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KAILI RESOURCES LIMITED

(Incorporated in Bermuda with limited liability)

ARBN 077 559 525

Annual Report – 2023

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CORPORATE DIRECTORY

Board of Directors

Donghai Zhang – Chairman
Chunlin Liu
Jing Li
Jianzhong Yang
Long Zhao

Company Secretary

Long Zhao

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Chartered Accountant
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CHAIRMAN'S REPORT

Dear Shareholders,

I am pleased to present the 2023 Annual Report.

There is a global view of urgent need for new sources of supply of critical minerals which are used in permanent magnets for electric vehicles, wind turbines and many electronic devices. Governments including Australian and North American are providing incentives to explorers and producers of those minerals.

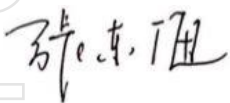
Hence, in addition to base metals we have included critical minerals Rare Earth Elements (REE) in our focus for exploration. Following an application with the South Australian Government we have been granted a new licence to explore for Rare Earth Elements (REE) on the Limestone Coast east of Adelaide. During the year we carried out studies on and tested samples from historic holes leading to the conduct of an initial drilling program in February 2024. To increase our footprint for exploration of REE we applied for 2 further tenements in the region, and these have been granted in February 2024 bringing our tenements surface area to a total of approximately 1,985 square kilometres.

The drilling program at Canegrass and Holey Dam in the Yilgarn Craton in Western Australia has not come up with results that encourage us to invest more funds for gold exploration on those tenements. However, significant REE has been identified in the samples at Holey Dam and we plan to pursue further exploration for REE within this tenement.

We have been unable to conduct planned field work within our tenements in northern Western Australia at Halls Creek during the 2023 dry season, April to October, as we seek to satisfy the requests of Traditional Owners for their conduct of initial site heritage surveys prior to giving consent for access to the grounds. Those surveys will require several helicopter trips for several teams. Fortunately, the WA Government renewed all the 4 licences for 5 years to 2028 allowing time for the conduct of exploration work for targeted base metals.

Yitai Group, the controlling shareholder, has continued to support the Company with interest free unsecured finance facilities for operations and has extended that support to April 2025. This allows the Company not to seek equity capital in the prevailing high interest market with diminished appetite for growth securities.

I thank all shareholders, service providers and Board members for their support as the Company works to achieve success in its mineral exploration ventures.



Donghai Zhang
Chairman

28 March 2024

REVIEW OF OPERATIONS

SUMMARY OF EXPLORATION ACTIVITIES AND RESULTS

Yilgarn Craton (Gindalbie) Gold Project, Canegrass and Holey Dam in Western Australia

- **Soil sampling**

- **Over four IP targets at Prospect F**

- Elevated soil gold trend to 11.9 ppb associated with linear magnetic high and IP target CGIP 1 which is open to the north.
 - Elevated Rare Earth Element (“REE”) response associated with Target CGIP 4 and adjacent to the Emu Fault.

- **Drilling**

- **Holey Dam**

- HDRC001: 4 m @ 546 ppm TREO from 24 m - 28 m and 6 m @ 641 ppm TREO from 52 m - 58 m including 1 m @ 866 ppm from 54 m - 55 m.
 - HDRC002: 1 m @ 586 ppm TREO from 20 m - 21 m and 5 m 628 ppm TREO from 48 m to 54 m including 1 m @ 709 ppm TREO from 50 m - 51 m and 1 m @ 850 ppm TREO from 53 m - 54 m.
 - High value Battery Metal Elements Pr, Nd, Dy and TB constitute between 20% and 30% of the individual sample assays.

- **Canegrass**

- CGRC13 intersected a 4 m zone of elevated sulphur and zinc from 66 m - 70 m - 1.8% -7.8% sulphur and zinc 673 ppm and 1,870 ppm.
 - CGRC12 and 13 have been drilled 100 m south of the previous drilling that intersected 1 m @ 3.96 g/t^l Au.

- **pXRF scan**

- Samples from previously completed Aircore holes in the Saprolite Zone for a multi element suite including REE minerals Nd, Pr, Ce, La and Y.

Limestone Coast Rare Earth Element Project in South Australia

- At Lameroo, inspection of drill sites on road traverses, sought Councils and Department of Mines approvals and preparing for Aircore drilling.
- Completed pXRF scanning of 11 historic drill holes within the Lameroo Project for selected battery REEs Y, La, Ce, Pr and Nd.
- Selected samples based on results of pXRF scanning sent to ALS laboratory for full REE analyses.
- Lodge applications for 2 new tenements, Karte ELA 2023/00060 and Coodalya ELA 2023/00061, close to the Lameroo Tenement EL 6856 to increase footprint in Limestone Coast. The 2 tenements were granted in February 2024

Halls Creek Gold Cobalt Nickel and Copper Project in Western Australia

- No field activities could be conducted during the 2023 dry season as still progressing on the procedures with the Kimberley Land Council (KLC) and relevant Native Title Groups on the submitted project work programs.
- The 4 tenements have been renewed for a further 5-year period to 30 August 2028.

REVIEW OF OPERATIONS (continued)

Tennant Creek Gold and Copper Project in Northern Territory

- Further studies on Gidyea tenement concluded that risks and rewards not sufficiently encouraging and Gidyea EL32665 relinquishment has been submitted in October 2023.
- Awaiting grant on the application of Kovacs ELA 32666

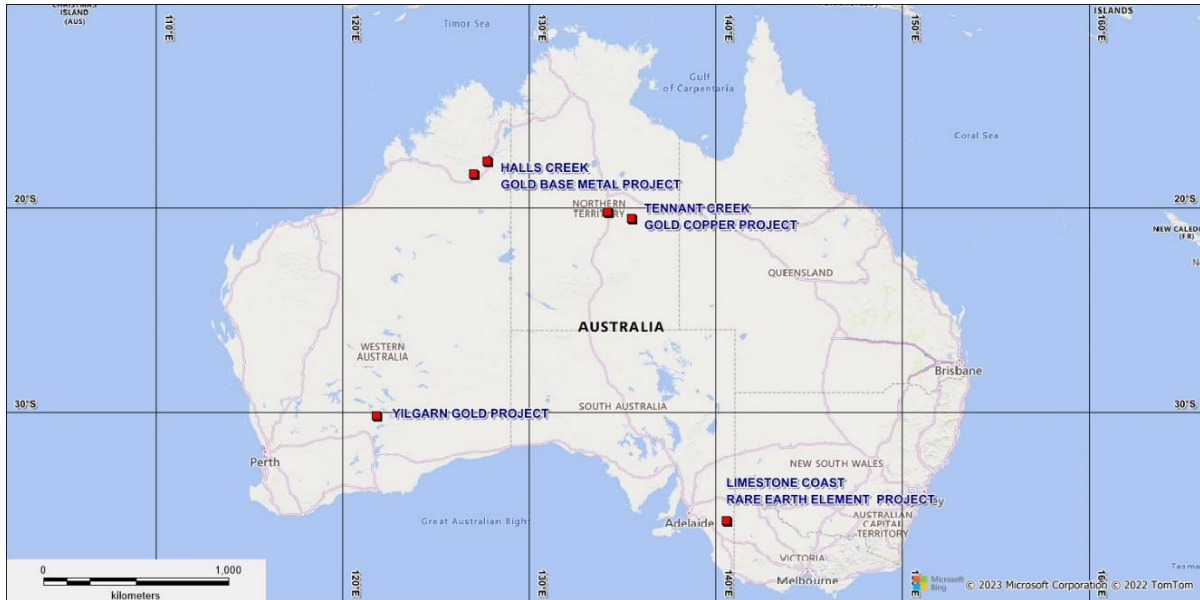


Figure 1: Kaili Resources Projects Location

Yilgarn Craton (Gindalbie) Gold and Critical Metals Project – Western Australia

Canegrass E31/1113 and Holey Dam E27/550

Held 100% by wholly owned subsidiary Kaili Gold Pty Ltd

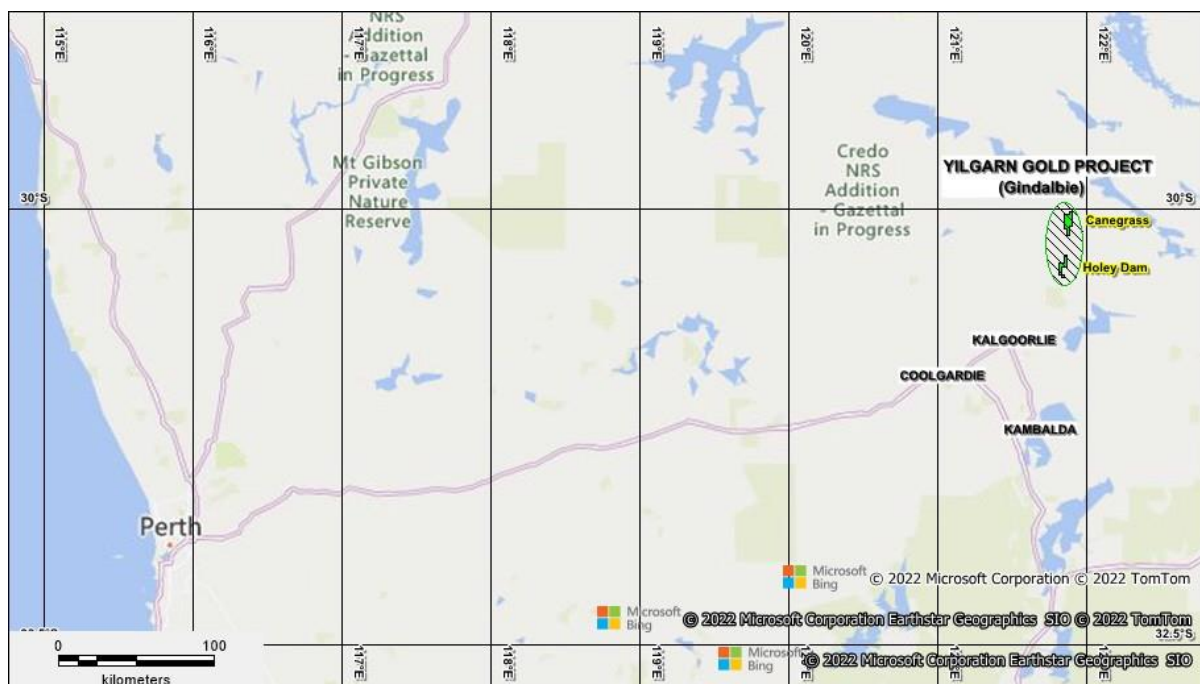


Figure 2: Kaili Resources Yilgarn Gold Tenements Location

REVIEW OF OPERATIONS (continued)

Canegrass and Holey Dam

With the results of the December 2022 IP Survey¹ and prior to decision for RC Drill testing, four target areas CGIP 1 to 4 (**Figure 4**) were chosen for sampling and field geochemical evaluation at Canegrass. The December 2022 survey (**Figure 5**) highlighted a number of conductive targets (CGIP 1 to 3) with CGIP 1 being the highest priority target and located adjacent to the generally <15 m thick NW-SE paleochannel that traverses the area.

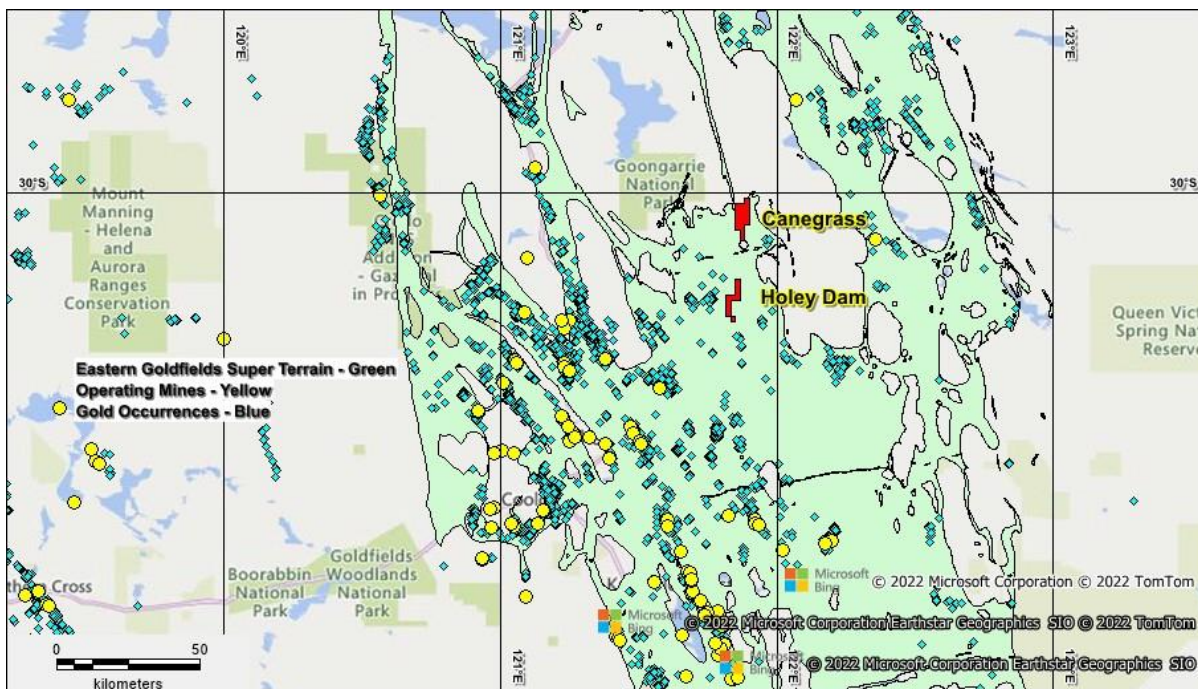


Figure 3: Eastern Goldfields Super Terrain and Other Companies Operating Mines

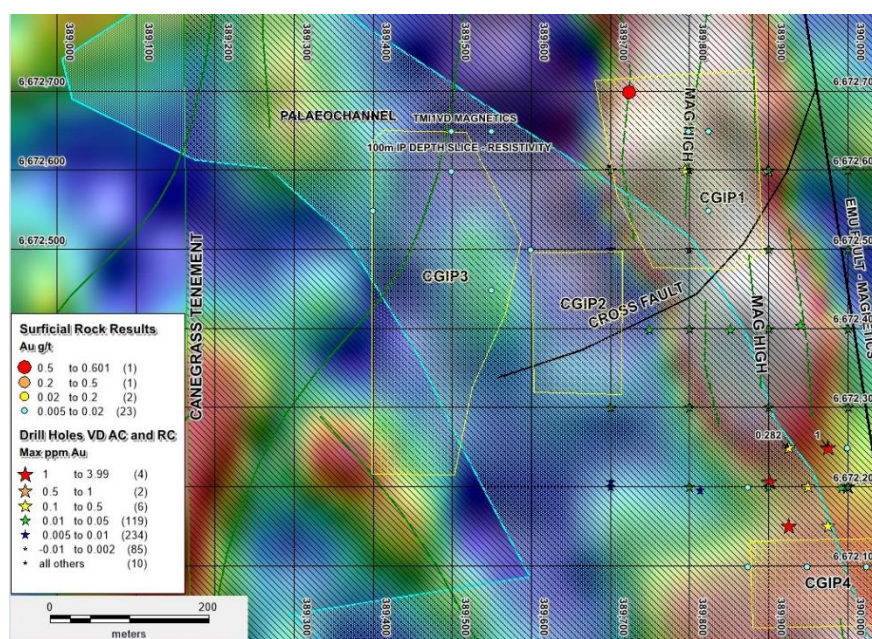


Figure 4: Canegrass Targets CGIP1 to 4 with surface rock sample sites on TMI 1VD Magnetics

REVIEW OF OPERATIONS (continued)

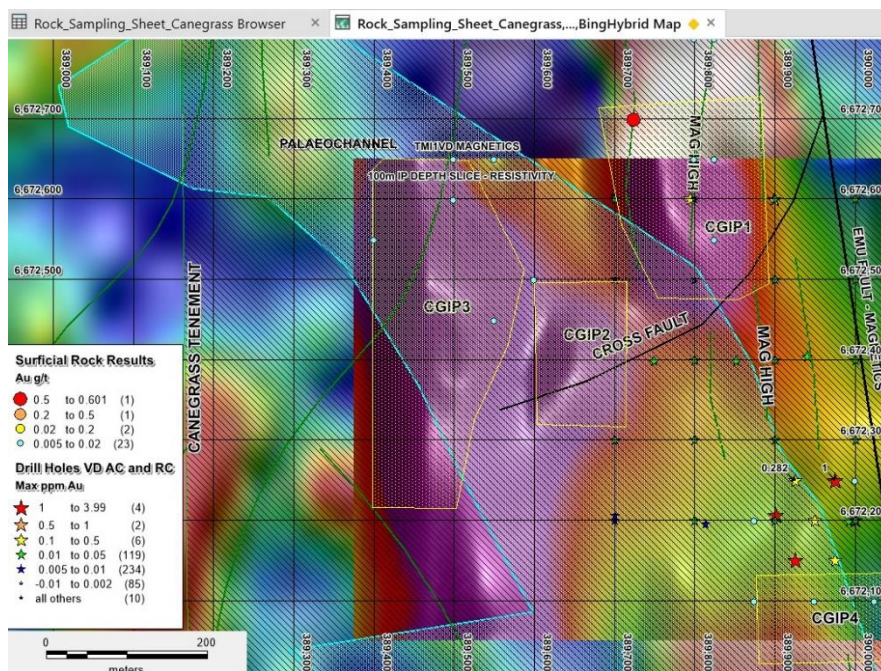


Figure 5: Canegrass Targets CGIP 1 to 4 with surface rock sample sites on 100m depth slice IP chargeability

A distinctive N-S magnetic high can be seen in **Figure 4** and runs parallel to the regionally significant Emu Fault that separates a dominantly mafic igneous terrain to the west and a dominantly felsic igneous domain to the east. Exploration to date has highlighted an area of anomalous gold in 2022 RC drilling to **1m @ 3.96 g/t²**. The drilling area is associated with a break on the magnetic trend and coincides with chlorite/silica altered basalt/amphibolite.

Applying the MMI technique, the rock and soil sampling at Canegrass was completed in April 2023 and within a small area of sub crop adjacent to the paleochannel in CGIP 1 two rock samples returned assays of **0.6 g/t³** and **0.25 g/t³ Au** with the former associated with a brecciated mafic volcanic.

On 3 August 2023, the Company completed a total of 1,148 m of RC drilling at Canegrass and Holey Dam (**Figures 3 to 5 and Table 1**). The drilling followed up previous RC drilling and Ground IP survey at Canegrass and RC drilling and Aircore Drilling programs at Holey Dam (**Figures 6 and 7**).

The IP/Magnetic target extends over 800 m and was tested by only two drill holes (CGRC008 and CGRC009). The Ground IP survey covered 20% of the magnetic trend. The relationship between the magnetic high and IP chargeability high was evaluated.

Drilling Results⁴

Base Metals

- CGRC013 was drilled to the south of the previous 2022 RC drilling that intersected 1m @3.96 g/t¹ Au and intersected a 4 m zone from 66 m -70 m to 7.8% sulphur and 1.870 ppm Zn associated with trace chlorite alteration and quartz veining.

REVIEW OF OPERATIONS (continued)

Gold

- CGRC008 intersected four discrete zones of elevated gold, associated with quartz veining and blebby pyrite hosted in a chlorite-epidote altered and sheared mafic intrusive unit. 0.32 g/t Au occurred at 72 m- 73 m; 0.33 g/t Au occurred at 89 m – 90 m; 0.57 g/t Au occurred at 124 m – 125 m; and 0.23 g/t occurred at 125 m –126 m. A zone of gold anomalism in soil and weathered outcrop located approximately 100 m due west-northwest, was identified during the soil sampling program in February 2023. A sample of sheared quartz-mafic breccia returned 0.6g/t¹ Au.

Treo

- Two holes were drilled at the Holey Dam Prospect to test for extensions of gold mineralisation and tourmaline alteration identified from prior drilling. No elevated gold intersections were encountered however there were some encouraging Total Rare Earth Oxides (TREO) intersections within mottled clays and saprolite, formed on dolerite. The rare earth mineralisation was possibly developed from supergene enrichment processes of the below rock units.

HDRC002

- 4 m composite interval 48 m -52 m returned 451.6 ppm TREO
- 52 m – 56 m returned 453.7 ppm TREO
- 53 m – 54 m returned 757.3 ppm TREO

HDRC001

- 4 m composite interval 24 m – 28 m returned 591.4 ppm TREO
- 12 m composite interval 52 m – 64 m returned 477.34 ppm including 1 m @ 609.38 ppm
- The 4 m composite intervals were re-sampled in single metre intervals from these zones at Holey Dam for a total of 59 samples to further delineate and identify any potentially higher-grade rare earth mineralisation.

The results received in November 2023⁵ of the single metre intervals re-sampling for Holey Dam were as follows:

- HDRC001: 4 m @ 546 ppm TREO from 24 m - 28 m and 6 m @ 641 ppm TREO from 52 m - 58 m including 1 m @ 866 ppm from 54 m - 55 m.

HDRC002: 1 m @586 ppm TREO from 20 m - 21 m and 5 m 628 ppm TREO from 48 m to 54 m including 1 m @ 709 ppm TREO from 50 m - 51 m and 1 m @ 850 ppm TREO from 53 m - 54 m.

- High value Battery Metal Elements Pr, Nd, Dy and TB constitute between 20% and 30% of the individual sample assays.

The initial focus at Holey Dam was gold exploration and the Company conducted stage exploration involving geological mapping and soil sampling followed by Vacuum and Aircore drilling then two RC holes in 2023. The gold results have not been encouraging. However, in the 2023 RC drilling program there were elevated TREO results from the saprolite zone overlying altered and veined mafic intrusive/extrusive rocks. The results indicate a zone of TREO enrichment at the base of the saprolite clays above partially weathered mafic rocks; a location termed BOCO (Base of Complete Oxidation) and is just above the partially altered basalt or “saprock” as shown in **Figure 7**. Interestingly as can be seen in **Figure 7** the BOCO horizon shallows to the west and it is these more shallow horizons that will be the focus of the next round of Aircore drilling.

See ASX announcements on ¹9 December 2022, ²3 December 2020, ³5 April 2023, ⁴12 October 2023, and ⁵20 November 2023. For additional background description of the previous exploration work and results see ASX Announcements on 8 March 2023 and 3

REVIEW OF OPERATIONS (continued)

May 2023. The Company is not aware of any new information or data that materially affects the information included in those announcements.

Prospect	Tenement	Hole ID	Easting_MGA94_Z51	Northing_MGA94_Z51	Dip (°)	Azimuth (°)	Planned Depth (m)	EOH (m)
Holey Dam	E27/550	HDR001	389300	6643800	60	90	90	90
Holey Dam	E27/550	HDR002	389200	6643800	60	90	90	90
Canegrass	E31/1133	CGRC008	389830	6672612	60	270	200	180
Canegrass	E31/1133	CGRC009	389809	6672503	60	270	200	200
Canegrass	E31/1133	CGRC010	389540	6672500	60	270	150	150
Canegrass	E31/1133	CGRC011	389720	6672373	60	270	150	150
Canegrass	E31/1133	CGRC012	555555	6672083	60	90	90	108
Canegrass	E31/1133	CGRC013	389897	6672083	60	90	90	90
Canegrass	E31/1133	CGRC014	389846	6672083	60	90	90	90
								1148

Table 1: Gindalbie RC Drill Collars

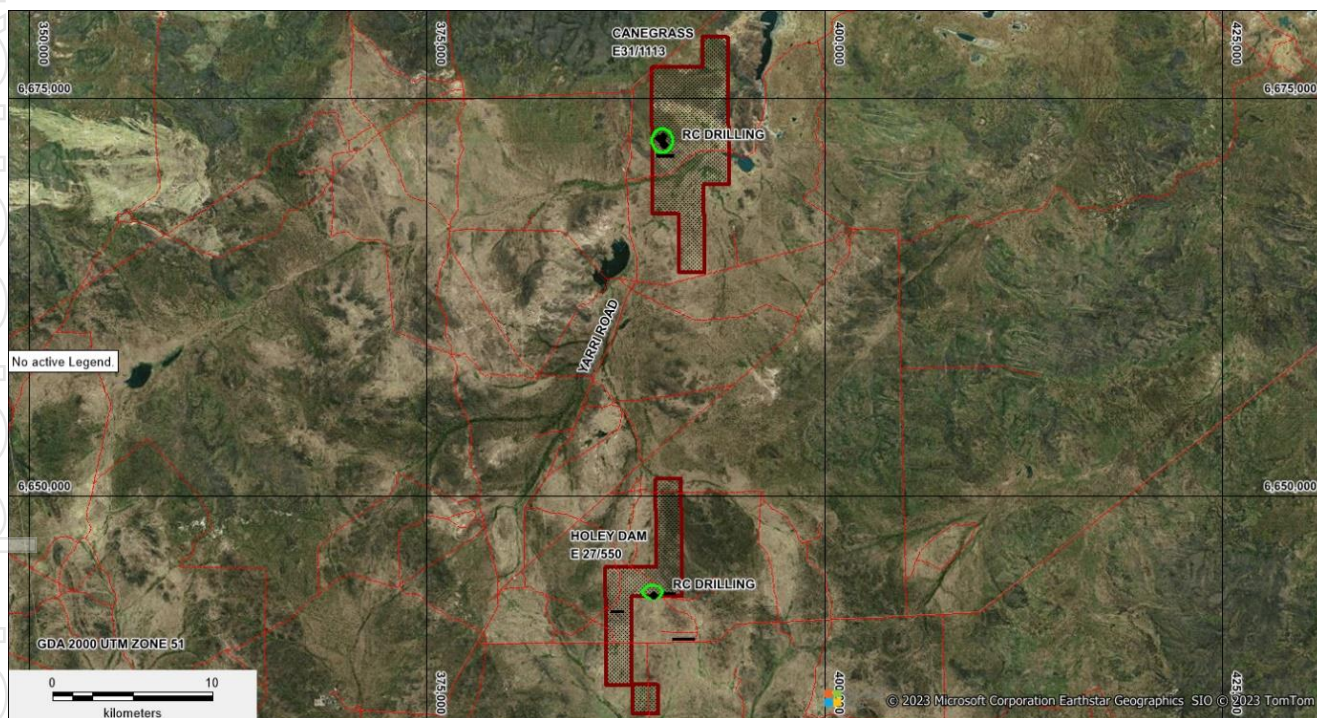


Figure 6: Holey Dam and Canegrass Drill Collar Regional Locations

REVIEW OF OPERATIONS (continued)

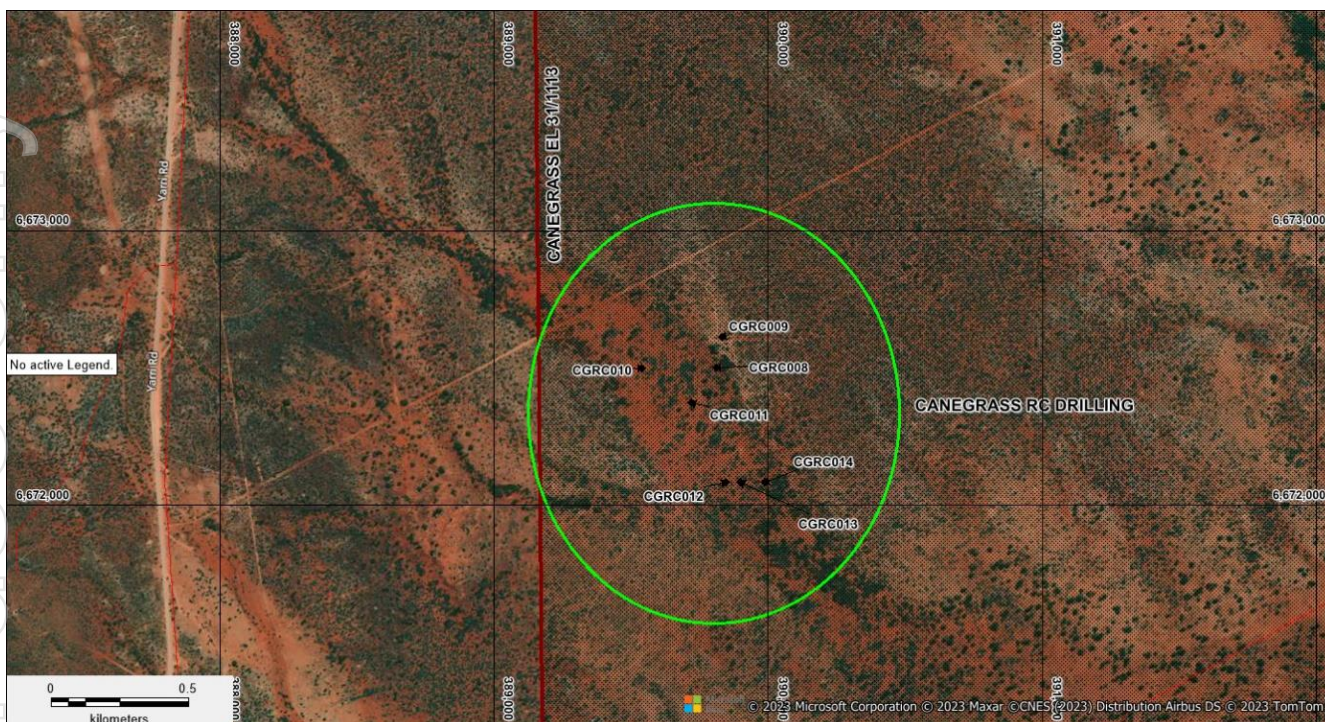


Figure 7: Canegrass Drill Collar Locations

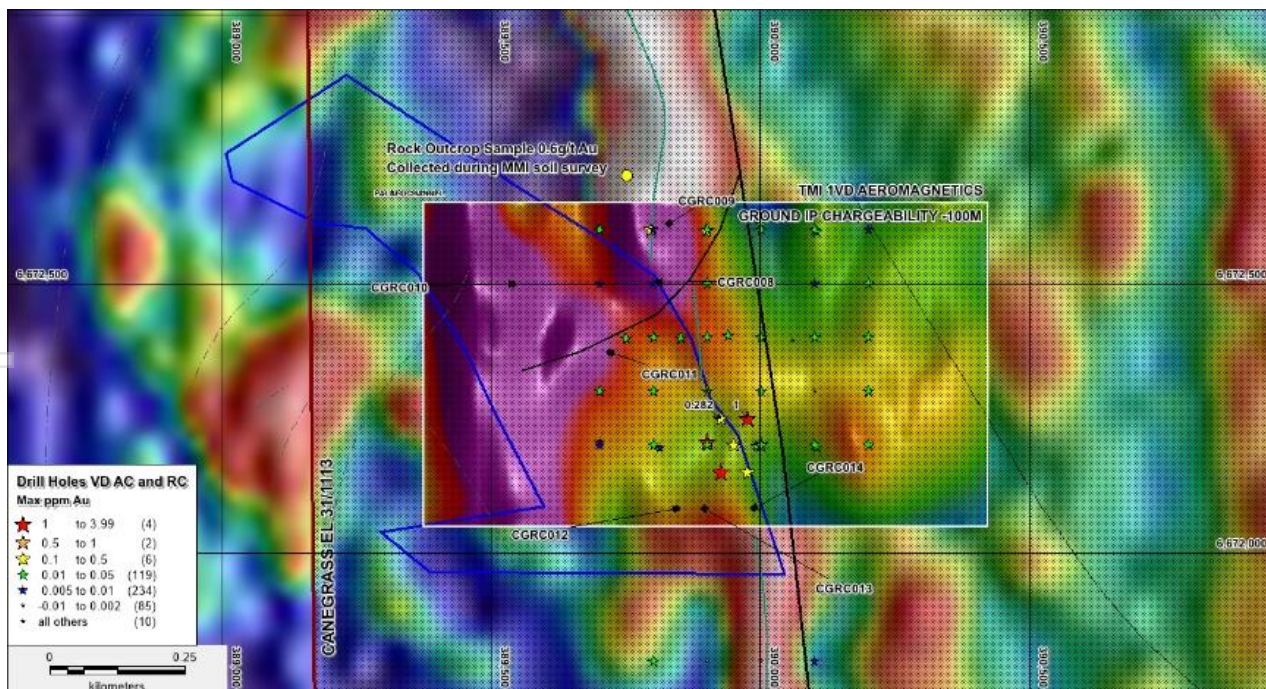


Figure 8: Canegrass Drill Collars and Max Gold in Drilling

REVIEW OF OPERATIONS (continued)



Figure 9: Holey Dam Drill Collar Locations

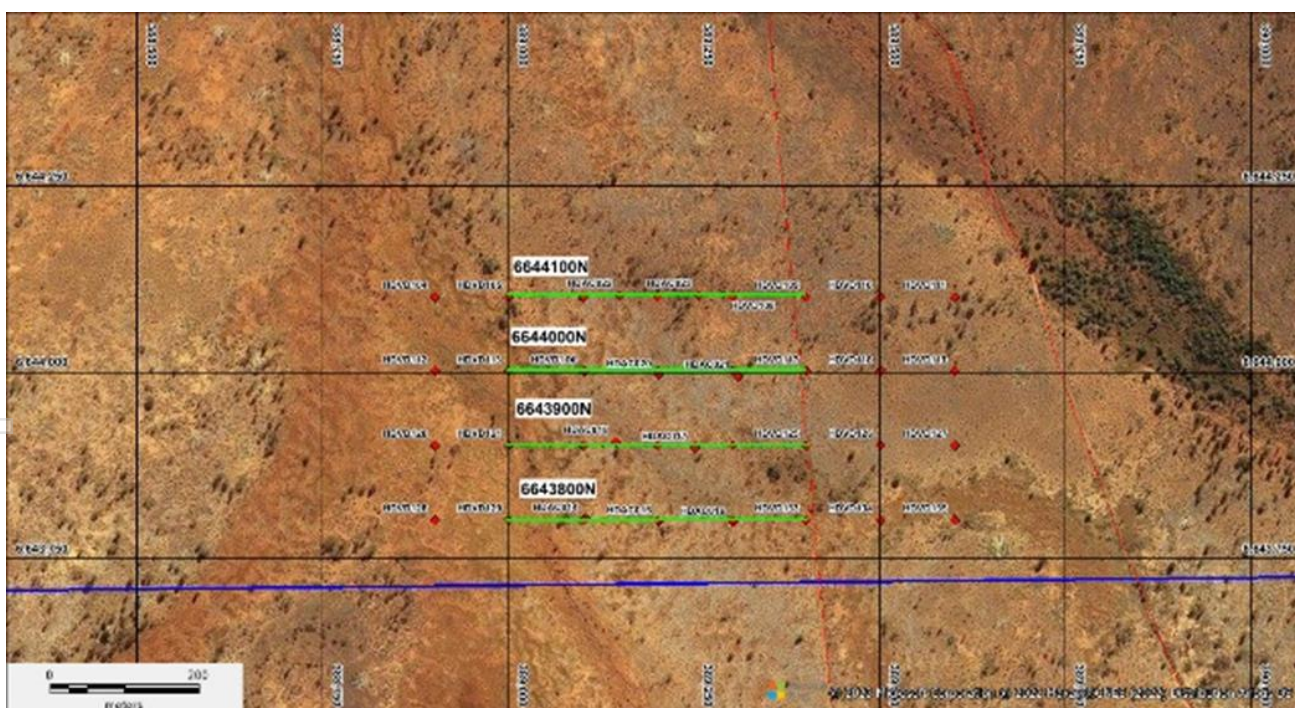


Figure 10: Holey Dam Drill Collar Locations and Interpreted Geology

REVIEW OF OPERATIONS (continued)

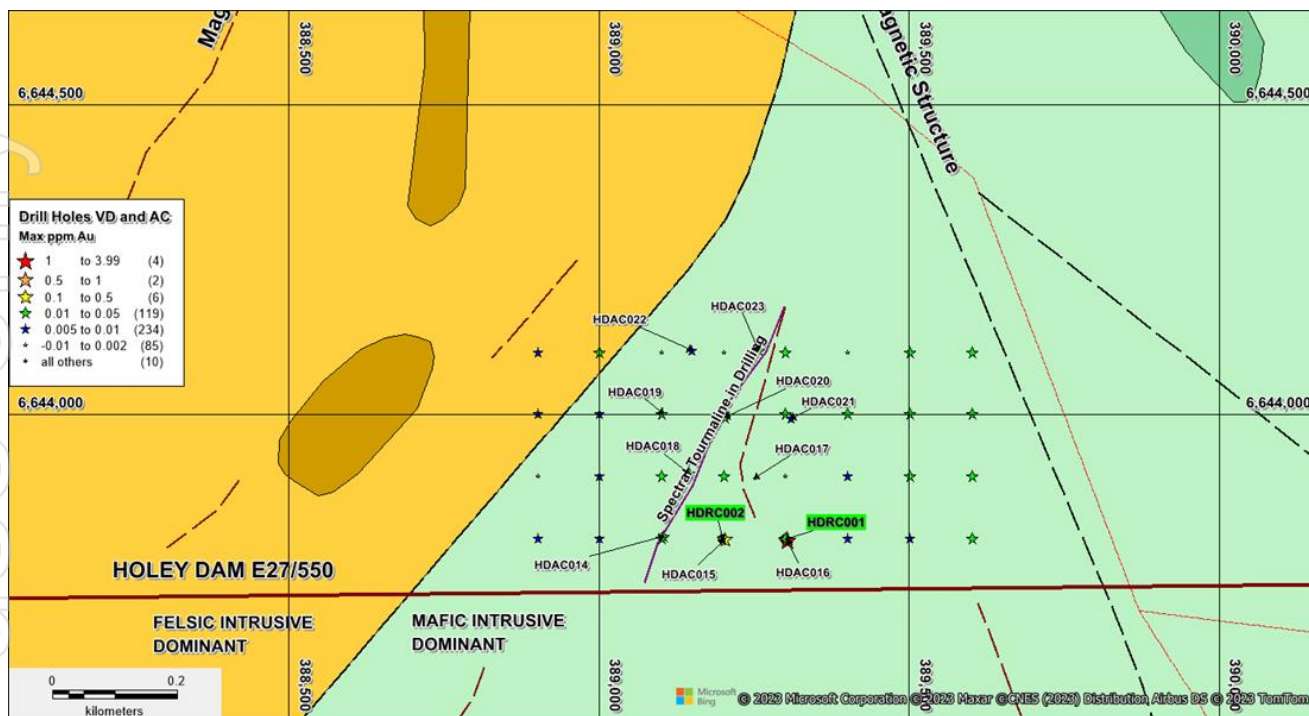


Figure 11: Holey Dam Drill Sections Lines

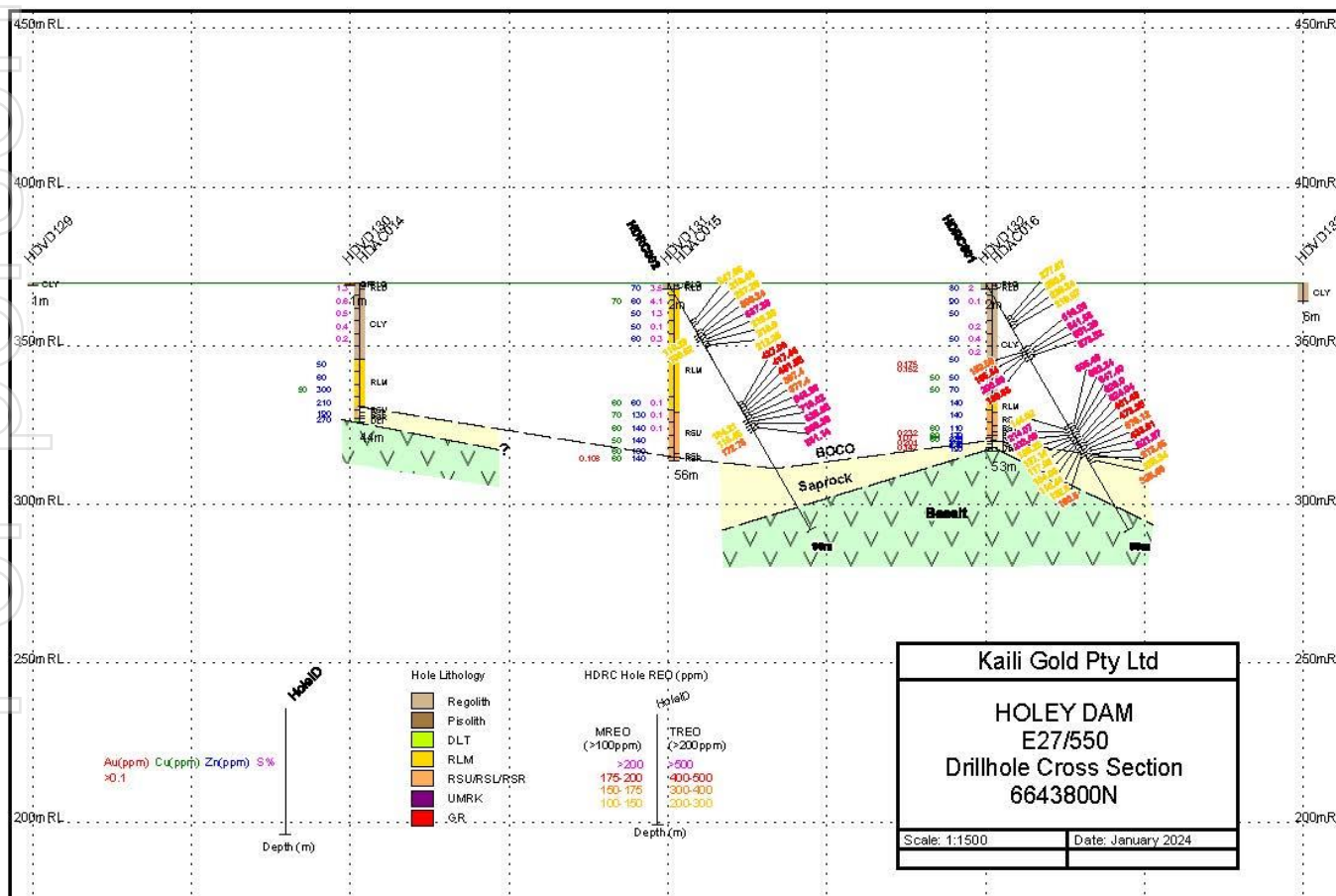


Figure 12: Holey Dam Drill Section 6643800N

REVIEW OF OPERATIONS (continued)

Limestone Coast – Rare Earth Element Projects – South Australia

Lameroo EL 6856, Karte EL 6977 and Coodalya EL 6978

Held 100% by wholly owned subsidiary Kaili Gold Pty Ltd

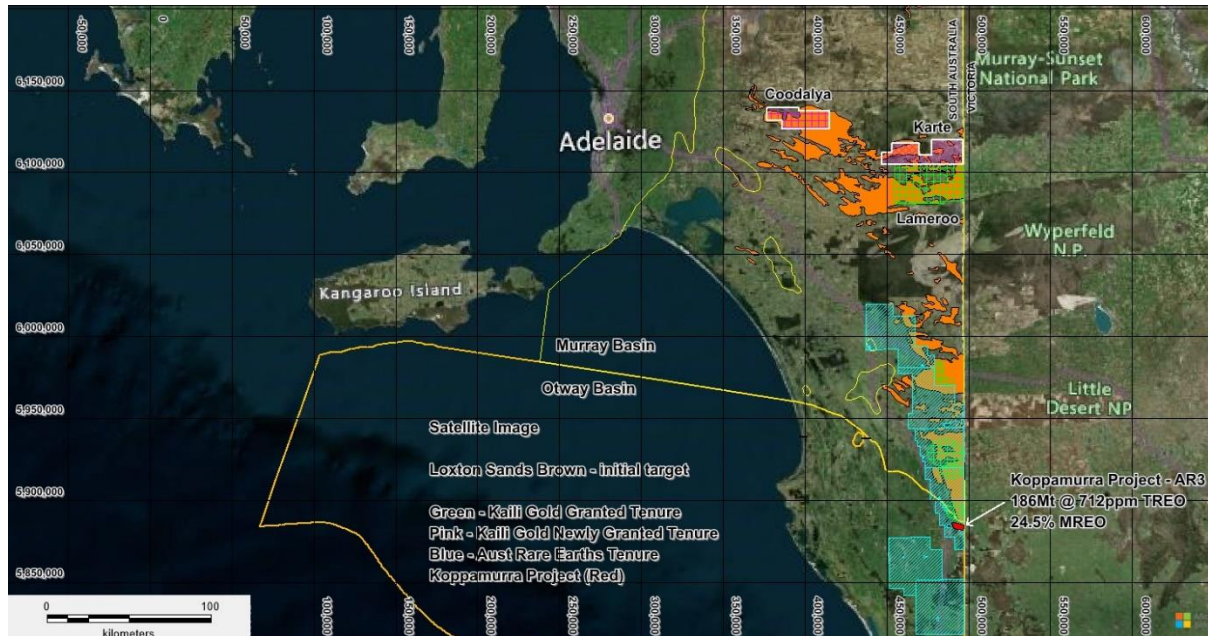


Figure 13: Location of Lameroo, Karte and Coodalya Rare Earth Exploration Tenements in Murray Basin, Limestone Coast, South Australia

During the year, the Company held Lameroo EL 6856 for Rare Earth Elements (“REE”) exploration within the Loxton/Parilla Sands in the Murray Basin in South Australia and the total area for exploration was doubled to 1,985 km² in February 2024 with the grants of Karte EL 6977 and Coodalya EL 6978.

In November 2023, the Company lodged applications for Karte ELA 2023/00060 covering 590 km² adjoining the north boundary of Lameroo and Coodalya ELA 2023/00061 covering 408 km² approximately 50 kms to the northwest.

The Company targets the Loxton/Parilla sands for REE mineralisation where Australian Rare Earths has reported exploration success with estimated JORC 2012 resource of 186Mt @ 712ppm Total Rare Earth Oxides (TREO) (see AR3 ASX Release of Quarterly Activities Report on 24th January 2024). REEs are reportedly contained within the fine clay fraction of Tertiary (65 to 2.5 Million Years Ago) Strandlines (ionic clay style of deposit) in the region.

In April 2023, the Company completed preliminary drill site inspections along road traverses within Lameroo (**Figure 14**) and identified 234 locations for Aircore drilling. In addition, six samples collected from fresh outcropping granite were submitted to ALS laboratory for trace elements tests by lithium borate fusion. Those granites are potentially the source of REEs found in ionic clays. Challenger Geological Services in Adelaide was commissioned to conduct pXRF scan of samples from 11 selected historic drill hole held by the SA Government. This exercise is intended to provide directions on areas to focus for drill tests.

The pXRF readings and the results of the samples assay were used to identify the areas for the first Aircore drilling program. The Company put in place the plan for drilling, sought the necessary approvals, engaged a driller and other service providers for a program to be undertaken. The drilling program was completed in early February 2024 and assay results were received in March 2024 (see ASX Announcement on 25th March 2024). Further drilling is required

REVIEW OF OPERATIONS (continued)

to assess the tenement potential.

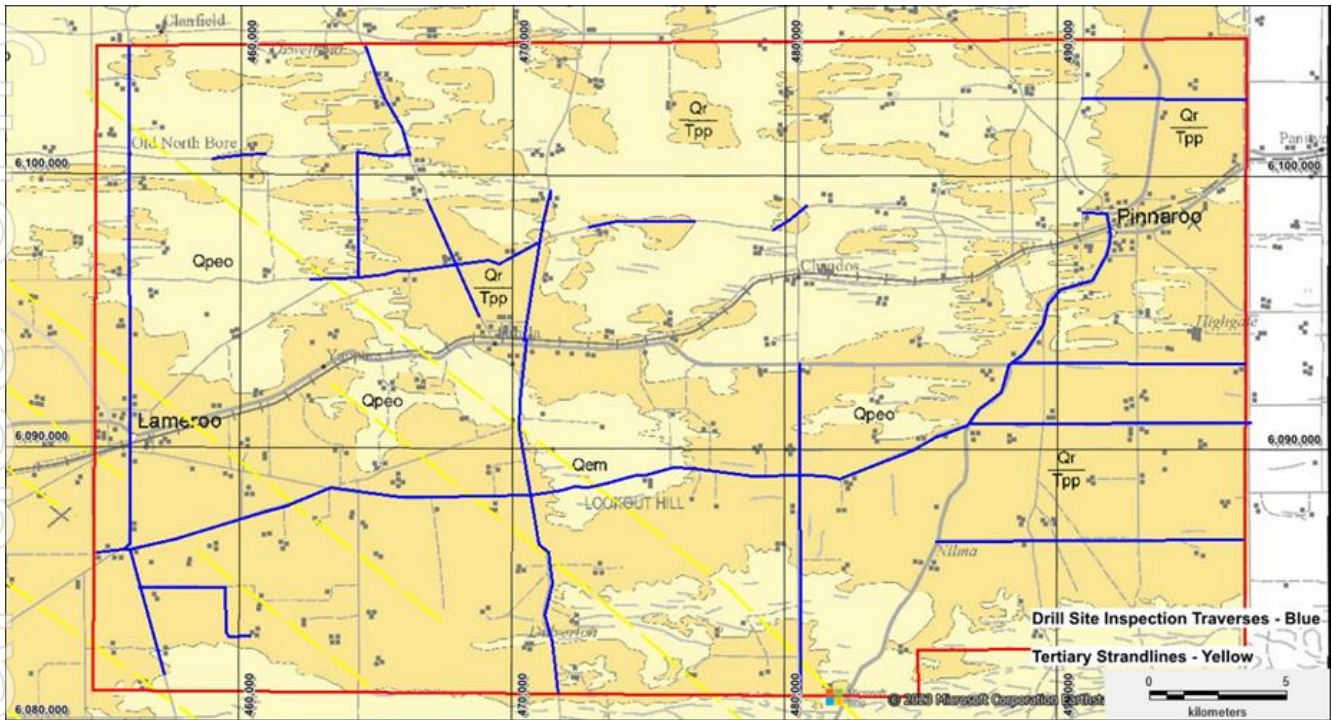


Figure 14: Location of Lameroo Drill Site Inspection Traverses with the Target Loxton Sands in Light Brown

Halls Creek – Gold/Cobalt/Copper/Nickel Projects – Western Australia

Black and Glidden E 80/5112, Carrington E80/5113, Sandy Creek E80/5114 and Wild Dog E80/5115

Held 100% by wholly owned subsidiary Kaili Iron Pty Ltd

The Halls Creek Project comprises four granted tenements Black and Glidden E 80/5112, Carrington E80/5113, Sandy Creek E80/5114 and Wild Dog E80/5115 (**Figure 15**) situated within the NE-SW trending Lamboo Province comprising four tectonostratigraphic terranes – Western, Central and Eastern.

Field activities may only be carried out at Halls Creek during the annual dry season, usually April to October, in that northern part of Western Australia.

In 2022, the Company had submitted proposed work programs to the Kimberly Land Council and Native Title Groups for review. Discussions have since commenced and site heritage surveys were proposed by the Traditional Owners prior to their considering approvals for the Company to conduct soil and rock sampling programs. As some areas are not accessible by road several trips by helicopter will be required making the exercise high cost. The discussions have not been concluded in time for the proposed surveys and the proposed field based exploration to be conducted before the end of the dry season in 2023.

During the year the four tenements have each been renewed for a further 5 years to 30 August 2028.

REVIEW OF OPERATIONS (continued)

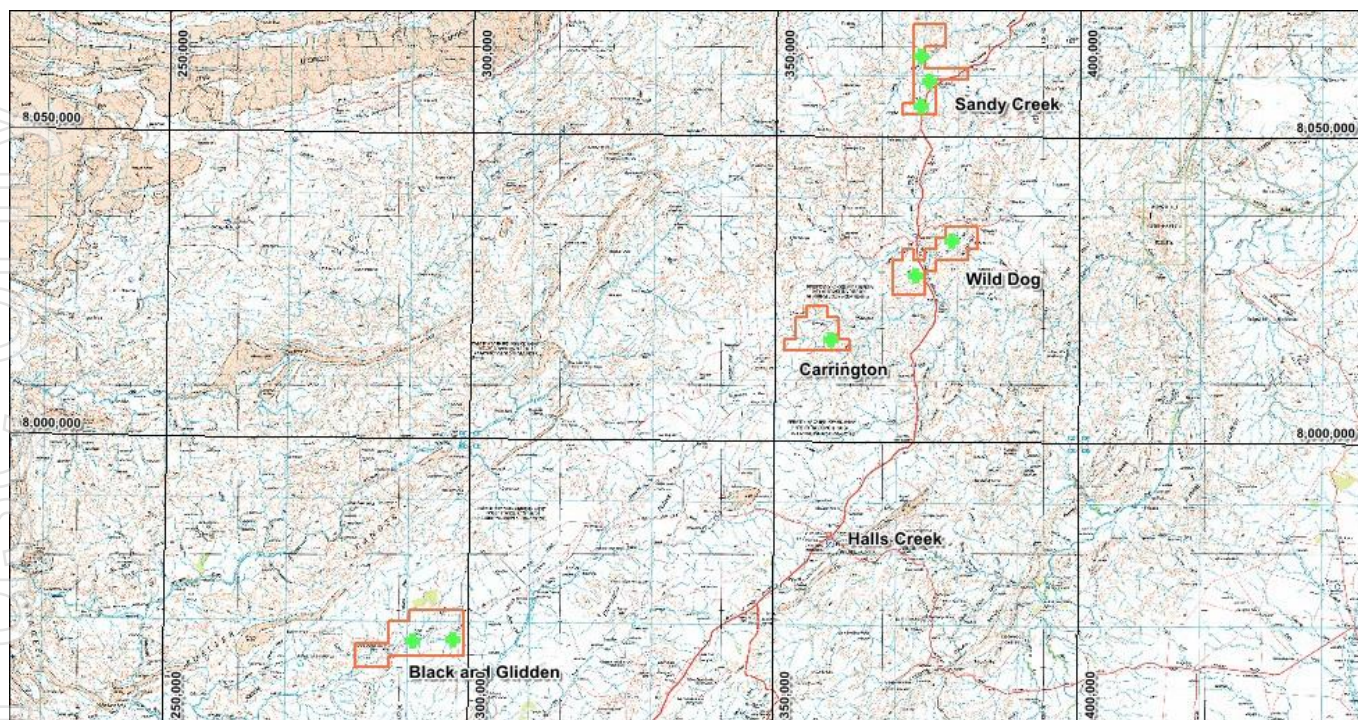


Figure 15: Halls Creek Project showing the 2021 soil sampling grids in green

Tennant Creek – Gold and Copper Projects – Northern Territory

Gidyea EL32665 and Kovacs ELA32666

Held 100% by wholly owned subsidiary Kaili Gold Pty Ltd

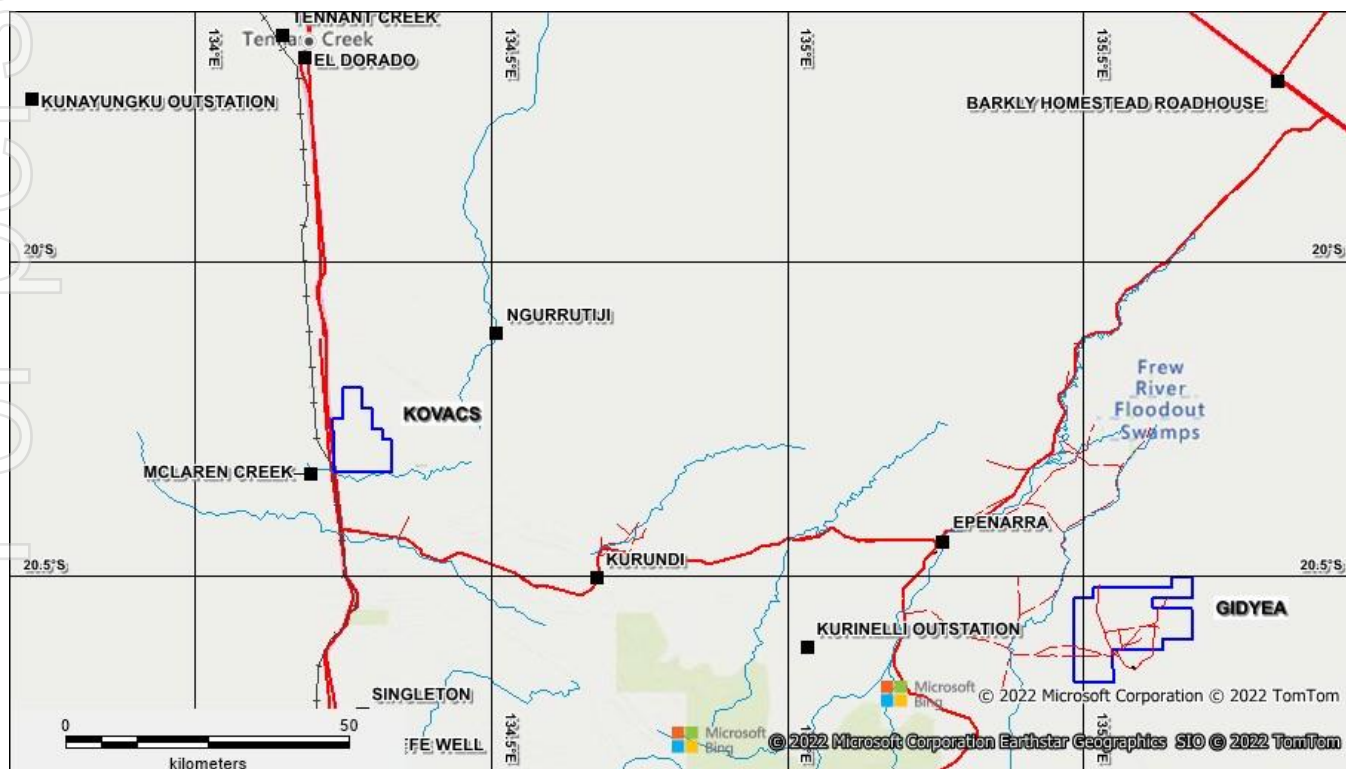


Figure 16: Regional Tenement Location SE of Tennant Creek – Kovacs and Gidyea

REVIEW OF OPERATIONS (continued)

In February 2021, the Company applied for two Exploration Licences (ELs) registered as ELA 32666 and ELA 32665 located to the south and southeast of Tennant Creek (**Figure 16**). Gidyea EL 32665 was granted in September 2021 for a 6 year period to 14 September 2027. Grant of the tenement under ELA 32666 is awaited.

The Company had submitted detailed proposed work programs to the Central Land Council (CLC) for review. The Company also presented its work program at a meeting of the Native Title Parties in Tennant Creek on 26 October 2022 whereby its exploration plans were outlined in detail for consideration. Following the meeting the CLC has presented a budget of costs for their involvement to satisfy the Native Title Parties requirements.

The Company has conducted further studies of the area at Gidyea and concluded that the risks and rewards are not sufficiently encouraging for investment. A relinquishment application has been lodged in October 2023 for ELA 32665 Gidyea.

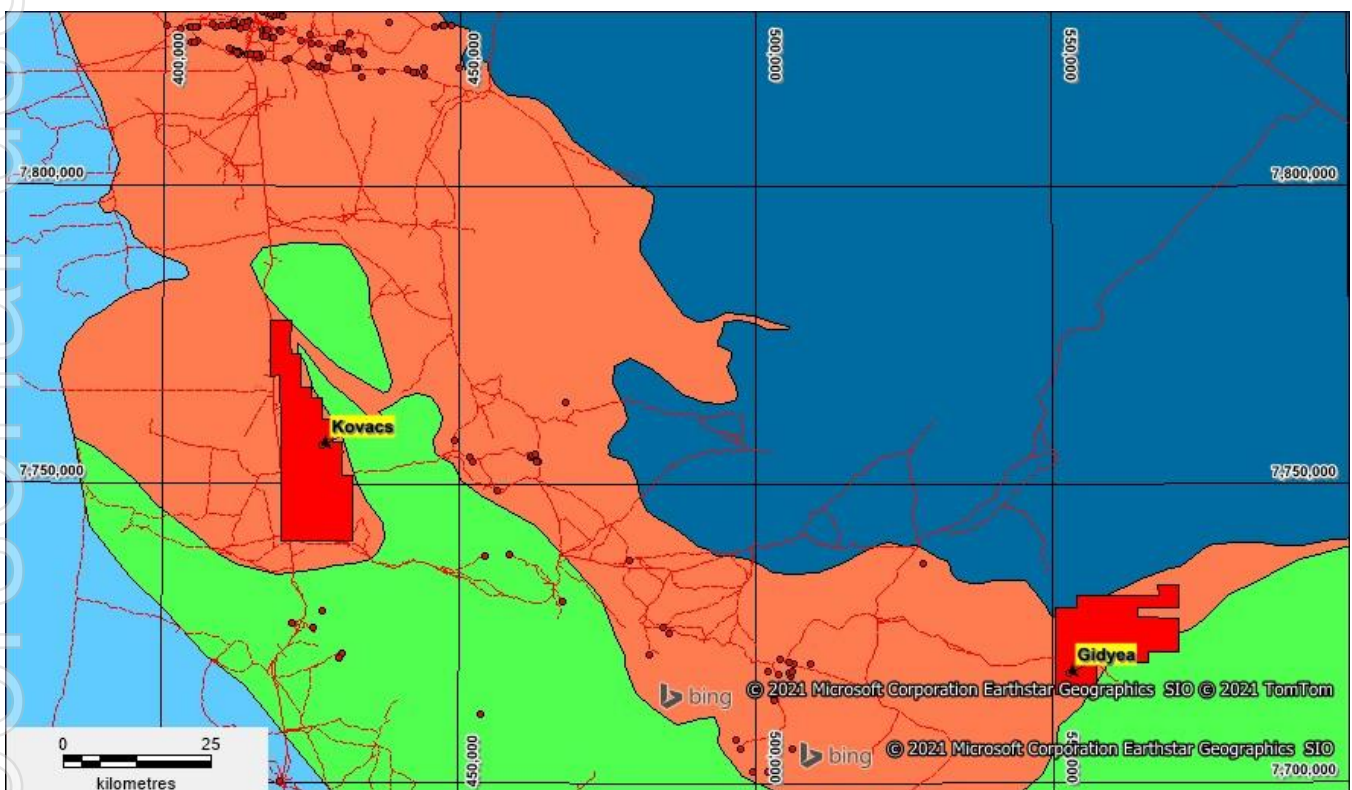


Figure 17: Regional Geological Location SE of Tennant Creek – Kovacs and Gidyea

Warramunga Province (Shaded Brown), Davenport Province (Shaded Green), Georgina Basin (Shaded Dark Blue) and Wiso Basin (Shaded Light Blue)

Historic Production of the Region

Since 1932 the Tennant Creek goldfield has produced more than 5 M ounces of gold (156 tonnes), 345,000 tonnes copper, 1.8 M ounces of silver (56 tonnes), 14,000 tonnes bismuth and 220 tonnes of selenium. Although production has come from over a hundred small to medium-sized deposits, the bulk of the historical production has come from twelve main orebodies, including Peko, Warrego, Nobles Nob, and Juno. Gold and copper grades are variable, but the deposits typically have high gold grades. Mineralisation is generally related to ironstones, which have formed in structural ‘traps’ within the sedimentary pile and is not associated with quartz veining, which is typical of many Proterozoic goldfields. Gold has been reported at two locations just west of Gidyea: at Kurinelli, approximately 50 km due west and in several small mines near the Hatches Creek Wolfram (Tungsten)

REVIEW OF OPERATIONS (continued)

Field, 30 km to the southwest. Reports are that the Kurinelli goldfield produced an estimated 2,600 ounces of gold since about 1900.

LICENCES STATUS

Minerals tenements and applications for tenements held at 31 December 2023 and acquired or disposed of during the financial year and their locations are set out below:

Granted	Tenement	Name	Commodity	Region	Registered Holder	Beneficial Interest	Area	Status	
							Km ²		
30/05/2016	E31/1113	Canegrass	Gold	WA - Yilgarn Craton	Kaili Gold Pty Ltd	100%	50.4	Expiry on 29/05/2026	
01/07/2016	E27/550	Holey Dam	Gold	WA - Yilgarn Craton	Kaili Gold Pty Ltd	100%	26.6	Expiry on 30/06/2026	
14/09/2021	EL32665	Gidyea	Gold/Base Metals	NT-Warraminga Province	Kaili Gold Pty Ltd	100%	207.2	Relinquishment lodged in October 2023	
31/08/2018	E80/5112	Black and Glidden	Cobalt/Gold/Copper/Nickel	WA - Lamboo Province	Kaili Iron Pty Ltd	100%	104.0	Expiry on 30/08/2028	
31/08/2018	E80/5113	Carrington	Cobalt/Gold/Copper/Nickel	WA - Lamboo Province	Kaili Iron Pty Ltd	100%	52.1	Expiry on 30/08/2028	
31/08/2018	E80/5114	Sandy Creek	Cobalt/Gold/Copper/Nickel	WA - Lamboo Province	Kaili Iron Pty Ltd	100%	65.3	Expiry on 30/08/2028	
31/08/2018	E80/5115	Wild Dog	Cobalt/Gold/Copper/Nickel	WA - Lamboo Province	Kaili Iron Pty Ltd	100%	71.1	Expiry on 30/08/2028	
19/10/2022	EL6856	Lameroo	Rare Earth	SA - Murray Basin	Kaili Gold Pty Ltd	100%	991.0	Expiry on 18/10/2028	
Under application	ELA32666	Kovacs	Gold/Base Metals	NT-Warraminga Province	Kaili Gold Pty Ltd	100%	271.7	Application submitted 23/02/2021	
Under application	ELA 2023/00060	Karte	Rare Earth	SA - Murray Basin	Kaili Gold Pty Ltd	100%	590.0	Application submitted 7/11/2023 and granted in February 2024	
Under application	ELA 2023/00061	Coodalya	Rare Earth	SA - Murray Basin	Kaili Gold Pty Ltd	100%	408.0	Application submitted 7/11/2023 and granted in February 2024	
							Total	2,837.4	

There was no acquisition or disposal or change in beneficial interests under farm-in or farm-out agreements during the year other than relinquishment of EL 32665 (Gidyea) in Northern Territory.

Competent Person Statement

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

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

Forward-Looking Statement

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

REVIEW OF OPERATIONS (continued)

EXTERNAL FACTORS AND MATERIAL RISKS ON OPERATIONS

Key risks in addition to financial and funding risks described elsewhere in this Annual report to which the Group is exposed in its current business and operations are summarized as flows:

Exploration and evaluation	Exploration for minerals is a speculative endeavour and involves a high degree of risk. The Group's projects are at exploration stage and there can be no assurance that exploration of its tenements can result in the discovery of an economic mineral deposit for production in the future.
Title of licences	All Group's licences allow the Group to undertake only exploration on the tenements. Failure to satisfy minimum work commitments under a licence may render the licence liable to be cancelled or not renewed unless successfully renegotiated. There is no guarantee that renewal of a licence when periodically due will be granted. The Group has not breached terms of the licences during the year.
Environmental	The Group's operations are subject to the environmental laws and regulations which may be subject to change and risks inherent in the mining industry that could subject the Group to extensive expenses and liabilities. The Group has not experienced adverse effects on its business during the year.
Land access and Native Title	Access to tenements for exploration activities is subject to certain regulations and restrictions. Negotiations for access are generally required with indigenous parties on Native Title and cultural heritage, if any, and with landowners/occupiers. The Group has not experienced adverse effects during the year.
General industry risks	<ul style="list-style-type: none"> • <i>Changes in global economic and geopolitical conditions:</i> The Group's business is dependent on economic conditions including inflation, interest rates, consumer confidence, access to funds and government fiscal, monetary and regulatory policies. The Group has experienced some impact on its operations during the year due to rising inflation rate. • <i>Health and safety:</i> The Group's operations expose its personnel and contractors to health and safety risks inherent in minerals exploration that could subject the Group to extensive liability under health and safety laws and regulations. There has been no adverse event in that respect during the year. • <i>Climatic:</i> Adverse climatic conditions e.g. rain during the period have restricted access to some tenements and requiring deferral exploration. • <i>Information technology and cyber security:</i> The Group's information technology systems are protected by security measures but unauthorised third party access to these systems for theft of information or disruption of the operations could adversely impact business performance. There has been no event of security breaches during the year.

DIRECTORS' REPORT

The Directors present their report together with the consolidated financial statements of Kaili Resources Limited ("the Company") and its controlled entities ("the Group") for the year ended 31 December 2023.

DIRECTORS

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

Donghai Zhang
Chunlin Liu
Jing Li
Jianzhong Yang
Long Zhao

DIRECTORS' INFORMATION

Donghai Zhang **Non-Executive Chairman**

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

Chunlin Liu **Non-Executive Director**

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

Jing Li **Non-Executive Director**

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

Jianzhong Yang **Non-Executive Director**

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

Long Zhao **Executive Director**

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

COMPANY SECRETARY

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

DIRECTORS' REPORT (continued)

PRINCIPAL ACTIVITIES

During the year the Group has been active in exploration for base metals, cobalt and gold and rare earth elements.

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 17.

Performance

The Group's loss after income tax for the year was \$311,245 (2022: loss \$34,984) which included a gain of \$154,148 (2022: \$425,497) on amortization of interest free borrowings and total impairment of \$35,158 (2022: nil) on accumulated exploration and evaluation expenditure on licences.

Financial position

At 31 December 2023 the Group was in a net liability position of \$1,847,847 (2022: net liability \$1,536,602) supported with an unsecured and interest free loan and financial support totaling \$4.39 million maturing on 1 April 2025 from Yitai Group (Hong Kong) Co., Limited ("Yitai HK"), a related party of the ultimate parent company Inner Mongolia Yitai Investment Co., Limited. Total assets increased to \$2,126,594 (2022: \$2,118,297), mainly as a result of expenditure on exploration licences during the year, with cash and cash equivalents of \$425,401 (2022: \$852,770).

In June 2023, Yitai HK extended financial support to the Group by making available funds of up to \$2 million until 1 April 2025, in addition to the fully drawn loan facility of \$2.4 million due for repayment on 1 April 2025. In November 2023, Yitai HK increased its financial support with interest free and unsecured funds from up to \$2 million to up to \$2.5 million until 1 April 2025 that may be drawn as necessary to ensure that the Group continues to be able to pay its debts as and when they fall due, meets its work commitments and continues to operate as a going concern. At balance date the loan of \$2.4 million was fully drawn and an amount of \$1,988,440 has been drawn under the financial support with \$511,560 available for drawdown until 1 April 2025.

Cash flows

Operating activities resulted in net outflow of \$497,627 (2022: \$280,258) as the Group is still in the exploration phase with no income. A total of \$519,744 (2022: \$266,800) was spent on exploration activities.

State of affairs

There were no significant changes in the state of affairs of the Group during the year other than as described in the Review of Operations.

Dividends

The Directors recommend that no dividend be declared or paid.

Likely developments

During the subsequent financial year the likely developments of the Group will be continuation of exploration in its tenements in Western Australia, Northern Territory and South Australia.

DIRECTORS' BENEFITS

No Director of the Company has received or become entitled to receive a benefit (other than a benefit included in the aggregate amount of remuneration received or due and receivable by Directors as detailed in the Remuneration Report) by reason of a contract made by the consolidated entity or a controlled entity with the Director or with a firm of which the Director is a member, or with a Company in which the Director has a substantial interest, except for any benefit that may be deemed to have arisen as disclosed in Note 26 of the financial statements.

DIRECTORS' REPORT (continued)

DIRECTORS' INTERESTS IN CONTRACTS

No contracts involving Directors' interests were entered into during the financial year except as disclosed in Note 26 of the financial statements.

DIRECTORS' MEETINGS

During the year Board business was carried out by execution of circulated resolutions and no in-person meeting of directors was held.

REMUNERATION REPORT

The information provided in this remuneration report has been audited.

A. Principles Used to Determine Amount and Nature of Remuneration

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

- Competitiveness and reasonableness
- Acceptability to shareholders
- Transparency

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

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

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

I. Remuneration of Directors

	Short-term benefits	Post- Employment benefits	Other long- term benefits	Termination benefits	Total
	Cash salary and leave	Superannuation	Long Service leave		
	\$	\$	\$	\$	\$
2023					
Donghai Zhang	-	-	-	-	-
Chunlin Liu	-	-	-	-	-
Jing Li	-	-	-	-	-
Jianzhong Yang	-	-	-	-	-
Long Zhao	71,940	8,002	1,604	-	81,546
	<u>71,940</u>	<u>8,002</u>	<u>1,604</u>	<u>-</u>	<u>81,546</u>
2022					
Donghai Zhang	-	-	-	-	-
Chunlin Liu	-	-	-	-	-
Jing Li	-	-	-	-	-
Jianzhong Yang	-	-	-	-	-
Long Zhao	73,248	7,691	1,488	-	82,427
	<u>73,248</u>	<u>7,691</u>	<u>1,488</u>	<u>-</u>	<u>82,427</u>

None of the remuneration was performance based.

DIRECTORS' REPORT (continued)

II. Remuneration of Key Management Personnel of the Group

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

III Service agreement

There are no service agreements with Directors.

IV. Share-based compensation

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

C. Directors' securities holdings

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

	Balance at the beginning of the year	Acquired	Disposed	Balance at the end of the year
2023				
Donghai Zhang	-	-	-	-
Chunlin Liu	-	-	-	-
Jing Li	-	-	-	-
Jianzhong Yang	13,200,000	-	-	13,200,000 ¹
Long Zhao	20,000	-	-	20,000
	<u>13,220,000</u>	<u>-</u>	<u>-</u>	<u>13,220,000</u>

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

2022				
Donghai Zhang	-	-	-	-
Chunlin Liu	-	-	-	-
Jing Li	-	-	-	-
Jianzhong Yang	13,200,000	-	-	13,200,000 ¹
Long Zhao	20,000	-	-	20,000
	<u>13,220,000</u>	<u>-</u>	<u>-</u>	<u>13,220,000</u>

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

ENVIRONMENTAL REGULATION

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

NON-AUDIT SERVICES

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

EVENTS AFTER THE REPORTING DATE

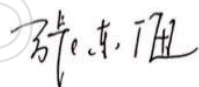
Subsequent to the reporting date, there were no matters or circumstances which have arisen since the end of the year which significantly affected or may significantly affect the Group's operations, the results of those operations or the Group's state of affairs in future years.

DIRECTORS' REPORT (continued)

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration is included on page 23 of the Annual Report and forms part of this report.

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



Donghai Zhang
Chairman

Sydney
28 March 2024

AUDITOR'S INDEPENDENCE DECLARATION

Kaili Resources Limited

AUDITORS INDEPENDENCE DECLARATION UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

To the Directors of Kaili Resources Limited

I declare that, to the best of my knowledge and belief, in relation to the review of Kaili Resources Limited for the year ended 31 December 2023 there has been:

- a) no contraventions of the auditor independence requirements of the International Financial Reporting Standards (IFRS) in relation to the review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.



J F Shute

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

Dated this 28 March 2024

CORPORATE GOVERNANCE STATEMENT

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

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

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

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 2023**

	NOTE	2023	2022
		\$	\$
Revenue			
Other income	4, 15	<u>154,148</u>	<u>425,497</u>
Expenses			
Depreciation expense	14	(16,737)	(18,255)
Employee benefits expense		(81,546)	(82,427)
Impairment of exploration and evaluation expenditure	12	(35,158)	-
Project costs		(7,878)	(5,979)
Other expenses	5	(324,074)	(353,820)
Loss before income tax		<u>(311,245)</u>	<u>(34,984)</u>
Income tax	11	<u>-</u>	<u>-</u>
Loss after income tax		<u>(311,245)</u>	<u>(34,984)</u>
Other comprehensive income (loss) for the year, net of tax		<u>-</u>	<u>-</u>
Total comprehensive loss for the year attributable to members of the Parent Entity		<u>(311,245)</u>	<u>(34,984)</u>
		Cents	Cents
Loss per share			
Basic and diluted loss per share	22	<u>(0.21)</u>	<u>(0.02)</u>

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2023

	NOTE	2023 \$	2022 \$
Current Assets			
Cash and cash equivalents	6	425,401	852,770
Trade and other receivables	7	10,213	14,020
Prepayments	8	<u>48,201</u>	<u>27,900</u>
Total Current Assets		<u>483,815</u>	<u>894,690</u>
Non-Current Assets			
Property, plant and equipment	14	49,212	65,949
Financial assets	9	10,000	-
Exploration and evaluation expenditure	12	<u>1,583,567</u>	<u>1,157,658</u>
Total Non-Current Assets		<u>1,642,779</u>	<u>1,223,607</u>
Total Assets		<u>2,126,594</u>	<u>2,118,297</u>
Current Liabilities			
Trade and other payables	10	141,255	273,783
Provisions	13	<u>13,067</u>	<u>8,672</u>
Total Current Liabilities		<u>154,322</u>	<u>282,455</u>
Non-Current Liabilities			
Provisions	13	11,324	9,501
Borrowings	15	<u>3,808,795</u>	<u>3,362,943</u>
Total Non-Current Liabilities		<u>3,820,119</u>	<u>3,372,444</u>
Total Liabilities		<u>3,974,441</u>	<u>3,654,899</u>
Net (Liabilities)/Assets		<u>(1,847,847)</u>	<u>(1,536,602)</u>
Shareholders' Equity			
Share capital	16 (b)	1,474,004	1,474,004
Reserves	16 (c)	<u>(3,321,851)</u>	<u>(3,010,606)</u>
Total (Deficit)/Equity		<u>(1,847,847)</u>	<u>(1,536,602)</u>

The accompanying notes form part of these financial statements.

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2023**

	NOTE	2023 \$	2022 \$
Cash flows from operating activities			
Payments to suppliers and employees		<u>(497,627)</u>	<u>(280,258)</u>
Net cash used in operating activities	23(b)	<u>(497,627)</u>	<u>(280,258)</u>
Cash flows from investing activities			
Payments for exploration and evaluation expenditure		(519,744)	(266,800)
Payments for security deposits		<u>(10,000)</u>	-
Net cash (used)/ from in investing activities		<u>(529,744)</u>	<u>(266,800)</u>
Cash flows from financing activities			
Proceeds from borrowings		<u>600,000</u>	<u>1,300,000</u>
Net cash from financing activities		<u>600,000</u>	<u>1,300,000</u>
Net (decrease)/increase in cash and cash equivalents		(427,371)	752,942
Cash and cash equivalents at beginning of year		852,770	99,667
Effect of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies		<u>2</u>	<u>161</u>
Cash and cash equivalents at end of year	6	<u>425,401</u>	<u>852,770</u>

The accompanying notes form part of these financial statements.

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2023**

	<u>Share capital</u>	<u>Share premium</u>	<u>Accumulated losses</u>	<u>Total</u>
	\$	\$	\$	\$
Balance as at 1 January 2022	1,474,004	24,475,363	(27,450,985)	(1,501,618)
Loss and total comprehensive loss for the year	-	-	(34,984)	(34,984)
Balance as at 31 December 2022	1,474,004	24,475,363	(27,485,969)	(1,536,602)
Loss and total comprehensive loss for the year	-	-	(311,245)	(311,245)
Balance as at 31 December 2023	1,474,004	24,475,363	(27,797,214)	(1,847,847)

The accompanying notes form part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

Note 1 – Nature of Operations

Kaili Resources Limited and its subsidiaries' ("the Group") principal activities are investment in the resources industry and exploration for minerals, including gold, base metals and rare earth elements. Details of subsidiaries are set out in Note 17 to the financial statements.

Note 2 – General information and statement of compliance

The consolidated financial statements of the Group for the year ended 31 December 2023 have been prepared in accordance with Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board (AASB). Compliance with Australian Accounting Standards results in full compliance with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Inner Mongolia Yitai Investment Co., Limited is the ultimate parent company of the Group. Kaili Resources Limited ("the Company") is a public limited company incorporated in Bermuda with its shares listed on the Australian Securities Exchange ("ASX"). The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and its principal office is at Suite 1312, 87-89 Liverpool Street, Sydney NSW 2000, Australia.

The consolidated financial statements for the year ended 31 December 2023 were approved and authorised for issue by the Board on 28 March 2024.

Note 3 – Summary of 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 2023 are consistent with those adopted in the financial statements for the year ended 31 December 2022.

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.

In calculating the net present values of interest-free non-current borrowings the Group has used an effective interest rate of 12% pa applied to the gross carrying amount of the financial liabilities.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2023

(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 17.

(c) Going concern

At balance date the Group had current assets of \$483,815 (2022: \$894,690) including cash and cash equivalents of \$425,401 (2022: \$852,770), current liabilities of \$154,322 (2022: \$282,455) and has incurred a net loss of \$311,245 (2022: loss \$34,984) in the year. In addition, the Group has an unfulfilled expenditure requirement under its exploration licences of \$209,000 for the next 12 months.

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

Yitai Group (Hongkong) Co., Limited has confirmed financial support to the Group by making available funds of up to \$2.5 million until 1 April 2025 in addition to the fully drawn loan facility of \$2.4 million maturing on 1 April 2025 to ensure that the Group has working capital to be able to pay its debts as and when they fall due, meet their work commitments for the exploration licences and continue as a going concern. The funds provided will be unsecured and interest free. At balance date the Group has drawn \$1,988,440 under that additional financial support facility with \$511,560 available for drawdown until 1 April 2025. Based on that financial support, the consolidated financial statements have been prepared on a going concern basis, which assumes that the Group will be able to pay its debts as and when they become due and payable.

(d) Investments

Controlled Entities

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

(e) Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost, less provision for depreciation and impairment losses, if any. Details are set out in Note 14.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2023

	<u>Depreciation Method</u>	<u>Depreciation Rate</u>
Office Equipment	Prime Cost	5%-20%
Computers	Prime Cost	33%
Motor Vehicle	Prime Cost	12.5%

(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.

(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 realised 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.

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

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

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

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

(i) Exploration and Evaluation Expenditure

Exploration and evaluation 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2023

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 leaves and is based on legal and contractual entitlements and assessments having regard to prior experience of staff departures and leave utilization.

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

(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:

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

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2023

(m) Financial instruments

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions to the instrument. For financial assets, this is the date that the Group commits itself to either the purchase or sale of the asset (ie trade date accounting is adopted).

Financial instruments (except for trade receivables) are initially measured at fair value plus transaction costs, except where the instrument is classified "at fair value through profit or loss", in which case transaction costs are expensed to profit or loss immediately. Where available, quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted.

Trade receivables are initially measured at the transaction price if the trade receivables do not contain a significant financing component or if the practical expedient was applied as specified in AASB 15.63.

Classification and subsequent measurement

Financial assets

Financial assets are subsequently measured at:

- amortised cost;
- fair value through other comprehensive income; or
- fair value through profit or loss.

Measurement is on the basis of two primary criteria:

- the contractual cash flow characteristics of the financial asset; and
- the business model for managing the financial assets.

A financial asset that meets the following conditions is subsequently measured at amortised cost:

- the financial asset is managed solely to collect contractual cash flows; and
- the contractual terms within the financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding on specified dates.

A financial asset that meets the following conditions is subsequently measured at fair value through other comprehensive income:

- the contractual terms within the financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding on specified dates;
- the business model for managing the financial assets comprises both contractual cash flows collection and the selling of the financial asset.

By default, all other financial assets that do not meet the measurement conditions of amortised cost and fair value through other comprehensive income are subsequently measured at fair value through profit or loss.

The Group initially designates a financial instrument as measured at fair value through profit or loss if:

- it eliminates or significantly reduces a measurement or recognition inconsistency (often referred to as "accounting mismatch") that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases;
- it is in accordance with the documented risk management or investment strategy, and information about the groupings was documented appropriately, so that the performance of the financial liability that was part of a group of financial liabilities or financial assets can be managed and evaluated consistently on a fair value basis;
- it is a hybrid contract that contains an embedded derivative that significantly modifies the cash flows otherwise required by the contract.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2023

The initial designation of the financial instruments to measure at fair value through profit or loss is a one-time option on initial classification and is irrevocable until the financial asset is derecognised.

Financial liabilities

Financial instruments are subsequently measured at:

- amortised cost; or
- fair value through profit or loss.

A financial liability is measured at fair value through profit and loss if the financial liability is:

- a contingent consideration of an acquirer in a business combination to which AASB 3: Business Combinations applies;
- held for trading; or
- initially designated as at fair value through profit or loss.

All other financial liabilities are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest expense in profit or loss over the relevant period. The effective interest rate is the internal rate of return of the financial asset or liability. That is, it is the rate that exactly discounts the estimated future cash flows through the expected life of the instrument to the net carrying amount at initial recognition

A financial liability is held for trading if:

- it is incurred for the purpose of repurchasing or repaying in the near term;- held for trading; or
- part of a portfolio where there is an actual pattern of short-term profit taking; or
- a derivative financial instrument (except for a derivative that is in a financial guarantee contract or a derivative that is in a effective hedging relationships).

Any gains or losses arising on changes in fair value are recognised in profit or loss to the extent that they are not part of a designated hedging relationship are recognised in profit or loss.

The change in fair value of the financial liability attributable to changes in the issuer's credit risk is taken to other comprehensive income and are not subsequently reclassified to profit or loss. Instead, they are transferred to retained earnings upon derecognition of the financial liability. If taking the change in credit risk in other comprehensive income enlarges or creates an accounting mismatch, then these gains or losses should be taken to profit or loss rather than other comprehensive income.

A financial liability cannot be reclassified.

Derecognition

Derecognition refers to the removal of a previously recognised financial asset or financial liability from the statement of financial position.

Derecognition of financial assets

A financial asset is derecognised when the holder's contractual rights to its cash flows expires, or the asset is transferred in such a way that all the risks and rewards of ownership are substantially transferred.

All of the following criteria need to be satisfied for derecognition of financial asset:

- the right to receive cash flows from the asset has expired or been transferred;
- all risk and rewards of ownership of the asset have been substantially transferred; and
- the Group no longer controls the asset (ie the Group has no practical ability to make a unilateral decision to sell the asset to a third party).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2023

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

On derecognition of a debt instrument classified as at fair value through other comprehensive income, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss.

On derecognition of an investment in equity which was elected to be classified under fair value through other comprehensive income, the cumulative gain or loss previously accumulated in the investment revaluation reserve is not reclassified to profit or loss, but is transferred to retained earnings.

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

Derecognition of financial liabilities

A liability is derecognised when it is extinguished (ie when the obligation in the contract is discharged, cancelled or expires). An exchange of an existing financial liability for a new one with substantially modified terms, or a substantial modification to the terms of a financial liability is treated as an extinguishment of the existing liability and recognition of a new financial liability.

The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

Impairment of financial assets

The Group recognises a loss allowance for expected credit losses on:

- financial assets that are measured at amortised cost or fair value through other comprehensive income;
- lease receivables;
- contract assets (eg amounts due from customers under construction contracts);
- loan commitments that are not measured at fair value through profit or loss; and
- financial guarantee contracts that are not measured at fair value through profit or loss.

Loss allowance is not recognised for:

- financial assets measured at fair value through profit or loss; or
- equity instruments measured at fair value through other comprehensive income.

Expected credit losses are the probability-weighted estimate of credit losses over the expected life of a financial instrument. A credit loss is the difference between all contractual cash flows that are due and all cash flows expected to be received, all discounted at the original effective interest rate of the financial instrument.

The Group uses the following approaches to impairment, as applicable under AASB 9: Financial Instruments:

- the general approach
- the simplified approach
- the purchased or originated credit impaired approach; and
- low credit risk operational simplification.

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2023

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

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

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

(o) 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.

(p) Earnings per share

Basic loss per share is determined by dividing the operating loss after income tax attributable to members of the Company by the weighted average number of ordinary shares outstanding during the financial year.

When the Group has an operating loss after income tax and the conversion of ordinary share capital in respect of potential ordinary shares does not lead to a diluted earnings per share that shows an inferior view of the earnings performance of the Group, than is shown by basic loss per share, the diluted loss per share is reported as the same as basic earnings per share.

(q) Segment reporting

Operating segments are identified and segment information disclosed on the basis of internal reports that are regularly provided to, or reviewed by, the Group's chief operating decision maker which, for the Group, is the Board of Directors. In this regard, such information may be provided using different measures to those used in preparing the Statement of Profit or Loss and Other Comprehensive Income and Statement of Financial Position. Reconciliations of such management information to the statutory information contained in the financial statements have been included, where applicable.

(r) Parent Entity financial information

The financial information for the Parent Entity, Kaili Resources Limited, disclosed in Note 27 has been prepared on the same basis as the consolidated financial statements.

(s) Comparative information

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

(t) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2023

(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).

(u) New and amended standards and interpretations

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

The following amendments to AASB are effective for annual reporting period beginning on or after 1 January 2024 but they are not expected to have any significant impact on the Group's financial statements:

- AASB 2022-5 Amendments to Australian Accounting Standards AASB 16 – Lease Liability in a Sale and Leaseback
- AASB 2023-1 Amendments to Australian Accounting Standards AASB 7 and 107 – Supplier Finance Arrangements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**FOR THE YEAR ENDED 31 DECEMBER 2023**

	2023	2022
	\$	\$
4. OTHER INCOME		
Gain on borrowings at amortised cost (note 15)	154,148	425,497
5. OTHER EXPENSES		
Audit fees	26,350	21,150
Consulting fees	60,727	112,080
Contractor payments	53,720	96,000
Registration fees and charges	35,780	32,949
Legal and professional fees	79,332	79,925
Listing fees	16,263	15,077
Rental expenses	-	(39,000)
Share registry	10,677	10,344
Internet and website	3,010	715
Motor vehicle expense	7,819	4,739
Travel and accommodation	3,646	-
Other costs	26,750	19,841
	<u>324,074</u>	<u>353,820</u>
6. CASH AND CASH EQUIVALENTS		
Cash at bank	425,401	852,770
7. TRADE AND OTHER RECEIVABLES		
GST receivable	10,213	14,020
8. PREPAYMENTS		
Prepayments	48,201	27,900
9. FINANCIAL ASSETS		
Non-Current		
Security deposits for exploration licences held	10,000	-
10. TRADE AND OTHER PAYABLES		
Trade and other payables	120,402	159,018
Accrued expenses	20,853	114,765
	<u>141,255</u>	<u>273,783</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2023

	2023	2022
	\$	\$

11. INCOME TAX

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

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

Loss before income tax	(311,245)	(34,984)
Tax at the Australian domestic income tax rate 25% (2022:30%)	(77,811)	(10,495)
Tax losses not recognised	77,811	10,495
Income tax expense	-	-

At the reporting date, the Group has estimated tax losses of \$11,150,000 (2022: \$10,150,000). A deferred tax asset has not been recognised for these losses because it is not probable that future taxable income will be available to use against such losses.

12. EXPLORATION AND EVALUATION EXPENDITURE

At cost:

Balance at beginning of year	1,157,658	825,523
Additions	461,067	332,135
Impairment ¹	(35,158)	-
Balance at end of year	1,583,567	1,157,658

¹ EL32665 was relinquished during the year.

Exploration and evaluation expenditures are capitalised in respect of each identifiable area of interest. Ultimate recoupment of the carrying value of the exploration areas is dependent on successful development and commercial exploitation, or alternatively sale of the respective areas of interest. The areas of interest are exploration licences held by the Group and are detailed in the schedule contained in the Licence Status shown on page 16.

Impairment indicators in AASB 6 are considered on a project by project basis.

13. PROVISIONS

Current:

Annual leave entitlements	13,067	8,672
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Non-Current:

Long service leave entitlements	11,324	9,501
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2023

14. PROPERTY, PLANT AND EQUIPMENT

	Furniture & office equipment	Motor vehicle	Total
2023	\$	\$	\$
At cost:			
Balance at beginning and end of year	61,152	103,498	164,650
Disposal	(31,784)	-	(31,784)
Balance at end of year	29,368	103,498	132,866
Depreciation:			
Balance at beginning of year	(46,315)	(52,386)	(98,701)
Depreciation charge	(3,800)	(12,937)	(16,737)
Disposal	31,784	-	31,784
Balance at end of year	(18,331)	(65,323)	(83,654)
Carrying amount at 31 December 2023	11,037	38,175	49,212
	Furniture & office equipment	Motor vehicle	Total
2022	\$	\$	\$
At cost:			
Balance at beginning and end of year	61,152	103,498	164,650
Depreciation:			
Balance at beginning of year	(40,997)	(39,449)	(80,446)
Depreciation charge	(5,318)	(12,937)	(18,255)
Balance at end of year	(46,315)	(52,386)	(98,701)
Carrying amount at 31 December 2022	14,837	51,112	65,949

15. BORROWINGS

	2023	2022
	\$	\$
Non-Current		
Unsecured loan from a related party	4,388,440	3,788,440
Less: Gain on borrowings at amortised cost ¹	(579,645)	(425,497)
	<u>3,808,795</u>	<u>3,362,943</u>

¹The gain on borrowings at amortised cost arose from the difference between the net present value of the interest-free borrowings to be settled on 1 April 2025 (2022: 1 April 2024) and the contractual settlement amount at balance date. A discount rate of 12% (2022: 10%) was applied to the future cash flows to determine their net present value. The gain at amortised cost increased by \$154,148 for the financial year 2023 as a result of extension to the repayment date of borrowings and higher discount rate.

Yitai Group (Hongkong) Co., Ltd, a related party of the ultimate parent company Inner Mongolia Yitai Investment Co., Limited had provided the Group a loan facility of \$2.4 million due for repayment on 1 April 2024 and in February 2023 has confirmed a financial support to the Group to provide funds of up to \$1.4 million, increased from \$1 million, until 1 April 2024. In June 2023, Yitai Group (Hongkong) Co, Ltd has extended both the repayment date of the loan and the end availability date of the financial support to 1 April 2025 and increased the financial support from up to \$1.4 million to up to \$2 million. On 30 November 2023 the financial support has been increased from \$2 million to up to \$2.5 million. The funds advanced

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2023

under the loan and under financial support are unsecured and interest free. At balance date the Group has drawn \$1,988,440 under the additional financial support facility with \$511,560 available for drawdown until 1 April 2025.

16. SHARE CAPITAL

	2023 Number of shares	2023 \$	2022 Number of shares	2022 \$
(a) Authorised capital:				
Authorised ordinary shares: Par value \$0.01	5,000,000,000	50,000,000	5,000,000,000	50,000,000
(b) Issued and paid up capital:				
Fully paid ordinary shares: Par value \$0.01	147,400,363	1,474,004	147,400,363	1,474,004
(c) Reserves			2023 \$	2022 \$
Share premium account			24,475,363	24,475,363
Accumulated losses			(27,797,214)	(27,485,969)
			<u>(3,321,851)</u>	<u>(3,010,606)</u>

17. CONTROLLED ENTITIES

Investments in controlled entities comprise:

Name of subsidiary	Place of incorporation/operation	Principal activities	Beneficial percentage held by economic entity	
			2023 %	2022 %
Kaili Corporation Pty Ltd	Australia/Australia	Investment holding	100	100
APEC Coal Pty Ltd	Australia/Australia	Coal exploration	100	100
Kaili Minerals Management Pty Ltd	Australia/Australia	Administration	100	100
Kaili Gold Pty Ltd	Australia/Australia	Gold/rare earth exploration	100	100
Kaili Iron Pty Ltd	Australia/Australia	Iron ore/base metals exploration	100	100

18. REMUNERATION OF AUDITOR

	2023 \$	2022 \$
Amounts received or due and receivable by the auditor for audit and review of financial statements	26,350	21,150

19. SEGMENT INFORMATION

Business segments

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2023

20. COMMITMENTS

Exploration expenditure commitments

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

	2023	2022
	\$	\$
Within twelve months	209,000	179,000
Twelve months or longer and not longer than five years	1,320,000	505,000
	<u>1,529,000</u>	<u>684,000</u>

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

21. CONTINGENT LIABILITIES

At balance date, the Group has given guarantees totaling \$30,000 (2022: \$30,000) for compliance with the conditions of the exploration licences granted in Western Australia.

22. LOSS PER SHARE

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

Loss for the purposes of basic and diluted loss per share	<u>(311,245)</u>	<u>(34,984)</u>
Number of shares	Number	Number
Weighted average number of ordinary shares for the purposes of basic and diluted loss per share	<u>147,400,363</u>	<u>147,400,363</u>
Loss per share	Cents	Cents
Basic and diluted loss per share	<u>(0.21)</u>	<u>(0.02)</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2023

	2023	2022
	\$	\$
23. CASH FLOW INFORMATION		
(a) Reconciliation of Cash		
Cash and cash equivalents include cash and bank balances.		
(b) Reconciliation of loss before income tax to cash flows from operating activities		
Loss before income tax	(311,245)	(34,984)
Depreciation	16,737	18,255
Foreign exchange differences	(2)	(161)
Gain on borrowings at amortised cost	(154,148)	(425,497)
Impairment of exploration and evaluation expenditure	35,158	-
	<hr/>	<hr/>
Operating cash (outflows) before movements in working capital	(413,500)	(442,387)
Changes in assets and liabilities relating to operations:		
Decrease/(Increase) in trade and other receivables	3,807	(9,075)
(Increase) in prepayments	(5,349)	(523)
(Decrease)/Increase in trade and other payables	(88,803)	164,288
Increase in provisions	6,218	7,439
	<hr/>	<hr/>
Net cash used in operating activities	(497,627)	(280,258)

24. FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES

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

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

Financial assets

Cash and cash equivalents	425,401	852,770
Trade and other receivables	10,213	14,020
Financial assets – non-current	10,000	-
Total financial assets	<hr/>	<hr/>
	445,614	866,790

Financial liabilities at amortised cost

Trade and other payables	141,255	273,783
Borrowings - non-current	3,808,795	3,362,943
Total financial liabilities	<hr/>	<hr/>
	3,950,050	3,636,726

(a) Financial risk management policies

The Board of Directors is responsible for, amongst other issues, monitoring and managing financial risk exposures of the Group. It also reviews the effectiveness of internal controls relating to commodity price risk, counterparty credit risk, currency risk, financing risk and interest rate risk. Management, in conjunction with the Board, reviews and agrees policies for managing each of these risks.

The overall risk management strategy seeks to assist the Group in meeting its financial targets, while minimising potential adverse effects on financial performance. This also includes the review of the use of hedging derivative instruments, credit risk policies and future cash flow requirements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2023

Specific Financial Risk Exposures and Management

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

i. Interest rate risk

The Group has cash at bank and its income and operating cash flows are exposed to changes in market interest rates. Its borrowings are interest free.

At balance date the Group had the following financial assets exposed to variable interest rate risk:

	2023	2022
	\$	\$
Cash and cash equivalents	425,401	852,770

ii. 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.

iii. Credit risk

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

iv. Liquidity risk

Liquidity risk arises from the possibility that the Group might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities.

The Group relies on financial support from its ultimate parent and raising of new debt or equity capital to fund its operations.

v. 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.

(b) Net fair values

The net fair value of financial assets and liabilities at balance date approximates their carrying value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2023

(c) Financial instruments

Interest rate risk

The Group's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on classes of financial assets and liabilities, is as follows:

	Fixed interest rate maturing			Non-interest bearing		Total
	Variable interest rate	Within 1 year	1 to 5 years	Within 1 year	1 to 5 years	
2023	\$	\$	\$	\$	\$	\$
Financial assets						
Cash and cash equivalents	425,401	-	-	-	-	425,401
Trade and other receivables	-	-	-	10,213	-	10,213
Financial assets	-	-	-	-	10,000	10,000
	<u>425,401</u>	<u>-</u>	<u>-</u>	<u>10,213</u>	<u>10,000</u>	<u>445,614</u>
Financial liabilities						
Trade and other payables	-	-	-	141,255	-	141,255
Borrowings	-	-	-	-	3,808,795	3,808,795
	<u>-</u>	<u>-</u>	<u>-</u>	<u>141,255</u>	<u>3,808,795</u>	<u>3,950,050</u>

	Fixed interest rate maturing			Non-interest bearing		Total
	Variable interest rate	Within 1 year	1 to 5 years	Within 1 year	1 to 5 years	
2022	\$	\$	\$	\$	\$	\$
Financial assets						
Cash and cash equivalents	852,770	-	-	-	-	852,770
Trade and other receivables	-	-	-	14,020	-	14,020
	<u>852,770</u>	<u>-</u>	<u>-</u>	<u>14,020</u>	<u>-</u>	<u>866,790</u>
Financial liabilities						
Trade and other payables	-	-	-	273,783	-	273,783
Borrowings	-	-	-	-	3,362,943	3,362,943
	<u>-</u>	<u>-</u>	<u>-</u>	<u>273,783</u>	<u>3,362,943</u>	<u>3,636,726</u>

(d) Sensitivity analysis

The Group has performed sensitivity analysis relating to its exposure to interest rate risk at balance date. A 1% increase in interest rate would result in an increase of \$4,254 (2022: \$8,528) in interest income for the year based on financial instruments held at each reporting date that are sensitive to changes in interest rate, with all other variables remaining unchanged. A 1% decrease in interest rate would have the opposite effect.

25. CAPITAL MANAGEMENT

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

The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes during the year ended 31 December 2023.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2023

26. RELATED PARTY TRANSACTIONS

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

	2023	2022
	\$	\$
Compensation of KMP of the Group:		
Short-term employee benefits	71,940	73,248
Post-employment benefits	8,002	7,691
Other long-term benefits	1,604	1,488
Termination benefits	-	-
Share-based payments	-	-
	<u>81,546</u>	<u>82,427</u>

Other transactions with Key Management Personnel

The Group engaged Vincerek Pty Ltd, an associate of Director Mr. Long Zhao, to provide general administration services for compensation of \$1,000 per week. The compensation was increased from \$1,000 per week to \$1,200 per week effective from 1 November 2023 having regards to inflation and increase in cost of living. The engagement may be terminated by either party with one month's notice. For the year ended 31 December 2023, a total charge of \$53,720 for the services was recognised and \$139,000 has been paid for the services provided in current and prior periods with the amount of \$10,720 owing at balance date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2023

27. PARENT ENTITY INFORMATION

	2023	2022
	\$	\$
Assets		
Current assets	449,833	2,783,363
Non-current assets	2,923,487	492,838
Total assets	<u>3,373,320</u>	<u>3,276,201</u>
Liabilities		
Current liabilities	96,781	178,370
Non-current liabilities	3,808,795	3,362,943
Total liabilities	<u>3,905,576</u>	<u>3,541,313</u>
Equity		
Issued capital	1,474,004	1,474,004
Share premium account	24,475,363	24,475,363
Accumulated losses	<u>(26,481,623)</u>	<u>(26,214,479)</u>
	<u>(532,256)</u>	<u>(265,112)</u>
Financial performance		
Loss for the year	(267,144)	(28,444)
Other comprehensive income	-	-
Total comprehensive loss	<u>(267,144)</u>	<u>(28,444)</u>

28. EVENTS AFTER THE REPORTING DATE

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

29. APPROVAL OF THE FINANCIAL STATEMENTS

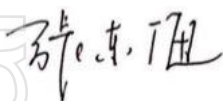
The financial statements were approved and authorised for issue by the Board of Directors on 28 March 2024.

DIRECTORS' DECLARATION

In the Directors' opinion:

- (a) the financial statements and notes set out on pages 25 to 47:
 - (i) are in accordance with International Accounting Standards; and
 - (ii) give a true and fair view of the Group's financial position as at 31 December 2023 and of its performance for the year then ended; and
- (b) there are reasonable grounds to believe that Kaili Resources Limited will be able to pay its debts as and when they become due and payable.

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



Donghai Zhang

Chairman

Sydney

28 March 2024

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

We have audited the accompanying Consolidated Financial Statements of Kaili Resources Limited (the "Company") and the subsidiaries (together "the Group") set out on pages 25 to 47, which comprise the consolidated statement of financial position as at 31 December 2023, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in equity for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the directors declaration.

Directors' responsibilities for the Consolidated Financial Statements

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

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

Auditor's responsibility

Our responsibility is to express an opinion on these Consolidated Financial Statements based on our audit. We have conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the Consolidated Financial Report are free from material misstatement. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA's) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error.

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.

Key Audit Matters

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



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Key Audit Matter	How our audit addressed this matter
Impairment of Exploration Assets	
Refer to Note 12 in the Consolidated Financial Statements	
<p>The Consolidated Entity has capitalised exploration and evaluation expenditure, with a carrying value of \$1,583,567 as at 31 December 2023.</p> <p>Under AASB 6 Exploration for and Evaluation of Mineral Resources, the Consolidated Entity is required to test the exploration and evaluation asset for impairment when facts and circumstances suggest that the carrying amount may exceed the recoverable amount. We determined this to be a key audit matter due to the significant management judgement involved in assessing the carrying value of the asset.</p>	<p>Our audit procedures in relation to the carrying value of exploration and evaluation expenditure included:</p> <ul style="list-style-type: none"> • Obtaining evidence that the Consolidated Entity has valid rights to ongoing exploration and activities to support the continued capitalisation of these assets • Enquiring with management the basis on which they have determined that the exploration and evaluation of mineral resources has not yet reached the stage where it can be concluded that no commercially viable quantities of mineral resources exists; • Enquiring with management and reviewing budgets to determine that the Consolidated Entity will incur substantive expenditure on further exploration and evaluation of mineral resources in the specific areas of interest; • Testing on a sample basis the exploration costs incurred in the period to ensure that they meet the capitalisation criteria under AASB 6.

Other Information

Other Information is financial and non-financial information in Kaili Resources Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

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Independence

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

Opinion

In our opinion:

- a) the Consolidated Financial Statements of Kaili Resources Limited is in accordance with International Financial Reporting Standards (IFRS's), including:
 - i. giving a true and fair view of the Company's financial position as at 31 December 2023 and of its performance for the year ended on that date; and
 - ii. complying with Australian Accounting Standards and International Financial Reporting Standards ("IFRS's") as disclosed in Note 2.

Emphasis of Matter

We draw attention to Note 3 (c) and Note 15 to the financial statements which describes the undertaking by Yitai Group (Hongkong) Co., Ltd, a related company of Inner Mongolia Yitai Investment Co., Limited, the ultimate parent company of the Group to provide financial support to the group.

The undertaking is to provide funding up to \$4.9 million until 1 April 2025 to ensure the Group has working capital to be able to meet its debts as and when they fall due and continue as a going concern.

At balance date the Group has drawn \$4,388,440 under that financial support facility with \$511,560 available for drawdown until 1 April 2025.

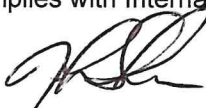
Our opinion is not modified in respect of these matters.

Report on the Remuneration Report

We have audited the Remuneration Report included in paragraph **A** and **B** of the directors' report for the year ended 31 December 2023. The directors of the company are responsible for the preparation and presentation of the Remuneration Report. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with International Financial Reporting Standards ("IFRS's").

Opinion

In our opinion the Remuneration Report of Kaili Resources Limited for the year ended 31 December 2023, complies with International Financial Reporting Standards ("IFRS's").



JOHN F SHUTE
Chartered Accountant

Sydney
28 March 2024

ADDITIONAL INFORMATION

Additional information included in accordance with Listing Rules of the ASX Limited as at 14th March 2024

SHAREHOLDINGS

1. Substantial shareholders

Substantial shareholders in the Company: -

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

* Director Jianzhong Yang has relevant interests in this entity.

2. Distribution of fully paid ordinary shares:-

Range of shareholdings	Number of shareholders	Number of shares	Percentage of issued capital
1 — 1,000	25	7,425	0.01
1,001 — 5,000	8	23,406	0.02
5,001 — 10,000	229	2,283,749	1.55
10,001 — 100,000	112	4,688,534	3.18
100,001 and over	33	140,397,249	95.24
	<u>407</u>	<u>147,400,363</u>	<u>100.00</u>

322 shareholders held less than a marketable parcel.

3. Voting rights

Each shareholder is entitled to one vote per ordinary share.

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

ADDITIONAL INFORMATION

5. Top twenty shareholders as at 14th March 2024

Name	Number of fully paid ordinary shares held	Percentage of issued capital
1. TREASURE UNICORN LIMITED	75,734,441	51.38
2. MILE OCEAN LIMITED	16,532,222	11.22
3. KAILI HOLDINGS LIMITED	13,200,000	8.96
4. JIN HE	9,361,788	6.35
5. MR YUTIAN BAI	3,999,999	2.71
6. MS JUNLAN WANG	3,166,666	2.15
7. MR SHUJUN LIU	2,666,666	1.81
8. ASF GROUP LIMITED	2,200,000	1.49
9. MR HAIYU HE	1,999,999	1.36
10. MR GUIYING JIA	1,999,999	1.36
11. MR QIUSHENG LI	1,666,666	1.13
12. MS YONGJUN LIU	1,666,666	1.13
13. WUJIANG INVESTMENT PTY LTD	1,100,000	0.75
14. SMART STEP LIMITED	1,000,000	0.68
15. MRS MAN SUN NG	974,000	0.66
16. SUO ZHANG	430,000	0.29
17. MR CALVIN AU	322,000	0.22
18. PING GAO	250,000	0.17
19. GUICHENG QIAO	230,000	0.16
20. MR SIU WAI YAN	217,800	0.15
Twenty largest shareholders	138,718,912	94.13
Others	8,681,451	5.87
	147,400,363	100.00

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

Australia

Computershare Investor Services Pty Ltd

Level 3, 60 Carrington Street

Sydney, NSW 2000

Australia

Bermuda

Butterfield Corporate Services Ltd

The Rosebank Centre

11 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 (613) 9415 4000 (outside Australia).

8. Trading symbol

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