planned to conduct a field based surficial geochemical exploration work program in the September quarter 2015. The program was to involve a grid based sampling program using the portable Olympus Innovex XRF sampler in conjunction with geological and regolith mapping. The proposed work program was submitted to the Kimberley Land Council for review during the year.

Both tenements were renewed for 12 months to April 2016 and there has been no field activity while the renewals were awaited and Native Title Agreements are under discussion.

During the December quarter the Company carried out an extensive review of all historical exploration within and adjacent to E04/1433 and 1436. It was determined that any potential coal mineralisation was too deep (>200m vertical) for commercial exploitation and that the known geochemistry of the leucite lamproites was not conducive to the formation of economic diamond as occur at the nearby Ellendale diamond mine. Consequently the Directors have decided not to invest further funds in those areas and to relinquish E04/1433 and 1436 in 2016 prior to their expiry dates in April 2016. The funds that were allocated to exploration in E04/1433 and 1436 have now been reallocated to exploration in the new gold and iron tenements applied for during the year.

During the year the Company conducted a review of potential new iron and gold projects in Western Australia and made application for 3 iron tenements in the Hamersley Basin under a newly incorporated wholly owned subsidiary Kaili Iron Pty Ltd and 5 new gold tenements in the Yilgarn Craton under a newly incorporated wholly owned subsidiary Kaili Gold Pty Ltd. The applications are progressing as per schedule and the Company anticipates granting of the tenements in mid 2016.

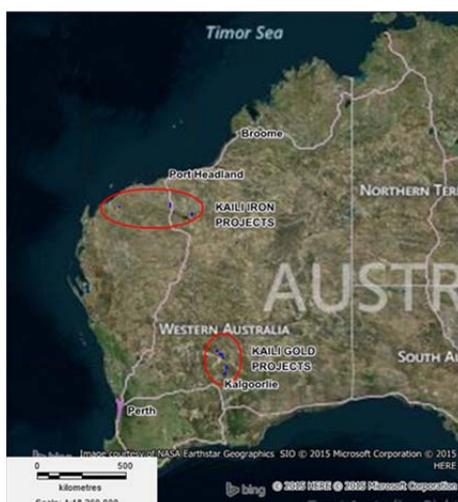


Figure 2: Kaili Resources project application locations

REVIEW OF OPERATIONS

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

Applications E08/2770-I, E46/1084-I and E45/4619-I for 100% interest by wholly owned subsidiary Kaili Iron Pty Ltd

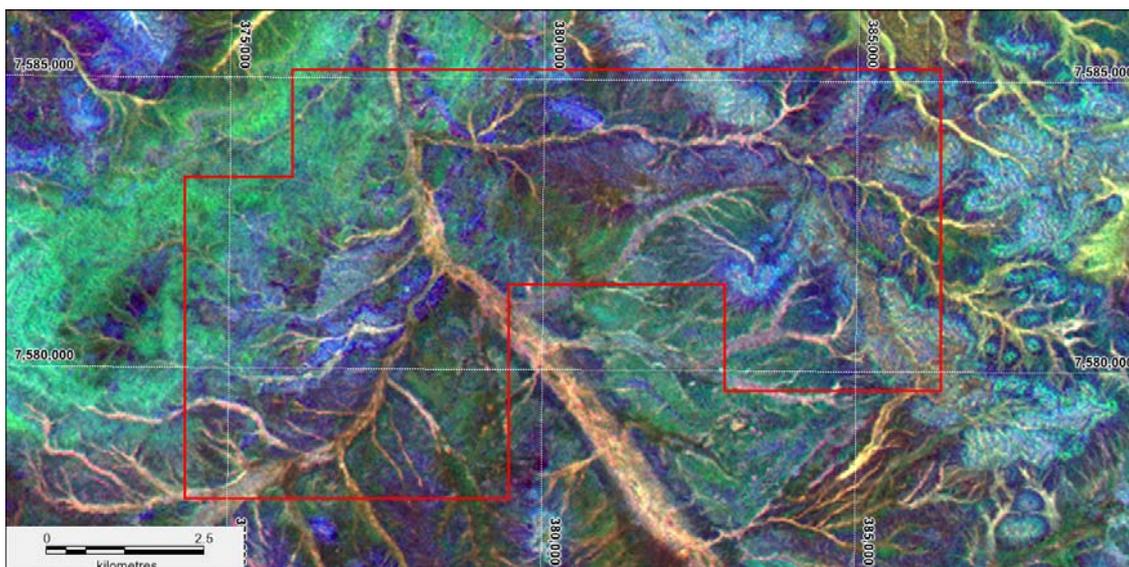
From a review it was determined that there were opportunities to apply for tenements prospective for iron ore related to the CID (Channel Iron Deposit) style of iron mineralisation. This style of iron ore is currently being mined by both Rio Tinto and BHP at Robe River and Yandi. A total of 3 tenement applications were made, Darnell Hill, Buster's Bore and Bea Bea Creek for a total area of 230 km² (Figure 3).



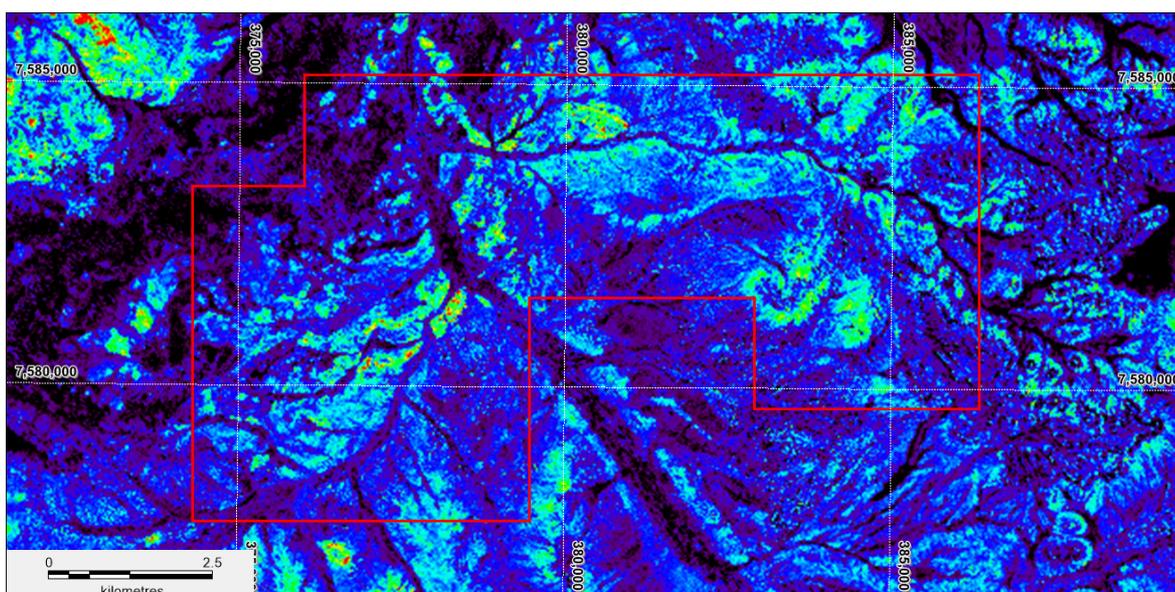
*Figure 3: Kaili Resources iron project application locations
(red) iron ore mining operations inside the red ellipse.*

During a brief field visit by the Directors in September quarter 2015 several areas of outcropping iron mineralisation were noted with sampling by the Innovex portable XRF unit confirming the presence of iron mineralisation. Further mapping and sampling (including confirmatory geochemical analysis by ALS laboratories) is planned upon grant of the tenements. Processing of ASTER satellite imagery (Figures 4 and 5) over the iron tenements clearly highlights the extent of the surface iron mineralisation. This data set will be used to define sampling traverses across the mineralisation.

REVIEW OF OPERATIONS



*Figure 4 ASTER imagery for E08/2770-1 Darnell Hill
Regolith Ratios showing iron rich areas as shades of blue*



*Figure 5 ASTER imagery for E08/2770-1 Darnell Hill
Ferric Oxide Content(Iron) as areas of green and red*

Yilgarn Craton Gold Projects

Applications E31/1113, E27/550, E27/549, E40/354 and E31/1114 for 100% interest by wholly owned subsidiary Kaili Gold Pty Ltd

The Yilgarn Craton is one of the premier gold regions in the world and hosts numerous multimillion ounce gold mines and deposits. The Company reviewed several areas for tenement applications in proximity to known gold mineralisation and associated with mafic igneous extrusive/intrusive rocks. The Gindalbie area north east of Kalgoorlie and the Kookynie (Figure 6) are south east of Leonora were chosen and 5 tenement applications were made:

REVIEW OF OPERATIONS

Gindalbie - Canegrass, Holey Dam and Gindalbie Dam for 201 km²

Kookynie – 8 Mile Dam and Jungle Hill for 69 km².

Exploration of the gold tenements will involve a dual approach to target generation.

- Surface geological/regolith mapping will be carried out across the tenements so that surficial geochemical sampling results can be divided on the basis of geological/regolith regimes.
- Existing airborne geophysical data will be processed by Perth based Southern Geoscience Consultants in order to define deeper drill targets masked by transported surficial cover. A new survey will be flown over the Jungle Hill tenement as existing magnetic data is too coarse for targeting.

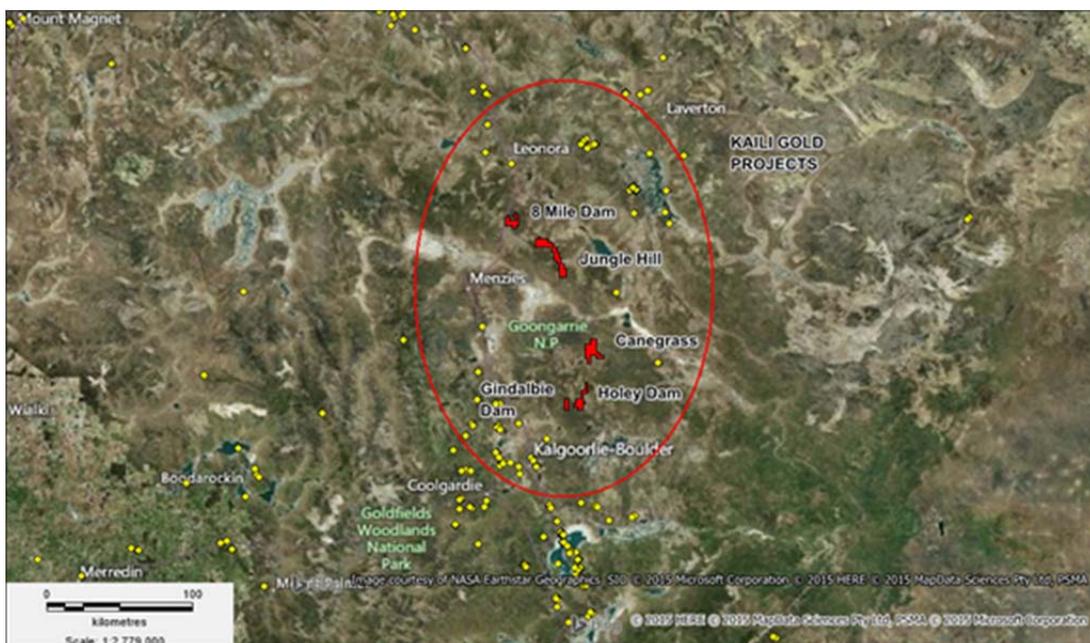


Figure 6: Kaili Resources gold project application locations (red) and gold mining operations inside the red ellipse

QUEENSLAND

Clarence Moreton Basin (Maryvale) Coal Project

EPC1506 and 1539 held 100% by wholly owned subsidiary APEC Coal Pty Ltd

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

The tenements are situated in the Clarence-Moreton Basin, approximately 30 km north of Warwick and 50 km south of Toowoomba, in southeast Queensland (Figure 7). 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

REVIEW OF OPERATIONS

Highway. Part of the Darling Downs, which includes the towns of Allora, and Warwick (Figure 8), is known as the Southern Downs.

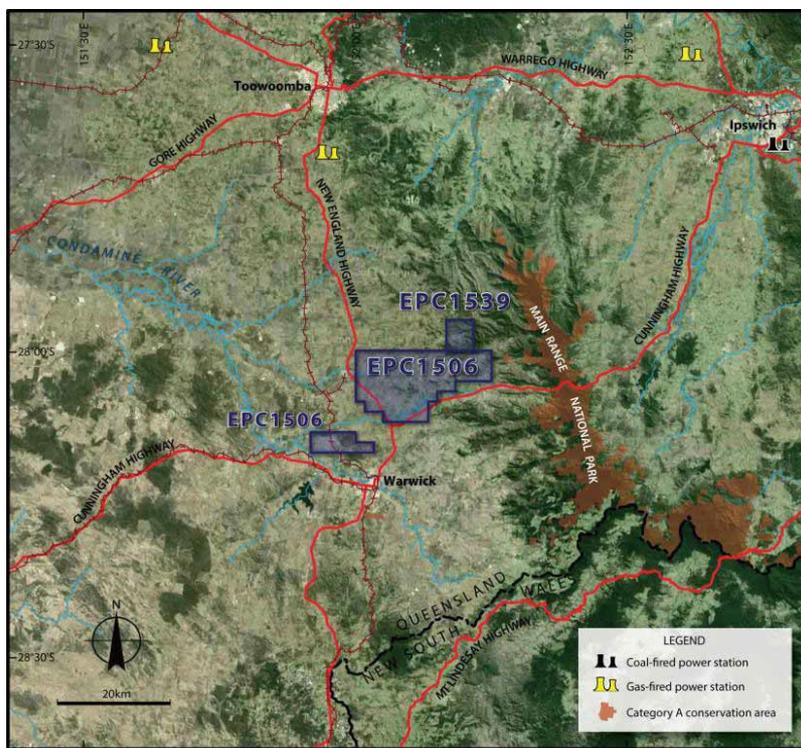


Figure 7: Regional Location of the Queensland Projects

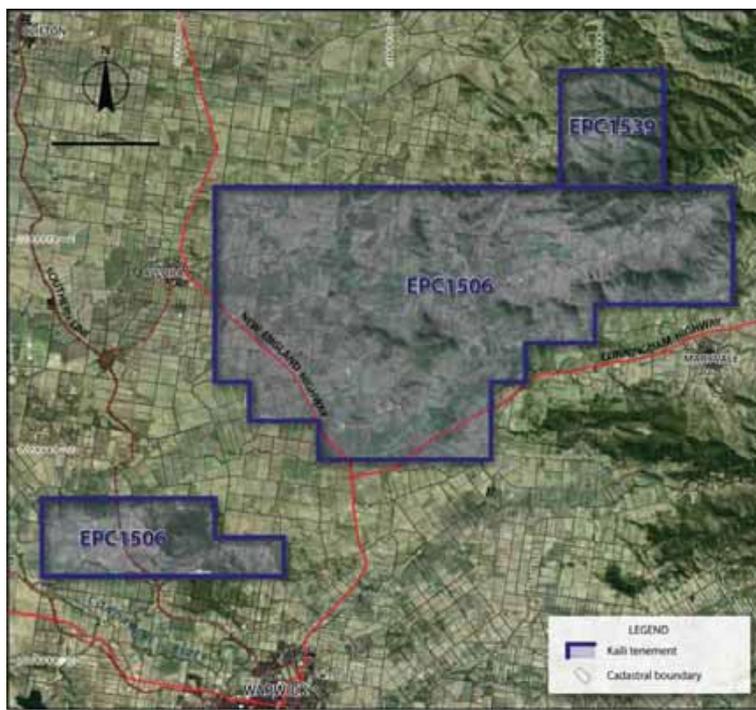


Figure 8: Maryvale Project showing cadastral boundaries and infrastructure

REVIEW OF OPERATIONS

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 subgroup, a sequence of predominantly conglomerates and sandstones deposited in a fluvial to lacustrine environment. The overlying Marburg subgroup comprises predominately quartz sandstones interbedded with grey shales and mudstones (Figure 9).

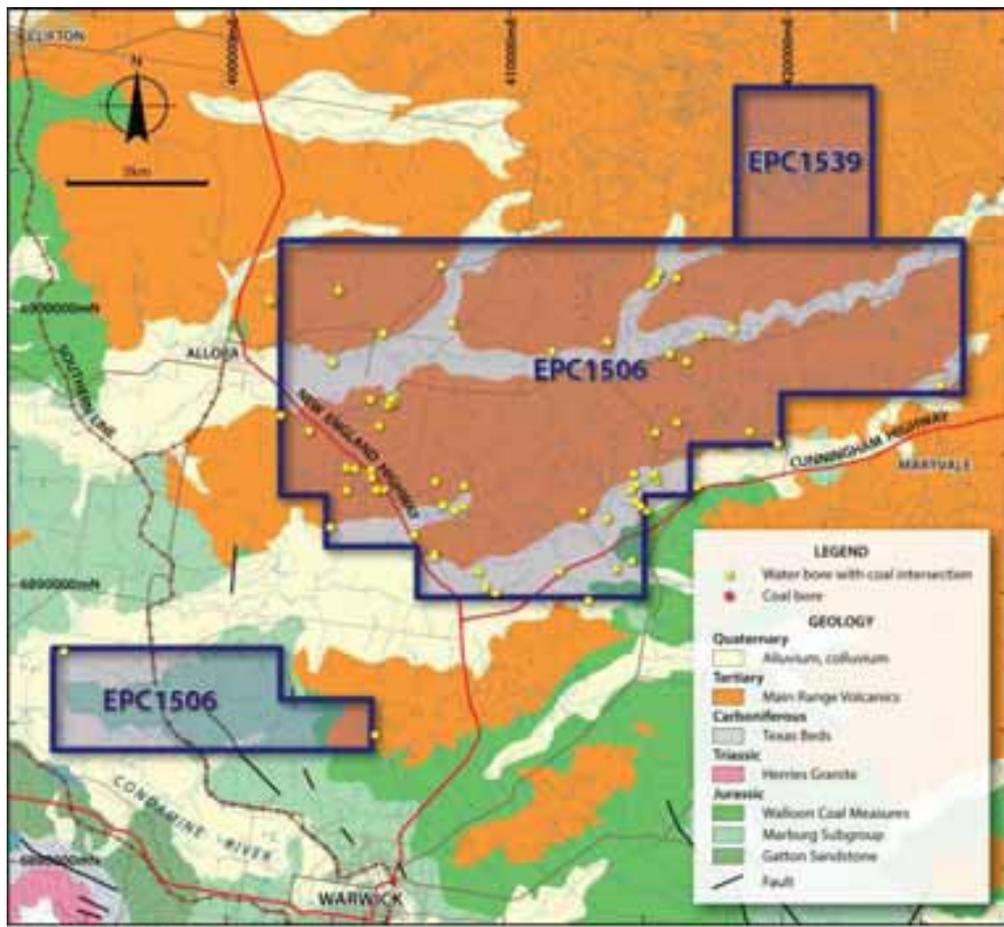


Figure 9: Maryvale Project Surface Geology with coal in water bores

The Walloon sub group (also known as Walloon Coal Measures) sit conformability on the Marburg subgroup 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.

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 2).

REVIEW OF OPERATIONS

AGE	SUB GROUP	FORMATION	DESCRIPTION
TRIASSIC		MAIN RANGE VOLCANICS	VESICULAR BASALT
LATE JURASSIC		KANGAROO CREEK SANDSTONE	QUARTZ SANDSTONE AND CONGLOMERATE
MIDDLE JURASSIC	WALLOON SUB GROUP	JUNDAH COAL MEASURES	
		TANGALOOMA SANDSTONE	SANDSTONE AND SHALE
		TAROOM COAL MEASURES	
		DURABILLA	SANDSTONE AND MUDSTONE

Table 2: Maryvale Project Stratigraphy

Exploration plans for 2016

During the first half of 2016 the Company plans to carry out resource drilling in EPC1506 and exploration drilling in EPC 1539. To that end the Company has instructed GeoConsult to provide a quote on managing the drilling for EPC 1506 and 1539. GeoConsult is a progressive and multi-disciplinary company of consulting geoscientists and affiliated industry professionals who offer a complete range of services in mining and mineral resource exploration, geotechnical site investigation, mining geology, coal quality, resource analysis, geological modelling, research and development, coalbed methane, hydrogeology and environmental management in addition to owning and operating their own and operate their own coal testing laboratory based in Brisbane. GeoConsult supervised the most recent coal exploration drilling within EPC 1506 in 2010. The aim of the drilling is to define a JORC₂₀₁₂ compliant inferred coal resource within EPC1506 and test for sub surface coal mineralisation in EPC 1539. A total of 6 holes will be drilled with one hole being a diamond core hole for coal quality data. Landholder approval/compensation has been initially approved and will be finalised in March 2016 ahead of a drilling program planned at this stage for April 2016.

LICENCES STATUS

Minerals tenements held at 31 December 2015 are as follows:

Granted Tenement	Project Name	Location	Registered Holder	Beneficial Interest	Expiry
E04/1433	Annette Bore	Canning Basin WA, 150km east of Derby	ASF Kaili Resource Pty Ltd	100%	14 April 2016
E04/1436	Luck Bore	Canning Basin WA, 150km east of Derby	ASF Kaili Resource Pty Ltd	100%	27 April 2016
EPC 1506	Maryvale 1	Clarence Moreton Basin Qld, 15km north of Warwick	APEC Coal Pty Ltd	100%	12 May 2017
EPC 1539	Maryvale 2	Clarence Moreton Basin Qld, 15km north of Warwick	APEC Coal Pty Ltd	100%	5 August 2016

REVIEW OF OPERATIONS

Application Tenement	Project Name	Location	Applicant	Beneficial Interest	Application Date
E08/2770-I	Darnell Hill	Hamersley Basin WA, 150 km south of Pannawonica	Kaili Iron Pty Ltd	100%	11 September 2015
E46/1084-I	Buster's Bore	Hamersley Basin WA, 150 km north of Newman	Kaili Iron Pty Ltd	100%	11 September 2015
E45/4619-I	Bea Bea Creek	Hamersley Basin WA, 250km north west of Newman	Kaili Iron Pty Ltd	100%	11 September 2015
E40/354	8 Mile Dam	Yilgarn Craton WA, 80 km south of Leonora	Kaili Gold Pty Ltd	100%	15 September 2015
E31/1114	Jungle Hill	Yilgarn Craton WA 80 km south of Leonora	Kaili Gold Pty Ltd	100%	15 September 2015
E31/1113	Canegrass	Yilgarn Craton WA, 80 km north of Kalgoorlie	Kaili Gold Pty Ltd	100%	15 September 2015
E27/550	Holey Dam	Yilgarn Craton WA, 80 km north of Kalgoorlie	Kaili Gold Pty Ltd	100%	15 September 2015
E27/1433	Gindalbie Dam	Yilgarn Craton WA, 80 km north of Kalgoorlie	Kaili Gold Pty Ltd	100%	15 September 2015

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

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

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

DIRECTORS' REPORT

The Directors present their report together with the consolidated financial statements of Kaili Resources Limited ("the Company") and its controlled entity ("the Group") for the year ended 31 December 2015.

DIRECTORS

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

Jianzhong Yang
Kaiyuan Yang
Chi Yuen Kuan

DIRECTORS' INFORMATION

Jianzhong Yang

Executive Chairman - appointed on 21 April 2014

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

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 has since introduced new investors to the Company, raised significant fresh capital, succeeded in achieving the re-admission of quotation of the Company on the ASX and establishing a funded base to take the Company forward.

Kaiyuan (Kelly) Yang

Executive Director – appointed on 21 April 2014

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

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.

PRINCIPAL ACTIVITIES

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

DIRECTORS' REPORT

OPERATING AND FINANCIAL REVIEW

Review of operations

A Review of Operations for the financial year, together with future prospects, is set out on pages 3 to 11.

Results

The loss of the Group after income tax for the year was \$976,485 (2014: loss \$691,709).

Financial position

At the end of the year the Group had \$2,908,501 (2014: \$2,400,423) in cash and cash equivalents and net working capital, being current assets less current liabilities, of \$2,916,443 (2014: \$2,405,453).

The net assets of the Group at 31 December 2015 increased to \$3,296,353 from \$2,698,194 mainly as a result of capital raised of \$1,600,000 in March 2015 from the issue of 8,000,000 shares to the public on the re-admission of quotation of the Company on the ASX.

Cash flows

Operating activities resulted in net outflow of \$983,312 (2014: \$694,222) as the Group is still in the exploration phase. A total of \$84,083 was paid for investing activities which consisted of exploration costs less interest income. The Company raised \$1,600,000 from the issue of shares to the public re-admission of quotation of the Company on the ASX.

State of affairs

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

- the issue of 8,000,000 shares to the public for \$1,600,000 on the re-admission of quotation the Company on the ASX; and
- the successful renewal of all existing tenements and the applications for new tenements.

Dividends

The Directors recommend that no dividend be declared or paid.

Likely developments

During the subsequent financial year the likely developments of the Group will involve continuation of exploration in its tenements in Queensland to define coal resource and targets for other minerals in new tenements when granted. Except as described elsewhere in this Annual Report, the likely results of the coal and mineral exploration are unknown at the date of this report.

DIRECTORS' BENEFITS

No Director of the Company has received or become entitled to receive a benefit (other than a benefit included in the aggregate amount of remuneration received or due and receivable by Directors as detailed in the Remuneration Report) by reason of a contract made by the consolidated entity or a controlled entity with the Director or with a firm of which the Director is a member, or with a Company in which the Director has a substantial interest, except for any benefit that may be deemed to have arisen as disclosed in Note 20 of the financial statements.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts involving Directors' interests were entered into during the financial year.

DIRECTORS' REPORT

DIRECTORS' MEETINGS

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

	Directors' Meetings	
	Number eligible to attend	Number attended
Jianzhong Yang	5	5
Kaiyuan Yang	5	5
Chi Yuen Kuan	5	5

During the year, some Board business was effected by execution of circulated resolutions.

REMUNERATION REPORT

The information provided in this remuneration report has been audited.

A. Principles Used to Determine Amount and Nature of Remuneration

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

- Competitiveness and reasonableness
- Acceptability to shareholders
- Transparency

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

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

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

I. Remuneration of Directors

	Short-term benefits	Post- Employment benefits	Total	% of performance related remuneration
	Cash salary and fees	Superannuation		
	\$	\$	\$	
2015				
Jianzhong Yang	67,502	18,797	86,299	-
Kaiyuan Yang	-	-	-	-
Chi Yuen Kuan	-	-	-	-
	<u>67,502</u>	<u>18,797</u>	<u>86,299</u>	<u>-</u>
2014				
He Yuan Qing ¹	-	-	-	-
Chong Wing Onn ¹	-	-	-	-
Ye Dongmei ⁴	-	-	-	-
Kaiyuan Yang ²	-	-	-	-
Jianzhong Yang ²	130,833	12,273	143,106	-
Chi Yuen Kuan ³	-	-	-	-
	<u>130,833</u>	<u>12,273</u>	<u>143,106</u>	<u>-</u>

DIRECTORS' REPORT

¹ Resigned on 21 April 2014

² Appointed on 21 April 2014

³ Appointed on 7 August 2014

⁴ Resigned on 7 August 2014

II. Remuneration of Key Management Personnel of the Group

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

III. Service agreement

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

Director or key management personnel	Salient details
Jianzhong Yang Executive Chairman	<ul style="list-style-type: none">• Employment contract with ASF Kaili Resource Pty Ltd, a wholly owned subsidiary, as Managing Director for a period of 3 years from 14 August 2012 on a salary of \$240,000 p.a. plus statutory superannuation.• With the agreement of both parties, the employment contract was varied, decreasing the salary to \$80,000 p.a. plus statutory superannuation with effect from October 2014, with all other terms remaining the same.• In March 2016, the contract was extended by 3 years from 14 August 2015 on the same terms and conditions.• Statutory leave entitlements in New South Wales apply.• Either party may terminate the employment contract by giving 4 weeks' notice.

IV. Share-based compensation

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

C. Directors' securities holdings

As at 31 December 2015, the relevant interests of the Company's Directors in the securities of the Company were as follows:

	Number of fully paid ordinary shares
Jianzhong Yang (i)	45,569,904
Kaiyuan Yang	-
Chi Yuen Kuan	-
	<hr/>
	45,569,904

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

ENVIRONMENTAL REGULATION

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

DIRECTORS' REPORT

NON-AUDIT SERVICES

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

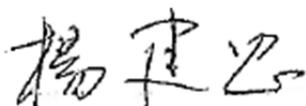
EVENTS AFTER THE REPORTING DATE

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

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration is included on page 17 of the Annual Report and forms part of this report.

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



Jianzhong Yang
Chairman



Kaiyuan Yang
Executive Director

Sydney
17 March 2016

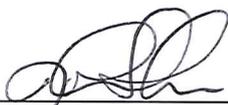
Kaili Resources Limited

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

To the Directors of Kaili Resources Limited

I declare that, to the best of my knowledge and belief, in relation to the review of Kaili Resources Limited for the half year ended 31 December 2015 there has been no contraventions of:

- a) the auditor independence requirements of the Corporations Act 2001 in relation to the review; and
- b) any applicable code of professional conduct in relation to the review.



J F Shute

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

Dated this 17th March 2016

CORPORATE GOVERNANCE STATEMENT

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

The Australian Securities Exchange Corporate Governance Council's Corporate Governance Principles and Recommendations – 3rd edition ('the ASX Principles') are applicable for financial years commencing on or after 1 July 2014, consequently for the Group's 31 December 2015 year end. The Group has chosen to publish its Corporate Governance Statement on its website rather than in this Annual Report.

The Corporate Governance Statement and governance policies and practices can be found in the corporate governance section of the Company's website at www.kailigroup.com.au/corporate-governance-policy and <http://www.kailigroup.com.au/compliance-to-corporate-governance-recommendations>.

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

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE
INCOME
FOR THE YEAR ENDED 31 DECEMBER 2015**

	NOTES	2015	2014
		\$	\$
Revenue from ordinary activities		-	-
Other income	3	267,608	4,908
Goodwill written off		-	(57,513)
Administrative expenses	3	(1,244,093)	(639,104)
Operating loss		(976,485)	(691,709)
Loss before income tax		(976,485)	(691,709)
Income tax	4	-	-
Loss after income tax		(976,485)	(691,709)
Other comprehensive income:			
Gain on translation of foreign operations		-	-
Other comprehensive loss for the year, net of tax		-	-
Total comprehensive loss for the year attributable to members of the Parent Entity		(976,485)	(691,709)
Earning/(loss) per share			
Basic and diluted (loss)/earning per share	16	(1.01) cents	(1.06) cents

The accompanying notes form part of these financial statements.

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2015**

	NOTES	2015	2014
		\$	\$
Current Assets			
Cash and bank balances	6	2,908,501	2,400,423
Trade and other receivables	7	39,090	23,098
Other assets	8	-	28,245
Total Current Assets		<u>2,947,591</u>	<u>2,451,766</u>
Non-Current Assets			
Property, plant and equipment	9	1,591	-
Deposit bond		5,000	5,000
Tenements	10	373,319	287,741
Total Non-Current Assets		<u>379,910</u>	<u>292,741</u>
Total Assets		<u>3,327,501</u>	<u>2,744,507</u>
Current Liabilities			
Trade and other payables	11	31,148	46,313
Total Current Liabilities		<u>31,148</u>	<u>46,313</u>
Total Liabilities		<u>31,148</u>	<u>46,313</u>
Net Assets		<u>3,296,353</u>	<u>2,698,194</u>
Shareholders' Equity			
Share capital	12 (b)	982,669	902,669
Reserves	12 (e)	2,313,684	1,795,525
Total Equity		<u>3,296,353</u>	<u>2,698,194</u>

The accompanying notes form part of these financial statements.

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2015**

	NOTES	2015 \$	2014 \$
Cash flows from operating activities			
Receipts from customers		226,970	-
Payments to suppliers and employees		(1,210,282)	(694,222)
Net used in operating activities	15(b)	(983,312)	(694,222)
Cash flows from investing activities			
Acquisition of a subsidiary		-	655,445
Payments for exploration costs		(122,972)	(20,576)
Purchase of plant and equipment		(1,964)	-
Interest received		40,853	2,848
Net cash (used in)/from investing activities		(84,083)	637,717
Cash flows from financing activities			
Issue of shares		1,600,000	2,278,436
Capital raising costs		(25,356)	-
Net cash generated from financing activities		1,574,644	2,278,436
Increase in cash and cash equivalents		507,249	2,221,931
Cash and cash equivalents at beginning of year		2,400,423	177,472
Effect of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies		829	1020
Cash and cash equivalents at end of year	15 (a)	2,908,501	2,400,423

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

The accompanying notes form part of these financial statements.

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2015**

	<u>Share capital</u>	<u>Share premium</u>	<u>Contributed surplus</u>	<u>Foreign currency translation</u>	<u>Accumulated losses</u>	<u>Total</u>
	\$	\$	\$	\$	\$	\$
Balance as at 1 January 2014	5,531,147	14,234,549	7,553,193	(1,358,572)	(25,533,849)	426,468
Loss and total comprehensive loss for the year	-	-	-	-	(691,709)	(691,709)
Share consolidation in prior year and reallocation to share premium	(4,977,957)	4,977,957	-	-	-	-
Transactions with owners in their capacity as owners:						
Issue of shares	349,479	2,613,956	-	-	-	2,963,435
Balance as at 31 December 2014	902,669	21,826,462	7,553,193	(1,358,572)	(26,225,558)	2,698,194
Loss and total comprehensive loss for the year	-	-	-	-	(976,485)	(976,485)
Transactions with owners in their capacity as owners:						
Issue of shares	80,000	1,520,000	-	-	-	1,600,000
Capital raising costs	-	(25,356)	-	-	-	(25,356)
Balance as at 31 December 2015	982,669	23,321,106	7,553,193	(1,358,572)	(27,202,043)	3,296,353

The accompanying notes form part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

1. NATURE OF OPERATIONS

Kaili Resources Limited and subsidiaries' ("the Group") principal activities is investment in the coal, energy and resources industry. Details of the principal activities of the Group are set out in Note 5 to the financial statements.

2. GENERAL INFORMATION AND STATEMENT OF COMPLIANCE

The consolidated general purpose financial statements of the Group have been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board (AASB). Compliance with Australian Accounting Standards results in full compliance with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). Kaili Resources Limited is a for-profit entity for the purpose of preparing the financial statements.

Kaili Resources Limited is the Group's Ultimate Parent Company. The Company is a public limited company incorporated in Bermuda with its shares listed on the Australian Securities Exchange ("ASX"). The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and its representative office is at World Tower, Suite 1312, Level 3, 87-89 Liverpool Street, Sydney NSW 2000, Australia.

The consolidated financial statements for the year ended 31 December 2015 were approved and authorized for issue by the Board on 17 March 2016.

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

(a) Basis of Preparation

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

These financial statements are presented in Australian dollars.

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

The principal accounting policies and methods of computation used by the Group in the preparation of the financial statements for the year ended 31 December 2015 are consistent with those adopted in the financial statements for the year ended 31 December 2014.

Judgments

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES – CONTINUED

(b) Basis of Consolidation

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

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

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

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

The interests in the controlled entities are disclosed in Note 5.

(c) Investments

Controlled Entities

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

(d) Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost, less provision for depreciation and impairment losses, if any. Details are set out in Note 9.

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

(e) Goodwill

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES – CONTINUED

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

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

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

(f) Foreign Currency

Translation of foreign currency transactions

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

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

Translation of accounts of overseas operations

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

(g) Income Tax

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES – CONTINUED

(h) Exploration and Development Expenditure

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

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

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

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

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

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

(j) Provisions

Employee Entitlements

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

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

Doubtful Debts

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

(k) Revenue recognition

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES – CONTINUED

(l) Impairment of non-financial assets

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

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

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

(m) Financial instruments

Financial assets

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

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

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

Financial liabilities

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES – CONTINUED

(n) Cash and cash equivalents

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

(o) Related parties

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

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

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

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

(p) New and amended standards and interpretations

The Group has adopted all new and amended Australian Accounting Standards and AASB interpretations effective as of 1 January 2015 including AASB 2014-1 Amendments to Australian Accounting Standards (including Part A: Annual Improvements 2010-2012 and 2011-2013 Cycles and Part B: Defined Benefit Plans: Employee Contributions – Amendments to AASB 19). The adoption of the improvements made in the 2012 Cycle did not have any impact on the current period or any prior period and is not likely to affect future periods.

(q) Accounting Standards and Interpretations issued but not yet effective

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective and have not been adopted by the Group for the annual reporting period ending 31 December 2015 are outlined below:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

supersedes AASB 9 issued in December 2009 (as amended) and AASB 9 (issued in December 2010) and includes a model for classification and measurement, a single, forward-looking 'expected loss' impairment model and a substantially reformed approach to hedge accounting.

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

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

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

3. REVENUE AND OPERATING LOSS

	2015	2014
	\$	\$
Other income		
Interest income	40,638	3,063
Consulting income	226,970	-
Sundry income	-	1,845
	<u>267,608</u>	<u>4,908</u>
Administrative expenses		
ASX and registry fees	121,911	34,983
Audit fees	15,850	12,000
Bad debt written off*	10,804	-
Depreciation	373	844
Directors' remuneration	86,299	143,106
Consultants' fees for re-admission to quotation on ASX	379,982	120,000
Legal and professional fees	89,376	18,071
Staff costs	372,446	146,801
Tenement costs	37,394	4,884
Other costs	129,658	158,415
	<u>1,244,093</u>	<u>639,104</u>

* This debt was acquired on the acquisition of ASF Kaili Resource Pty Ltd on 11 April 2014. Director Jianzhong Yang has an 80% interest in the issued capital of KIR. In October 2015, KIR was deregistered and the debt written off.

4. INCOME TAX

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

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

Loss before income tax	<u>(976,485)</u>	<u>(691,709)</u>
Tax at the Australian domestic income tax rate 30%	(292,946)	(207,513)
Tax losses not recognised	<u>292,946</u>	<u>207,513</u>
Income tax expense	<u>-</u>	<u>-</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

5. CONTROLLED ENTITIES

(a) Investments in controlled entities comprise:

Name of subsidiary	Place of incorporation/operation	Principal activities	Beneficial percentage held by economic entity	
			2015 %	2014 %
Kaili Corporation Pty Ltd	Australia/Australia	Investment holding	100	100
APEC Coal Pty Ltd	Australia/Australia	Coal mining business	100	100
ASF Kaili Pty Ltd	Australia/Australia	Coal mining business	100	100
Kaili Gold Pty Ltd	Australia/Australia	Gold exploration business	100	-
Kaili Iron Pty Ltd	Australia/Australia	Iron ore exploration business	100	-
			2015 \$	2014 \$

6. CASH AND CASH EQUIVALENTS

Cash at bank	2,908,501	2,400,423
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7. TRADE AND OTHER RECEIVABLES

GST receivable	39,090	12,079
Interest receivable	-	215
Due from Kaili International Resource Limited (KIR)*	-	10,804
	<u>39,090</u>	<u>23,098</u>

*This balance was acquired on the acquisition of ASF Kaili Resource Pty Ltd on 11 April 2014. Director Jianzhong Yang has an 80% interest in the issued capital of KIR. In October 2015, KIR was deregistered and the debt written off.

8. OTHER ASSETS

Prepayments	-	28,245
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9. PROPERTY, PLANT AND EQUIPMENT

Furniture, fixtures and office equipment

Gross carrying amount:

Balance at beginning of year	-	1,350
Additions	1,964	-
Disposals	-	(1,350)
Balance at end of year	<u>1,964</u>	<u>-</u>

Depreciation:

Balance at beginning of year	-	506
Depreciation	373	169
Disposals	-	(675)
Balance at end of year	<u>(373)</u>	<u>-</u>

Carrying amount at 31 December 2015	<u>1,591</u>	<u>-</u>
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015

	2015	2014
	\$	\$
10. TENEMENTS		
At cost:		
Balance at beginning of year	287,741	267,165
Additions	85,578	20,576
Balance at end of year	<u>373,319</u>	<u>287,741</u>

11. TRADE AND OTHER PAYABLES

Trade payables	12,000	21,121
Other payables and accrued expenses	19,148	25,192
	<u>31,148</u>	<u>46,313</u>

12. EQUITY

	2015	2015	2014	2014
	Number of shares	\$	Number of shares	\$
(a) Authorised capital:				
Authorised ordinary shares : Par value \$0.01	5,000,000,000	50,000,000	5,000,000,000	50,000,000
(b) Issued and paid up capital:				
Fully paid ordinary shares: Par value \$0.01	98,266,915	982,669	90,266,915	902,669

(c) Movement in ordinary share capital during the year:

Date	Details	No. of shares	Par value	Share capital
			\$	\$
	Balance at beginning of year	90,266,915	0.01	902,669
24 Mar 15	Public issue of shares on re-admission of quotation on ASX at \$0.20 each	8,000,000	0.01	80,000
		<u>98,266,915</u>		<u>982,669</u>

Any amount paid for shares in excess of the par value is accounted for in the share premium account. Share issue costs are offset against the share premium account.

(d) Movement in share premium account during the year:

	Balance at beginning of year	21,826,462
24 Mar 15	Public issue of 8,000,000 shares of par value \$0.01 at \$0.20 each	1,520,000
	Transaction costs	(25,356)
		<u>23,321,106</u>

	2015	2014
	\$	\$
(e) Reserves		
Contributed surplus	7,553,193	7,553,193
Foreign currency translation reserve	(1,358,572)	(1,358,572)
Share premium account	23,321,106	21,826,462
Accumulated losses	(27,202,043)	(26,225,558)
	<u>2,313,684</u>	<u>1,799,525</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015

	2015	2014
	\$	\$

13. REMUNERATION OF AUDITORS

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

Auditing and reviewing financial reports	15,850	12,000
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14. SEGMENT INFORMATION

Business segments

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

15. CASH FLOW INFORMATION

(a) Reconciliation of Cash

Cash and cash equivalents include cash and bank balances.

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

Loss before income tax	(976,485)	(691,709)
Depreciation	373	844
Foreign exchange differences	(830)	(1,020)
Goodwill written off	-	57,513
Interest income	(40,638)	(3,063)
Exploration licences application fees	37,394	-
Services paid by way of share issue	-	80,000
	<hr/>	<hr/>
Operating cash flows before movements in working capital	(980,186)	(557,435)
Changes in assets and liabilities relating to operations:		
Increase in trade and other receivables	(16,206)	(12,080)
Decrease/(Increase) in prepayments	28,245	(21,938)
Decrease in trade and other payables	(15,165)	(102,769)
	<hr/>	<hr/>
Net cash used in operating activities	(983,312)	(694,222)

16. EARNING/(LOSS) PER SHARE

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

(Loss)/earning for the purposes of basic and diluted earning/(loss) per share	(976,485)	(691,709)
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Number of shares	Number	Number
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Weighted average number of ordinary shares for the purposes of basic and diluted earning/(loss) per share	96,464,717	65,379,579
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

	2015	2014
	\$	\$

17. COMMITMENTS

MINERALS TENEMENTS

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

Within twelve months	186,000	301,000
Twelve months or longer and not longer than five years	115,000	230,000
Longer than five years	-	-
	<u>301,000</u>	<u>531,000</u>

The Group has obligations to restore and rehabilitate areas disturbed during exploration. Cash deposit of \$5,000 (2014: \$5,000) has been provided as security for compliance with the conditions of the tenements.

18. FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES

The Group's principal financial instruments comprise cash and bank balances, accounts receivable and payables and bond deposit.

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

Financial assets

Cash and bank balances	2,908,501	2,400,423
Trade and other receivables	39,090	23,098
Bond deposit	5,000	5,000
	<u>2,952,591</u>	<u>2,428,521</u>

Financial liabilities at amortised cost

Accounts and other payables and accruals	<u>31,148</u>	<u>46,313</u>
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It is, and has been throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are fair value and cash flow interest rate risk, foreign currency risk, credit risk and liquidity risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set in note 2(m) to the consolidated financial statements.

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

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

(ii) Interest rate sensitivity analysis

A 1% decrease in interest rate would result in a decrease of \$29,085 (2014: \$24,004) in interest income for the year based on balance date bank balances. A 1% increase in interest rate would have the opposite effect.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

(b) Foreign currency risk

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

(c) Liquidity risk

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

Group	2015			2014		
	On demand	Over 1 year	Total	On demand	Over 1 year	Total
	\$	\$	\$	\$	\$	\$
Accounts and other payables and accruals	31,148	-	31,148	46,313	-	46,313

(d) Price risk

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

19. CAPITAL MANAGEMENT

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to the Company's shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes during the year ended 31 December 2015.

20. RELATED PARTY TRANSACTIONS

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

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

Compensation of KMP of the Group:

	2015	2014
	\$	\$
Short-term employee benefits	67,502	130,833
Post-employment benefits	18,797	12,273
Other long-term benefits	-	-
Termination benefits	-	-
Share-based payments	-	-
	<u>86,299</u>	<u>143,106</u>

Transaction with KMP

In October 2015, Kaili International Resource Limited (KIR), in which Director Jianzhong Yang has an 80% interest in the issued capital, was deregistered. An amount of \$10,804 owed by KIR to the Group was written off.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

21. PARENT ENTITY INFORMATION

	2015	2014
	\$	\$
Assets		
Current assets	3,584,096	2,656,622
Non-current assets	905,300	905,100
Total assets	<u>4,489,396</u>	<u>3,561,722</u>
Liabilities		
Current liabilities	12,000	69,605
Total liabilities	<u>12,000</u>	<u>69,605</u>
Equity		
Issued capital	982,669	902,669
Share premium account	23,321,106	21,826,463
Contributed surplus reserve	7,553,193	7,553,193
Foreign currency translation reserve	(1,358,572)	(1,358,572)
Accumulated losses	(26,021,001)	(25,431,636)
	<u>4,477,395</u>	<u>3,492,117</u>
Financial performance		
Loss for the year	(589,365)	(83,808)
Other comprehensive income	-	-
Total comprehensive loss	<u>(589,365)</u>	<u>(83,808)</u>

The Parent Entity has not entered into any financial guarantees which is outstanding and has no commitments for the acquisition of property, plant and equipment as at 31 December 2015 and 31 December 2014.

22. EVENTS AFTER THE REPORTING DATE

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

23. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 17 March 2016.

DIRECTORS' DECLARATION

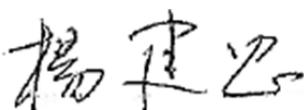
The Directors declare that the financial statements and notes set out on pages 19 to 35:

- (a) give a true and fair view of the Company's and consolidated entities' statements of financial position as at 31 December 2015 and of their statements of comprehensive income, as represented by the results of their operations and their cash flows, for the financial year ended on that date; and
- (b) have been prepared in accordance with International Financial Reporting Standards.

In the opinion of the Directors:

- (a) The statement of comprehensive income is drawn up so as to give a true and fair view of the results of the Company for the year ended 31 December 2015.
- (b) The statement of financial position is drawn up so as to give a true and fair view of the state of affairs of the Company as at 31 December 2015.
- (c) At the date of this declaration there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

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



Jianzhong Yang
Chairman



Kaiyuan Yang
Executive Director

Sydney
17 March 2016

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

We have audited the Consolidated Financial Statements of Kaili Resources Limited (the "Company") and the subsidiaries (together "the Group") set out on pages 19 to 35, which comprise the consolidated and Company statements of financial position as at 31 December 2015, the consolidated income statement, the consolidated statement of comprehensive income, the statements of changes in shareholders' equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibilities for the Consolidated Financial Statements

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

Auditor's responsibility

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

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

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

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

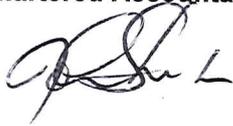
Independence

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

Opinion

In our opinion, the Consolidated Financial Statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2015 and of the profit and cash flows of the Company and of the Group for the year then ended in accordance with International Financial Reporting Standards.

JOHN F SHUTE
Chartered Accountant

A handwritten signature in black ink, appearing to read 'J. Shute', written over a faint, illegible stamp or background.

John F Shute

Sydney
17th March 2016

ADDITIONAL INFORMATION

Additional information included in accordance with Listing Rules of the ASX Limited

SHAREHOLDINGS

1. Substantial shareholders

Substantial shareholders in the Company at the date of the report are set out below: -

Name	Number of ordinary shares held (directly and indirectly)	Percentage of issued capital
Treasure Unicorn Limited*	36,769,904	37.42
Kaili Holdings Limited*	8,800,000	8.96
Mile Ocean Limited	9,692,222	9.86
Jin He	5,947,859	6.05

*Mr Jianzhong Yang has relevant interests in those entities.

2. Distribution of fully paid ordinary Shares as at 4 March 2016

Range of shareholdings	Number of Shareholders	Units	Percentage of issued capital
1 — 1,000	683	124,735	0.13
1,001 — 5,000	84	203,331	0.21
5,001 — 10,000	252	2,479,367	2.52
10,001 — 100,000	104	4,315,125	4.39
100,001 and over	30	91,144,357	92.75
	<hr/> 1,153	<hr/> 98,266,915	<hr/> 100.00

There were 744 holders with less than a marketable parcel of shares.

3. Voting rights

Each shareholder is entitled to one vote per ordinary share.

4. The Company is incorporated in Bermuda and is not regulated in respect of Chapters 6, 6A, 6B and 6C of the Australian Corporations Act dealing with the acquisition of shares (including substantial shareholdings and takeovers). There is no limitation on the acquisition of securities imposed by the jurisdiction in which the Company is incorporated.

5. Top twenty shareholders (as at 4 March 2016)

Name	Number of fully paid Ordinary shares held	Percentage of issued capital
1. Treasure Unicorn Limited	36,514,086	37.16
2. Mile Ocean Limited	9,692,222	9.86
3. Kaili Holdings Limited	8,800,000	8.96
4. Jin He	5,947,859	6.05
5. Start Link Investments Limited	3,810,000	3.88
6. Mr Yutian Bai	2,666,666	2.71
7. Mr Shujun Liu	2,666,666	2.71
8. Ms Junlan Wang	2,666,666	2.71
9. Eagle Merit Investments Limited	2,470,000	2.51
10. ASF Group Limited	2,200,000	2.24
11. Mrs Man Sun Ng	1,900,000	1.93
12. Mr Qiusheng Li	1,666,666	1.70
13. Mr Yongjun Liu	1,666,666	1.70
14. Mr Haiyu He	1,333,333	1.36
15. Ms Guiying Jia	1,333,333	1.36
16. Wujiang Investment Pty Ltd	1,100,000	1.12
17. Smart Step Limited	1,000,000	1.02
18. Supermax Group Limited	560,000	0.57
19. Junlan Wang	500,000	0.51
20. Jin He	440,000	0.45
Twenty largest shareholders	88,934,163	90.50
Others	9,332,752	9.50
	98,266,915	100.00

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

Australia

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

Bermuda

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

7. Ordinary shareholders - enquiries

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

8. Trading symbol

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