



# KANGAROO RESOURCES LIMITED

ABN 38 120 284 040

Annual Report for the year ended 31 December 2016

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## ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2016

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# CORPORATE DIRECTORY

31 DECEMBER 2016



## Directors

Russell Neil	Managing Director
David Yi Ngo Low	Non-Executive Director
Trevor Butcher	Independent Non-Executive Director
Susmit Shah	Independent Non-Executive Director

## Company Secretary

Paul Jurman

## Registered Office

C/o Corporate Consultants Pty Ltd  
Level 2, Suite 9,  
389 Oxford Street  
Mt Hawthorn, WA, 6016, Australia

## Principal Place of Business

C/o Corporate Consultants Pty Ltd  
Level 2, Suite 9,  
389 Oxford Street  
Mt Hawthorn, WA, 6016, Australia

Tel +61 (08) 9380 6789

Fax +61 (08) 9380 6761

## Stock Exchange

Australian Securities Exchange Limited ("ASX")  
Level 40, Central Park,  
152-158 St Georges Terrace  
Perth, WA, 6000, Australia

Quoted on the official list of the Australian  
Securities Exchange  
ASX Symbol: **KRL**

## Auditors

PricewaterhouseCoopers  
Level 15, 125 St Georges Terrace  
Perth WA, 6000, Australia

## Solicitors

Norton Rose Fulbright Australia  
Level 39, 108 St Georges Terrace  
Perth WA, 6000, Australia

Widyawan & Partners  
The Energy 9th Floor, Sudirman CBD  
Jl Jend Sudirman Kav 52-53  
Jakarta, 12190, Indonesia

Christian Teo & Partners  
Indonesian Stock Exchange Building  
Tower II, Floor 16, Suite 1604  
Jl Jend Sudirman Kav. 52-53  
Jakarta, 12190, Indonesia

## Bankers

National Australia Bank Limited

## Share Registry

Advanced Share Registry Services  
110 Stirling Highway  
Nedlands, WA, 6009, Australia  
Tel +61 (08) 9389 8033  
Fax +61 (08) 9389 7871

## Domicile and Country of Incorporation

Australia

## DIRECTORS' REPORT

31 DECEMBER 2016

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Your directors present their report on the consolidated entity (referred to hereafter as the group) consisting of Kangaroo Resources Limited (KRL or the Company) and the entities it controlled at the end of, or during, the year ended 31 December 2016.

### DIRECTORS AND COMPANY SECRETARIES

The directors and the company secretaries of the Company at any time during or since the end of the financial year are as follows:

#### **Russell Neil FCPA, CFA - Managing Director**

Mr Neil was appointed a non-executive director of Kangaroo Resources Limited on 13 June 2011 and was appointed as the Company's Managing Director and Chief Executive Officer on 5 May 2016.

Mr Neil is a Certified Practising Accountant and Certified Financial Analyst and is an Indonesian-based mining executive with over 24 years of corporate experience in accounting, finance and management roles within the mining industries of Australia and Indonesia. Mr Neil previously worked for WMC Ltd, Eltin Ltd and Tiwest Joint Venture in Australia and consulted to a number of Indonesian mining companies.

Mr Neil is currently Chief Development Officer and a director of PT Bayan Resources Tbk.

Mr Neil did not hold any directorships in other listed companies in the previous 3 years.

#### **David Low Yi Ngo BSc (Mechanical Engineering and Production) - Non-Executive Director**

Mr Low was appointed a director of Kangaroo Resources Limited on 13 June 2011.

Mr Low is Sales and Marketing manager for PT Bayan Resources Tbk. Mr Low has held various senior management roles within Indonesia and Asia over the past 8 years and is currently CEO and Managing Director of Singapore entity Manhattan Resources Limited.

Mr Low did not hold any directorships in other listed companies in the previous 3 years.

#### **Trevor Butcher - Independent Non-Executive Director**

Mr Butcher was appointed a director of Kangaroo Resources Limited on 1 October 2009.

Mr Butcher is a mining industry professional who has spent more than 9 years working in the Indonesian mining industry. This vital industry knowledge, along with his significant Indonesian business networks and strong relationships with local partners, puts him in a strong position to help guide the company through the next phases of development.

Mr Butcher did not hold any directorships in other listed companies in the previous 3 years.

## **DIRECTORS' REPORT**

**31 DECEMBER 2016**

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### **Susmit Shah BSc Econ, CA - Independent Non-Executive Director**

Mr Shah was appointed a director of Kangaroo Resources Limited on 1 December 2015.

Mr Shah is a Chartered Accountant who has been involved as a director and company secretary of various Australian public listed companies for over 20 years. He consults to public companies on a variety of matters including stock exchange requirements, joint venture negotiation and corporate fundraising. He is currently a director and company secretary of ASX listed Amani Gold Limited (appointed 16 June 2005) and is company secretary of ASX listed entities Manas Resources Limited and Tiger Resources Limited.

Susmit brings a wealth of financial and corporate expertise to the board of KRL through his experience with numerous IPOs', backdoor listings, mergers and asset acquisitions

### **Paul Jurman BCom, CPA – Company Secretary**

Mr Jurman was appointed company secretary of Kangaroo Resources Limited on 1 December 2015.

Mr Jurman is a Certified Practising Accountant with over 16 years' experience and has been involved with a diverse range of Australian public listed companies in company secretarial and financial roles. He is also company secretary of ASX listed Nemex Resources Limited, Carnavale Resources Limited and Platina Resources Limited.

### **Ian Ogilvie MIQ, MAusIMM – Managing Director**

Mr Ogilvie was appointed a director of Kangaroo Resources Limited on 1 May 2013 and resigned as director on 5 May 2016.

## DIRECTORS' REPORT

31 DECEMBER 2016



### DIRECTORS' INTERESTS

No Director held a direct interest in the share capital of the Company as at the date of this report. The following directors held management positions in the Company's majority shareholder PT Bayan Resources Tbk as at 31 December 2016, and therefore have an indirect interest of 56.05% in the Company.

- Russell Neil – Director of Business Development
- David Low Yi Ngo – Director of Sales & Marketing

### DIRECTORS' MEETINGS

The number of meetings of the Company's board of directors held during the year ended 31 December 2016, and the number of meetings attended by each Director were:

<b>Board Meetings</b>	<b>Number eligible to attend</b>	<b>Number attended</b>
T Butcher	7	7
D Low Yi Ngo	7	4
R Neil	7	7
I Ogilvie <sup>1</sup>	2	2
S Shah	7	7

<sup>1</sup> Ian Ogilvie resigned as director on 5 May 2016

## PRINCIPAL ACTIVITIES

Kangaroo Resources Limited is a mineral resources company which has its corporate head office in Perth, Australia. The Company has a significant portfolio of coal development and exploration assets in East Kalimantan Indonesia, and through its subsidiary entities, maintains a regional presence in the Indonesian capital city of Jakarta.

The Company continues to leverage off its strong local relationships as it continues to develop its portfolio of Indonesian coal assets into full-scale production operations as quickly as possible.

Coal exploration and exploitation is the core business of the Company.

The Company has interests in a significant portfolio of 14 coal mining concessions all located in the coal rich province of East Kalimantan. A large portion of these concessions are in close proximity to the existing coal mining and newly constructed infrastructure assets of its major shareholder PT Bayan Resources Tbk (BR).

## 2016 OVERVIEW

An improving coal price environment saw the Newcastle benchmark rebound strongly in the second half of the year from the lows of US\$48 – US\$52 per tonne range in the first half of the year to end the year at US\$88 per tonne. In 2016 the management of the Company continued to progress along the path to bring a number of its projects into production:

- SAU sale transaction was completed providing the Company with access to BR's coal haul road and Senyuir barge loading facilities
- Design, tender and award of a drilling program for the commencement of drilling on the GPK concession
- Commencement of updated JORC reports for most of the Pakar concessions
- Relinquished certain areas of the Pakar concessions that had overlaps with third parties paving the way for Clear and Clean status
- Obtained legal advice on a new structure that will allow the Company to complete the outstanding BR / KRL transaction transferring the remaining 4 concessions to KRL

### SAU Transaction

During 2016, the Company completed the transaction to sell the infrastructure assets held by its subsidiary, PT Sumber Aset Utama (SAU) to BR for US\$12 million (Gain on sale of \$481,708 over carrying value of assets). As part of this transaction, the Company will have rights to use 30% of the capacity of Bayan's coal haul road and Senyuir barge loading facilities. Furthermore this transaction allowed the company to deleverage its debt position with Bayan.

### GPK Drilling Program

In 2016 the Company has kicked off a drilling program at its PT Graha Panca Karsa (GPK) concession with a program that will total up to 2,200 metres of drilling. A detailed exploration program was prepared and a tender was issued culminating in the award of a contract to a drilling company in January 2017. Drilling commenced in February 2017.

## JORC Reports

During 2016 the Company appointed PT. Runge Pincock Minarco to update the reserves and resources statements to JORC 2012 standard as at 31st December 2016. Reserves and Resources will be prepared for PT Tiwa Abadi (TA), PT Tanur Jaya (TJ) and PT Dermaga Energi (DE) and Resources for PT Sumber Api (SA), PT Cahaya Alam (CA), PT Bara Sejati (BS), PT Apira Utama (AU) and PT Silau Kencana (SK). It is expected that this will be completed early in the second quarter of 2017.

## Pakar Relinquishment

During 2016 the Company agreed to relinquish 5,118 Ha of its AU, BS and SK concessions that overlapped with a third party concession. This relinquishment, whilst not ideal, clears one of the hurdles the Company was facing in order to obtain Clear and Clean status for its mining concessions.

## BR / KRL Transaction

The Company obtained initial legal advice from a leading Indonesian law firm in 2016 on a structure that may enable the Company to complete the abovementioned transaction. The Company and its legal team are working through legal and tax issues in both Australia and Indonesia. Subject to satisfactory finalisation of these issues, the Company anticipates working towards a positive resolution to this long outstanding issue.

## Reduction in Costs

The Company over the last number of years has consistently reduced its cash spending. In 2016 net cash outflows from operations was \$2,419,808 a reduction of \$3,087,473 from 2015 net cash outflows of \$5,507,281. This was mainly due to cost reductions at Pt Mamahak Coal Mining (MCM) which is now in care and maintenance with limited cash spending predicted going forward.

## MANAGEMENT OUTLOOK

The management is cautiously optimistic that coal prices won't return to the lows of early 2016 in the foreseeable future and is looking to benefit from this through the development of its Pakar and GPK projects. In this regard, the Company plans for 2017 include the following:

- Commence a drilling program in the TA concession along the corridor that is not impacted by forestry or palm oil plantations
- Upgrade TA and TJ from exploration status to production status licences – This includes submission of Feasibility Studies and Environmental Impact Studies to the Government of Indonesia
- Further progress the permitting process for the Forestry Borrow-Use permits (Pinjam Pakai) primarily for the TA and TJ concessions which are required as a prelude to commencing production
- Complete the BR / KRL transaction to the extent possible
- Complete an updated JORC report for the GPK concession resulting from the new drilling program



## DIRECTORS' REPORT

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Where possible the management will look for further opportunities to fast-track these processes as we recognize the only way to extract value for all shareholders and stakeholders is to get these projects into production as soon as possible.

### OPERATING AND FINANCIAL REVIEW

The consolidated comprehensive loss of the Group for the year ended 31 December 2016 was \$43,662,264 (31 December 2015: \$29,189,148 loss).

This comprehensive loss was mainly due to the following factors;

#### **Impairment of Mining Assets \$(50,568,444) (December 2015: \$(33,740,007))**

Following the continued downturn in worldwide coal prices and in particular long-term forecast prices (amongst other items), management have made the decision to impair its mining assets by \$50,568,444. This is a non-cash transaction and the value of these impairments is summarised below:-

PT Dermaga Energi & PT Tanur Jaya	\$ 44,400,000
PT Tiwa Abadi	\$ 5,468,444
PT Cahaya Alam	\$ 700,000

For more detailed information on the impairments please refer to Notes 11 and 13 to the Consolidated Financial Statements.

#### **Operating Expenses \$(727,819) (December 2015: \$(2,292,215))**

Operating expenditure at Mamahak Coal Mine (MCM) is now limited to minimal care and maintenance at the mine site with costs decreasing from \$2,292,215 in 2015 to \$727,819 in 2016 with the majority of this expenditure relating to non-cash expenditure (\$484,188) including depreciation and write-downs of inventory due to the further falls in coal prices.

#### **Administrative Expenses \$(2,666,823) (December 2015 \$(2,400,215))**

Administrative costs have increased by \$266,608 in 2016 mainly due to a one-off withholding tax expense payment made during the settlement of the SAU assets sale to BR.

#### **Finance costs \$(3,017,875) (December 2015: \$(3,390,833))**

Interest accrued on outstanding borrowings with BR have decreased from 2015 mainly due to the use of the proceeds from the settlement of the asset sale from SAU to BR to reduce outstanding borrowings with BR.

#### **Foreign Exchange Gain \$602,098 (December 2015: loss \$(1,602,236))**

Foreign exchange gain of \$602,098 mainly due to foreign exchange gains relating to the settlement of the SAU asset sale to BR.

#### **Income Tax Benefit \$12,890,369 (December 2015: \$7,863,573)**

Income tax benefit of \$12,890,369 relates to reductions in deferred tax liability associated with the impairment of mining assets at Pakar. Pakar licenses carrying values exceed their tax base resulting in the above corresponding deferred tax liability.

#### **Other Income \$481,708 (December 2014: \$2,644,115)**

Other income of \$481,708 represents the gain on sale of SAU assets to BR.

#### **Exchange differences on translating foreign operations \$(801,163) (December 2015: gain \$3,565,591)**

Mainly due to foreign exchange loss arising from revaluation of "Available-for-sale financial assets" (Tiwa Abadi (TA)).

## OPERATIONS

### *Indonesian Projects:*

The Company currently has interests in three Indonesian coal projects, all located in East Kalimantan:

- Pakar Project (99%, direct foreign ownership) – thermal coal project comprising 9 separate mining concessions.
- Mamahak Project (99%, direct foreign ownership) – coking coal & high quality thermal coal – comprising 4 separate mining concessions.
- GPK Project 85% reducing to 77%, See note 21(b) – thermal coal, with one mining concession.

### ***Pakar Thermal Coal Project***

The Pakar coal project is a major component of the Company's Indonesian coal production strategy, which is composed of Pakar North and Pakar South. These 9 mining concessions form one continuous block which borders BR's Tabang project block offering considerable scope to extend exploration and increase mineable reserves and resources on both projects.

To date the Company has secured a 99% direct equity interest in 5 of the 9 mining concessions and also the Senyur port area. The Company also holds commercial rights to acquire up to 99% of the remaining 4 Pakar entities which are currently awaiting government sign-off and conversion to Indonesian PMA companies (a foreign investment company) to enable shares in these entities to be transferred to a foreign entity. The shares in these remaining 4 concessions are currently held by BR. During the year, the Company obtained initial legal advice from a leading Indonesian law firm on a structure that may enable the Company to complete the abovementioned transaction. The Company and its legal team are working through legal and tax issues in both Australia and Indonesia. Subject to satisfactory finalisation of these issues, the Company anticipates providing further information about this structure in the first quarter of 2017 and then working towards a positive resolution to this long outstanding issue.

During the year, the Company announced that it had relinquished certain areas on 3 of its coal concessions (AU, BS and SK) that overlapped with a third-party coal concession PT. Aditya Kirana Mandiri. This paves the way for the Indonesian government to issue Clear and Clean status for these concessions (except for BS which has a further overlap – see below).

Five of the Company's coal concessions in this area (Orkida Makmur (OM), DE, SA, CA and BS) have an overlap with another third-party coal company PT. Senyur Sukses Pratama (SSP). Uncertainty surrounding the exact boundary line between the Kutai Kartanegara regency and Kutai Timur regency gave rise to this overlap. In 2012, the East Kalimantan government together with the heads of the respective regencies agreed on a final boundary which was in the Company's favour and the East Kalimantan government instructed SSP to relinquish those overlapping areas. In August 2016, SSP filed a lawsuit against the provincial government of East Kalimantan in the Administrative Court in Samarinda in relation to this matter. As the Company has an interest in the outcome of this case, KRL took the decision in October 2016 through OM to intervene in this action. The Company understands that as long as the SSP lawsuit remains outstanding, the government will not issue Clear and Clean status for these concessions (other than OM which has Clear and Clean status).

The Company has rights to utilize 30% of BR's haul road and barge loading capacity at Senyur through an Access Agreement. BR's haul road passes either through or near to the majority of the Company's mining concessions in Pakar.

## DIRECTORS' REPORT

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Current barge loading capacity at BR's Senyur Port is 18 Million metric tonnes per year using 2 barge loading jetties. BR achieved over 910kt of barging from this barge loading facility in December 2016.

### ***Mamahak Coking Coal Project***

Mamahak project consists of 4 separate mining concessions MCM, PT Mahakam Energi Lestari (MEL), PT Mahakam Bara Energi (MBE) and PT Bara Karsa Lestari (BKL).

Mining Operations at MCM were suspended in December 2012.

Geological models were updated to enable a reassessment of coal resources. An updated Mineral Resources report was prepared by external consultants and issued in March 2015 with summary of findings released to the market on 12 May 2015.

Recommencement of mining activity at the MCM project remains dependent on the identification of additional mineable coal reserves, establishment of a more accessible port location and a significant improvement in coal markets.

### ***GPK Thermal Coal Project***

During 2016, the Company finalized a detailed exploration program for the GPK concession and finalized its tender for drilling and geophysical logging services. The drill program is planned to comprise two stages with approximately 1,200 metres of drilling (including 250m of coring) in the first stage followed by 1,000 metres of drilling (including 340m of coring) in the second stage. All drill holes will be geophysically logged. The aim of the drilling program is to confirm previous drilling works performed on the site and gain a better understanding of the coal seam geology. Concurrent with the planned drill program, the Company will undertake survey work to consolidate topographical information.

The Company has socialized the impending drilling program to the surrounding communities, signed the drilling and geophysical logging contracts in January 2017 and has commenced drilling in February 2017.

The Company holds an 85% economic interest in the GPK project, along with a pre-existing obligation to pass on 8% of that interest to a third party, KAL Energy.

## **GOING CONCERN**

For the year ended 31 December 2016, the Company incurred a total comprehensive loss of \$43,662,264 (31 December 2015: \$29,189,148 loss), net cash outflows from operating activities of \$2,419,808 (31 December 2015: \$5,507,281) and has a working capital deficiency of \$31,409,741 (31 December 2015: \$42,467,131). The group was advanced loans of \$1,859,212 from PT Bayan Resources Tbk (BR), the major shareholder of the Company, to fund operating cash flow and capital expenditure (31 December 2015: \$4,824,261).

The Company relies on BR for funding to cover its operating expenditure and to continue development of its projects. As such, the Company is dependent on BR to continue as a going concern.

BR has undertaken to provide sufficient financial assistance to the Company as and when it is needed to enable the Company to continue its operations and fulfil all of its financial obligations now and in the future. The undertaking is provided for a minimum period of twelve months from the date of these financial statements.

## **DIRECTORS' REPORT**

**31 DECEMBER 2016**

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### **SIGNIFICANT CHANGES TO THE STATE OF AFFAIRS**

During the financial year ending 31 December 2016 the Companies activities were influenced by the following events:

In December 2015 the Company and BR signed formal agreements relating to the sale of property, plant and equipment held by its subsidiary SAU and access rights to new road and port infrastructure facilities (incorporating long-term tonnage throughput). Approval for the sale of these assets and the formal agreements relating to the access rights was put to eligible shareholders at a general meeting on the 29 April 2016. The eligible shareholders voted in favour of the transaction and the proceeds from the sale of these assets has been used to reduce the Company's borrowings with BR.

### **LIKELY DEVELOPMENTS**

Likely developments in the operation of the Group and the expected results of those operations are included under the operating and financial review in this Directors' Report.

Other than as referred to in this report, further information as to likely developments in the operations of the Group and the expected results of those operations in subsequent financial years have not been included in this report because the Directors believe it would be speculative and likely to result in unreasonable prejudice to the Group.

### **DIVIDENDS**

No dividend has been paid by the Group during the year ended 31 December 2016 and the Directors do not recommend payment of a dividend.

### **EVENTS SUBSEQUENT TO BALANCE DATE**

The Directors are not aware of any matters or circumstances at the date of the report, other than those referred to above or in this report or the financial statements or notes thereto, that has significantly affected or may significantly affect the operations, the results of operations or the state of affairs of the group in subsequent financial years.

## REMUNERATION REPORT

The information provided in this remuneration report has been audited as required by section 308(3C) of the *Corporations Act 2001*. The remuneration arrangements detailed in this report are for the Directors and other key management personnel ('KMP') as follows:

R Neil <sup>1</sup>	Managing Director
I Ogilvie <sup>2</sup>	Managing Director
T Butcher	Non Executive Director
D Low Yi Ngo	Non Executive Director
S Shah	Non Executive Director
D Henderson	Financial Controller

<sup>1</sup> Appointed as Managing Director 5 May 2016, non-executive director prior to this

<sup>2</sup> Resigned as Managing Director 5 May 2016

The Remuneration Report is set out under the following main headings:

- A Remuneration Philosophy
- B Remuneration Structure and Approvals
- C Remuneration and Performance
- D Details of Remuneration
- E Contractual Arrangements
- F Share-based Compensation
- G Equity Instruments Issued on Exercise of Remuneration Options
- H Value of options to Directors
- I Adoption of Remuneration Report by Shareholders

### A. Remuneration Philosophy

KMP have authority and responsibility for planning, directing and controlling the activities of the Company. KMP currently comprise the Board of Directors and Financial Controller.

The performance of the Company depends upon the quality of its KMP. To prosper the Company must attract, motivate and retain appropriately skilled directors and executives.

The Company's broad remuneration policy is to ensure the remuneration package properly reflects the person's duties and responsibilities and that remuneration is competitive in attracting, retaining and motivating people of the highest quality.

One of the executives of the Company's majority shareholder, PT Bayan Resources Tbk, is a non-executive member of the Board of Directors and currently does not charge any fees in this capacity. This non-executive director has the skills and experience to perform some of the duties that would otherwise be the responsibility of other key management personnel, for which additional costs to the Company would normally be incurred.

## B. Remuneration Structure and Approvals

The remuneration of the directors is set by the full board. In 2014 the board had a separate Remuneration and Nominations Committee to oversee this function. Due to the size of the Board and the Company's operational status, the Board decided to dissolve the committee and take over the function. The Board has not at this point in the Company's development engaged the services of a remuneration consultant to provide recommendations when setting the remuneration received by Directors. It is considered that the level of activity of the Company does not warrant such engagement.

### Non-Executive Remuneration Structure

The remuneration of non-executive directors consists of directors' fees, payable in arrears. The Board, in accordance with the Company's Constitution and the ASX Listing Rules specify that the non-executive directors fee pool shall be determined from time to time by a general meeting. The latest determination was at the 2010 Annual General Meeting (AGM) held on 30 November 2010 whereby shareholders approved an aggregate fee pool of \$400,000 per year. The Board will not seek any increase for the non-executive directors pool at the 2016 Annual General Meeting.

Remuneration of non-executive directors is based on fees approved by the Board of Directors and is set at levels to reflect market conditions and encourage the continued services of the directors. Non-executive directors do not receive retirement benefits but are able to participate in share-based incentive programmes in accordance with Company policy.

During the financial year, non-executive directors received combined fees totalling \$72,000. Mr Shah was paid a director's fee of \$3,000 per month (plus GST), Mr Butcher was paid a director's fee of \$3,000 per month (including superannuation). Mr Low does not receive director's fees, whilst Mr Neil did not receive director's fees whilst he was a non-executive director up until 5 May 2016 at which time he was appointed Managing Director and Chief Executive Officer.

Further details relating to remuneration of non-executive directors are contained in the remuneration table disclosed in Section D of this Report; and within the Notes to the Financial Statements: Note 23 Related Party Disclosures.

### Non-Executive Remuneration Approvals

The Board, in accordance with the Company's Constitution, sets the aggregate remuneration of non-executive directors, subject to shareholder approval. Within this pre-approved aggregate remuneration pool, fees paid to non-executive directors for the year ended 31 December 2016 were approved by the Board of Directors in the absence of the Remuneration and Nominations Committee and was set at levels to reflect market conditions and encourage the continued services of the directors. Remuneration may also include an invitation to participate in share-based incentive programmes in accordance with Company policy.

The nature and amount of remuneration is collectively considered by the Board of Directors with reference to relevant employment conditions and fees commensurate to a company of similar size and level of activity, with the overall objective of ensuring maximum stakeholder benefit from the retention of high performing directors and executives.

### Executive Remuneration structure

The nature and amount of remuneration of executives are assessed on a periodic basis with the overall objective of ensuring maximum stakeholder benefit from the retention of a high performing director and executive team.

The main objectives sought when reviewing executive remuneration is that the Company has:

- coherent remuneration policies and practices to attract and retain executives;

## DIRECTORS' REPORT

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- directors who will create value for shareholders;
- competitive remuneration offered benchmarked against the external market; and
- fair and responsible rewards to executives having regard to the performance of the Company, the performance of the executives and the general pay environment.

The Company offers short term incentive schemes to executive directors only. The Company does not offer any retirement benefits to executive directors and there are no performance related links to shareholder wealth and remuneration policies.

During the financial year, the Company's Managing Director, Mr Ogilvie, received remuneration and termination benefits totalling \$315,957 for his services up to and including 5 May 2016.

The Company's Managing Director and Chief Executive Officer Russell Neil was not paid directly from KRL for his services from 5 May 2016. PT Bayan Resources TBK charged KRL a secondment fee for his services of US\$18,000 per month. This secondment fee is considered to be within the market range for a Managing Director and Chief Executive Officer of a mineral resources company of KRL's size and stage of development.

Further details relating to remuneration of executive directors are contained in the remuneration table disclosed in Section D of this Report; and within the Notes to the Financial Statements: Note 23 Related Party Disclosures.

### Executive Remuneration Approvals

The Company aims to reward executives with a level and mix of remuneration commensurate with their position and responsibilities within the Company and aligned with market practice. The Board will review executive contracts annually. The process will consist of a review of company, business unit and individual performance, relevant comparative remuneration internally and externally and, where appropriate, external advice independent of management.

Executive remuneration and incentive policies and practices must be aligned with the Company's vision, values and overall business objectives. Executive remuneration and incentive policies and practices must be designed to motivate the directors and management to pursue the Company's long term growth and success and demonstrate a clear relationship between the Company's overall performance and the performance of executives.

### **C. Remuneration and Performance**

Short term bonus schemes offered to executive directors are detailed in Service Agreements and approval of any payments under such schemes are subject to the approval of the Chairman acting on advice of the Board.

Director remuneration is currently not linked to either long term or short term performance conditions. The Board will continue to monitor this policy to ensure that it is appropriate for the Company in future years.

### **D. Details of Remuneration**

The KMP of the Company for the year ended 31 December 2016 were the Board of Directors and the Financial Controller Damien Henderson.

During the financial year ended 31 December 2016 and the financial year ended 31 December 2015 the KMP received no long-term benefits. The only remuneration received by the KMP within these periods were short-term employee benefits.



# DIRECTORS' REPORT

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Twelve months ended 31 December 2016	Short-term benefits				Post- employment benefits	Share-based payment	Total	Percentage remuneration consisting of options for the year
	Salary & Fees	Bonus	Non-monetary	Other	Termination	Options & rights		
	\$	\$	\$	\$	\$	\$	\$	
<b>Directors</b>								
I Ogilvie <sup>1</sup>	160,897	-	-	-	155,060	-	315,957	0.00%
T Butcher	36,000	-	-	-	-	-	36,000	0.00%
D Low Yi Ngo	-	-	-	-	-	-	-	0.00%
S Shah	36,000	-	-	-	-	-	36,000	0.00%
R Neil <sup>2</sup>	193,626	-	-	-	-	-	193,626	0.00%
<b>Sub-total</b>	<b>426,523</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>155,060</b>	<b>-</b>	<b>581,583</b>	
<b>Other Key Management</b>								
D Henderson	223,162	18,392	-	-	-	-	241,554	0.00%
<b>Sub-total</b>	<b>223,162</b>	<b>18,392</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>241,554</b>	
<b>Total</b>	<b>649,685</b>	<b>18,392</b>	<b>-</b>	<b>-</b>	<b>155,060</b>	<b>-</b>	<b>823,137</b>	

1 Ian Ogilvie resigned as Managing Director on 5 May 2016

2 Russell Neil was appointed Managing Director and Chief Executive Office on 5 May 2016. Short-Term benefits above represent secondment charges from PT Bayan Resources TBK

Details of the remuneration of the directors and other key management personnel of the Company for the year ended 31 December 2015 are set out below:

During 2015 Damien Henderson's remuneration was paid by BR.

Twelve months ended 31 December 2015	Short-term benefits				Post- employment benefits	Share-based payment	Total	Percentage remuneration consisting of options for the year
	Salary & Fees	Bonus	Non-monetary	Other	Termination	Options & rights		
	\$	\$	\$	\$	\$	\$	\$	
<b>Directors</b>								
I Ogilvie	491,226	-	-	-	-	-	491,226	0.00%
G Anderson <sup>1</sup>	42,000	-	-	-	-	-	42,000	0.00%
L Math <sup>2</sup>	30,000	-	-	-	-	-	30,000	0.00%
T Butcher	42,511	-	-	-	-	-	42,511	0.00%
D Low Yi Ngo	-	-	-	-	-	-	-	0.00%
R Neil	-	-	-	-	-	-	-	0.00%
S Shah <sup>3</sup>	3,000	-	-	-	-	-	3,000	0.00%
<b>Total</b>	<b>608,737</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>608,737</b>	

1 Graham Anderson ceased being a director on 19 July 2015

2 Leonard Math resigned as director on 21 May 2015, was re-appointed 5 August 2015 and resigned on 1 December 2015

3 Susmit Shah was appointed director on 1 December 2015



## DIRECTORS' REPORT

31 DECEMBER 2016

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### E. Contractual Arrangements

On appointment, the executive directors enter into a service agreement with the Company in the form of a letter of appointment. The letter outlines the Board policies and terms, including remuneration relevant to the office of director.

Details of the executive director service agreements are as follows:-

Russell Neil

Monthly Fee - US\$18,000

Period of Notice – 1 month

Term – Continuing

(KRL does not pay Russell Neil's salary. BR charges KRL a monthly secondment fee)

Ian Ogilvie

Monthly Fee - US\$24,000 Net of Tax

Term Bonus – 1 month salary for every 12 months worked subject to Board discretion

Annual Performance Bonus – Minimum 1 month salary subject to Board discretion

Term – Ian Ogilvie resigned on 5 May 2016.

Non-executive directors receive a letter of appointment which contains key terms to their appointment. Such terms include the term in accordance with the Constitution of the Company, time commitment expected, role, remuneration (if applicable), standards of conduct and cessation of office.

Details of the non-executive service agreements are as follows:-

Susmit Shah

Monthly Fee - \$3,000

Period of Notice – 1 month

Term – Continuing

Trevor Butcher

Monthly Fee - \$3,000

Period of Notice – 1 month

Term – Continuing

David Low Yi Ngo

Monthly Fee - \$nil

Period of Notice – 1 month

Term – Continuing

Details of other Key Management are as follows:-

Damien Henderson

Monthly Salary - US\$13,050 Net of tax

Bonus – Minimum of 1 month's salary

Period of Notice – 3 months

Term – Continuing

## DIRECTORS' REPORT

31 DECEMBER 2016

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### *Termination benefits*

The Group is currently not liable for any termination benefits on termination of the current executive or non-executive directors or key management personnel other than payment of period of notice on termination where applicable.

Ian Ogilvie upon resignation was paid a termination payment equivalent to 4 months salary net of tax in May 2016.

### **F. Share-based Compensation**

From time to time the Company rewards directors for their performance and aligns their remuneration with the creation of shareholder wealth by issuing share options and or shares. Share-based compensation is at the discretion of the Board and no individual has a contractual right to participate in any share-based plan or to receive any guaranteed benefits.

#### Options

There were no options granted to KMP during the financial year, nor were shares issued upon exercise of options. As at the date of this report no options have been exercised.

#### Shares

There were no shares granted to KMP during the financial year.

### **G. Equity Instruments Issued on Exercise of Remuneration Options**

No shares were issued during the financial year to Directors or other KMP as a result of exercising remuneration options.

### **H. Value of Options to Directors**

There were no options on issue during the financial year.

### **I. Adoption of Remuneration Report by Shareholders**

The adoption of the Remuneration Report for the financial year ended 31 December 2015 was put to the shareholders of the Company at the Annual General Meeting held on 20 May 2016. The Company received more than 99% "yes" votes on its remuneration report and the resolution was passed without amendment on a show of hands.

**This is the end of the audited remuneration report.**

## DIRECTORS' REPORT

31 DECEMBER 2016

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### SHARES UNDER OPTION

At the date of this report there are no unissued ordinary shares of Kangaroo Resources Limited under option.

During the period nil (Financial period ended 31 December 2015: nil) ordinary shares were issued upon the exercise of options.

### SHARES UNDER WARRANT

128,103,448 unissued ordinary shares of Kangaroo Resources Limited under warrant with an exercise price of \$0.133 AUD expired on the 29 June 2015.

### INDEMNIFICATION AND INSURANCE OF OFFICERS

During the financial year the Company paid an insurance premium to insure the directors and officers of the Company against a liability incurred as such a director or officer to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The Company has not otherwise, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the Company against a liability incurred as such an officer or auditor.

### PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purposes of taking responsibility on behalf of the Company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the Corporations Act 2001.

### ENVIRONMENTAL REGULATION AND PERFORMANCE

The Group's mining and exploration activities in Indonesia were subject to environmental regulations from all levels of government within the Republic of Indonesia, in particular *Ministerial Regulation No. 78/2010*, which deals with reclamation and post-mining activities for both IUP-Exploration and IUP-Production Operation holders. The directors are not aware of any breaches during the period covered by this report.

### STATUTORY AUDITORS

No officer of the Company has previously belonged to an audit practice auditing the Company during the financial year.

### NON-AUDIT SERVICES

Details of amounts paid or payable to the auditor and their related entities during the period by the auditor are disclosed in note 30 to the financial statements.

In December 2016 KRL engaged PwC Australia for accounting advice in relation to completing the transfer of ownership of the 4 outstanding Pakar coal concessions from BR to KRL (see director's report).

## DIRECTORS' REPORT

31 DECEMBER 2016

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### AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration for the financial year ended 31 December 2016 has been received as required under Section 307C of the *Corporations Act 2001* and is included on page 21.

This Directors' Report is made in accordance with a resolution of the Board of Directors made pursuant to Section 298(2) of the *Corporations Act 2001*.

On behalf of the Directors:

A handwritten signature in black ink, appearing to read 'Russell Neil', is written over a light grey horizontal line.

**Russell Neil**  
Managing Director  
Jakarta, Indonesia

30 March, 2017



## Auditor's Independence Declaration

As lead auditor for the audit of Kangaroo Resources Limited for the year ended 31 December 2016, I declare that to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Kangaroo Resources Limited and the entities it controlled during the year.

A handwritten signature in black ink that reads 'Ben Gargett'.

Ben Gargett  
Partner  
PricewaterhouseCoopers

Perth  
30 March 2017

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**FINANCIAL STATEMENTS**

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These financial statements are the consolidated financial statements of the consolidated entity consisting of Kangaroo Resources Limited and its subsidiaries. The financial statements are presented in Australian currency.

The financial statements were authorised for issue by the directors on 30 March 2017. The directors have the power to amend and reissue the financial statements.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME



For the year ended 31 December 2016

	Note	Consolidated	
		Year ended 31 December 2016 \$	Year ended 31 December 2015 \$
<b>Continuing operations</b>			
Revenue from continuing operations	4	145,685	163,079
Other income	4	1,083,806	2,644,115
		<u>1,229,491</u>	<u>2,807,194</u>
<b>Expenses</b>			
Operating expenses	5	(727,819)	(2,292,215)
Administration expenses	5	(2,666,823)	(2,400,215)
Finance costs	5	(3,017,875)	(3,390,833)
Impairment expense	5	(50,568,444)	(33,740,007)
Other expenses	5	-	(1,602,236)
<b>Total expenses</b>		<u>(56,980,961)</u>	<u>(43,425,506)</u>
<b>Loss before income tax</b>		(55,751,470)	(40,618,312)
Income tax benefit	6	12,890,369	7,863,573
<b>Loss from continuing operations</b>		<u>(42,861,101)</u>	<u>(32,754,739)</u>
<b>Other comprehensive loss</b>			
<i>Items that may be reclassified into profit or loss</i>			
Exchange differences on translation of foreign operations		(801,163)	3,565,591
Other comprehensive loss for the year, net of tax		(801,163)	3,565,591
<b>Total comprehensive loss for the year</b>		<u>(43,662,264)</u>	<u>(29,189,148)</u>
<b>Loss for the year is attributable to:</b>			
Owners of the Company		(42,446,892)	(32,446,420)
Non-controlling interests		(414,209)	(308,319)
		<u>(42,861,101)</u>	<u>(32,754,739)</u>
<b>Total comprehensive loss for the year is attributable to:</b>			
Owners of the Company		(43,238,599)	(28,843,940)
Non-controlling interests		(423,665)	(345,208)
		<u>(43,662,264)</u>	<u>(29,189,148)</u>
<b>Loss per share attributable to the ordinary equity holders of the company:</b>			
		Cents	Cents
Basic and diluted loss per share from continuing operations		(1.24)	(0.94)

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016



	Note	Consolidated	
		31 December 2016	31 December 2015
		\$	\$
<b>Current Assets</b>			
Cash & cash equivalents	7	1,739,083	2,406,603
Trade & other receivables	8	790,364	827,787
Inventory	9	3,644,585	3,884,044
Assets classified as held for sale	10	-	15,956,714
<b>Total Current Assets</b>		<b>6,174,032</b>	<b>23,075,148</b>
<b>Non-Current Assets</b>			
Receivables	8	911,920	839,572
Property, plant & equipment	12	67,469	209,806
Mine properties & development	13	127,100,000	171,500,000
Exploration & evaluation expenditure	14	16,582,124	16,580,427
Available-for-sale financial assets	11	47,989,079	55,150,553
<b>Total Non-Current Assets</b>		<b>192,650,592</b>	<b>244,280,358</b>
<b>TOTAL ASSETS</b>		<b>198,824,624</b>	<b>267,355,506</b>
<b>Current Liabilities</b>			
Trade & other payables	15	6,332,509	6,666,460
Borrowings	23(f)	31,251,264	42,919,105
<b>Total Current Liabilities</b>		<b>37,583,773</b>	<b>49,585,565</b>
<b>Non-Current Liabilities</b>			
Provisions	16	696,521	672,978
Deferred tax liabilities	17	44,726,855	57,617,224
<b>Total Non-Current Liabilities</b>		<b>45,423,376</b>	<b>58,290,202</b>
<b>TOTAL LIABILITIES</b>		<b>83,007,149</b>	<b>107,875,767</b>
<b>NET ASSETS</b>		<b>115,817,475</b>	<b>159,479,739</b>
<b>EQUITY</b>			
<b>Equity attributable to the equity holders of the parent</b>			
Issued capital	18	469,867,326	469,867,326
Reserves	19	1,518,618	2,310,325
Accumulated losses	19	(356,443,968)	(313,997,076)
Capital & reserves attributable to owners of Kangaroo Resources Limited		114,941,976	158,180,575
Non-controlling interest	20	875,499	1,299,164
<b>TOTAL EQUITY</b>		<b>115,817,475</b>	<b>159,479,739</b>

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.



## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016



	Contributed Equity	Accumulated Losses	Reserves	Attributable to members of KRL	Non-controlling interest	Total Equity
	\$	\$	\$	\$	\$	\$
<b>Balance as at 1 January 2016</b>	469,867,326	(313,997,076)	2,310,325	158,180,575	1,299,164	159,479,739
Loss attributable to members of KRL	-	(42,446,892)	-	(42,446,892)	(414,209)	(42,861,101)
Other comprehensive loss	-	-	(791,707)	(791,707)	(9,456)	(801,163)
Total comprehensive loss attributable to members of KRL	-	(42,446,892)	(791,707)	(43,238,599)	(423,665)	(43,662,264)
<b>Balance as at 31 December 2016</b>	469,867,326	(356,443,968)	1,518,618	114,941,976	875,499	115,817,475
	Contributed Equity	Accumulated Losses	Reserves	Attributable to members of KRL	Non-controlling interest	Total Equity
	\$	\$	\$	\$	\$	\$
<b>Balance as at 1 January 2015</b>	469,867,326	(283,941,250)	1,098,439	187,024,515	1,644,372	188,668,887
Loss attributable to members of KRL	-	(32,446,420)	-	(32,446,420)	(308,319)	(32,754,739)
Other comprehensive loss	-	-	3,602,480	3,602,480	(36,889)	3,565,591
Share-based payments reserve expired	-	2,390,594	(2,390,594)	-	-	-
Total comprehensive loss attributable to members of KRL	-	(30,055,826)	1,211,886	(28,843,940)	(345,208)	(29,189,148)
<b>Balance as at 31 December 2015</b>	469,867,326	(313,997,076)	2,310,325	158,180,575	1,299,164	159,479,739

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

# CONSOLIDATED STATEMENT OF CASH FLOW

For the year ended 31 December 2016



	Consolidated	
	Year ended 31 December 2016	Year ended 31 December 2015
	\$	\$
<b>Cash flows from operating activities</b>		
Payment to suppliers and employees (inclusive of GST and VAT)	(2,563,548)	(5,669,242)
Interest received	143,740	161,961
<b>Net cash outflow from operating activities</b>	<b>(2,419,808)</b>	<b>(5,507,281)</b>
<b>Cash flows from investing activities</b>		
Payments for exploration and evaluation assets	(1,667)	-
Proceeds from sale of assets	-	166,666
<b>Net cash (outflow) inflow from investing activities</b>	<b>(1,667)</b>	<b>166,666</b>
<b>Cash flows from financing activities</b>		
Proceeds from borrowings - related parties	1,704,868	4,824,261
<b>Net cash inflow from financing activities</b>	<b>1,704,868</b>	<b>4,824,261</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(716,607)</b>	<b>(516,354)</b>
Cash and cash equivalents at beginning of financial year	2,406,603	2,798,619
Effect of exchange rate on cash held in foreign currencies	49,087	124,338
<b>Cash and cash equivalents at end of period</b>	<b>1,739,083</b>	<b>2,406,603</b>

The above consolidated statement of cash flow should be read in conjunction with the accompanying notes.

### 1. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated. The financial statements are for the consolidated entity consisting of Kangaroo Resources Limited and its subsidiaries (together referred to as the "Group"). KRL is a for profit entity for accounting purposes.

#### a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*. The consolidated financial statements also comply with International Financial Reporting Standards (IFRSs) and interpretations adopted by the International Accounting Standards Board (IASB).

##### (i) Historical cost convention

These financial statements have been prepared on the historical cost basis, modified where applicable, by the measurement of fair value of selected non-current assets, financial assets and financial liabilities.

##### (ii) New and amended standards adopted by the group

The group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2016:

- AASB 2015-1 Amendments to Australian Accounting Standards
- AASB 2016-1 Amendments to Australian Accounting Standards

The adoption of these amendments did not have any impact on the current period or any prior period and is not likely to affect future periods.

##### (iii) Going Concern

For the year ended 31 December 2016, the Company incurred a total comprehensive loss of \$43,662,264 (31 December 2015: \$29,189,148 loss), net cash outflows from operating activities of \$2,419,808 (31 December 2015: \$5,507,281) and has a working capital deficiency of \$31,409,741 (31 December 2015: \$42,467,131). The group was advanced loans of \$1,859,212 from PT Bayan Resources Tbk "Bayan Resources", the major shareholder of the Company, to fund operating cash flow and capital expenditure (31 December 2015: \$4,824,261).

Bayan Resources has undertaken to provide sufficient financial assistance to the Company as and when it is needed to enable the Company to continue its operations and fulfil all of its obligations now and in the future. The undertaking is provided for a minimum of twelve months from the date of these financial statements. These statements have therefore been prepared on a going concern basis.

### *(iv) Critical accounting estimates*

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 2.

## **b) Principles of consolidation**

### *(i) Subsidiaries*

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Kangaroo Resources Limited (the "Company" or "Parent Entity") as at 31 December 2016 and the results of all subsidiaries for the year then ended. Kangaroo Resources Limited and its subsidiaries together are referred to in this financial report as the group or the consolidated entity.

Subsidiaries are all those entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group.

### *(ii) Transactions eliminated on consolidation*

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated income statement, statement of comprehensive income, statement of changes in equity and balance sheet respectively.

### *(iii) Changes in ownership interests*

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of Kangaroo Resources Limited.

When the group ceases to have control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associated, jointly controlled entity or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets of liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

If the ownership interest in a jointly-controlled entity or an associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

### **c) Segment reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Managing Director.

### **d) Foreign currency translation**

#### *(i) Functional and presentation currency*

The functional currency of each of the Group's entities is measured using the currency of the primary economic environment in which that entity operates. These consolidated financial statements are presented in Australian dollars which is the Company's functional currency and presentation currency of the Group.

#### *(ii) Translation and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit and loss, except when they are deferred in equity as qualifying cash flow hedges or are attributable to part of the net investment in a foreign operation.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss.

#### *(iii) Group companies*

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of the balance sheet
- Income and expenses for each income statement and statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and the expenses are translated at the dates of the transactions) and
- All resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, a proportionate share of such exchange difference is reclassified to profit and loss, as part of the gain or loss on sale where applicable.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

#### **e) Other financial assets**

The Group's investments in other financial assets are in the following categories: loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at each reporting date.

##### *(i) Loans and receivables*

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market and are recognised initially at fair value and subsequently at amortised cost using the effective interest rate method. They are included in current assets except those with maturities greater than 12 months after the reporting date which are classified as non-current assets.

Loans and receivables comprise trade and other receivables.

##### *(ii) Available for sale financial assets*

Available-for-sale financial assets, comprising the right to acquire foreign entities, are non-derivatives that are either designated in this category or not classified in any other category. The available for sale financial assets are carried at fair value. Changes in the fair value of available for sale financial assets are recognised in other comprehensive income.

##### *(iii) Impairment*

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

An impairment loss is reversed to the statement of comprehensive income if the reversal can be related objectively to an event occurring after the impairment loss was recognised.

All impairment losses are recognised in profit or loss. When a decline in the fair value of an available-for-sale financial asset has been recognised in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised in other comprehensive income shall be reclassified from equity to profit or loss as a reclassification adjustment even though the financial asset has not been derecognised. Impairment losses recognised in profit or loss for an investment in an equity instrument classified as available for sale shall not be reversed through profit or loss.

### **f) Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable.

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured.

Interest income is recognised in the Statement of Comprehensive Income as it accrues, using the effective interest method.

### **g) Income tax**

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit and loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

### **h) Cash and cash equivalents**

Cash and cash equivalents comprise cash balances, short term bills and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the consolidated entity's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

### **i) Trade receivables**

Trade and other receivables are recorded at fair value initially then subsequently measured at amortised cost using the effective interest rate method, less provision for impairment. Trade receivables are generally due for settlement within 30 days. They are presented as current assets unless collection is not expected for more than 12 months after the reporting date.

### **j) Inventories**

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

### **k) Non-current assets (or disposal groups) held for sale and discontinued operations**

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets, assets arising from employee benefits, financial assets and investment property that are carried at fair value and contractual rights under insurance contracts, which are specifically exempt from this requirement.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group) but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.



Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the balance sheet. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the balance sheet.

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately in the income statement.

### **l) Borrowings**

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the profit or loss over the period of the borrowings using the effective interest rate method.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

### **m) Property, Plant and equipment**

Plant and equipment is stated at historical cost less accumulated depreciation and accumulated impairment losses. The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not shown in the accounts at a value in excess of the recoverable amount of the assets. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Depreciation is calculated on a straight line method so as to write off the net cost of each asset during their expected useful life as follows:

- Buildings 10 years
- Heavy equipment 8 to 12 years
- Furniture, fittings and equipment 4 to 12 years

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate. Gains and losses on disposals are determined by comparing the proceeds from disposal with the net carrying amount. These gains and losses are included in the statement of comprehensive income.

### **n) Exploration and evaluation expenditure**

Exploration and evaluation represent exploration assets and are capitalised in respect of each identifiable area of interest. These costs are carried forward where right of tenure to the area of interest is current and to the extent that costs are expected to be recouped through the sale or successful development and exploitation of the area of interest, or where exploration and evaluation activities in the area of interest have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves, and active and significant operations in, or in relation to, the area of interest are continuing.

When an area of interest is abandoned or the Directors decide that it is not commercial, any accumulated costs in respect of that area are written off in the financial period in which the decision is made. Each area of interest is also reviewed at the end of each accounting period and accumulated costs are written off to the extent that they are not considered to be recoverable in the future.

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified from exploration assets to mine properties and development.

### **o) Mine properties and development**

Mine properties represent the acquisition costs and/or accumulation of all exploration, evaluation and development expenditure incurred by or on behalf of the entity in relation to areas of interest in which development of mineral resource has commenced. When further development expenditure is incurred in respect of a mine property after the commencement of production, such expenditure is carried forward as part of the cost of that mine property only when future economic benefits are established, otherwise such expenditure is classified as part of the cost of production. Once in production mine properties are amortised on a units of production basis over the life of mine.

### **p) Impairment of assets**

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The group conducts an internal review of asset values bi-annually, which is used as a source of information to assess for any indications of impairment. External factors, such as changes in expected future prices, costs and other market factors are also monitored to assess for indications of impairment. If any such indication exists, an estimate of the asset's recoverable amount is calculated, being the higher of fair value less cost of disposal and the asset's value in use. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Fair value less cost of disposal is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. Fair value less cost of disposal for mineral assets is generally determined using independent market assumptions to calculate the present value of the estimated future cash flows expected to arise from the continued use of the asset, including any expansion prospects, and its eventual disposal. These cash flows are discounted using an appropriate discount rate to arrive

at a net present value of the asset.

Value in use is determined as the present value of the estimated future cash flows expected to arise from the continued use of the asset in its present form and its eventual disposal, discounted using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. Value in use is determined by applying assumptions specific to the group's continued use and does not take into account future development.

In testing for indications of impairment and performing impairment calculations, assets are considered as collective groups and referred to as cash generating units. Cash generating units are the smallest identifiable groups of assets and liabilities that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Impaired assets are reviewed for possible reversal of the impairment at each reporting date.

### **q) Trade and other payables**

Trade payables and other payables are recognised at fair value initially and subsequently measured at amortised costs. They represent liabilities for goods and services provided to the Company prior to the end of the financial year that are unpaid and arise when the Company becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and usually paid within 30 days. Trade and other payables are presented as current liabilities when payment is not due within 12 months of reporting date.

### **r) Provisions**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period.

#### *Rehabilitation*

The mining, extraction and processing activities of the Group give rise to obligations for site rehabilitation. Rehabilitation obligations can include facility decommissioning and dismantling, removal or treatment of waste materials, land rehabilitation and site restoration. The extent of work required and the associated costs are estimated based on feasibility and engineering studies using current restoration standards and techniques. Provisions for the cost of each rehabilitation program are recognised at the time that environmental disturbance occurs.

Rehabilitation provisions are initially measured at the expected value of future cash flows required to rehabilitate the relevant site, discounted to their present value. The value of the provision is progressively increased over time as the effect of discounting unwinds. When provisions for rehabilitation are initially recognised, the corresponding cost is capitalised as an asset, representing part of the cost of acquiring the future economic benefits of the operation. The capitalised cost of rehabilitation activities is recognised in "Development Expenditure" as rehabilitation assets and amortised accordingly.

Where rehabilitation is expected to be conducted systematically over the life of the operation, rather than at the time of closure, provision is made for the present obligation or estimated outstanding continuous rehabilitation

work at each balance date and the costs charged to the statement of comprehensive income in line with future cash flows.

### **s) Employee benefits**

#### *(i) Short-term obligations*

Liabilities for wages and salaries, including non-monetary benefits and annual leave and accumulating sick leave expected to be settled within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liability for annual leave and accumulating sick leave is recognised in the provisions for employee benefits. All other short-term employee benefit obligations are presented as payables.

#### *(ii) Other long-term employee benefit obligations.*

The liability for long service and annual leave which is not expected to be settled within 12 months after the end of the period in which the employees render the related service is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of at the end of the reporting period on national government bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows.

#### *(iii) Share-based payments*

The fair value of options granted to employees is recognised as an employee benefits expense with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the options granted, which includes any market performance conditions and the impact of any non-vesting conditions but excludes the impact of any service and non-market performance vesting conditions.

Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all the specified vesting conditions are to be satisfied. At the end of each period, the entity revises its estimates of the number of options that are expected to vest based on the non-mark vesting conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

### **t) Contributed equity**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

### u) Earnings per share

#### (i) Basic earnings per share

Basic earnings per share is determined by dividing:

- the profit/(loss) attributable to owners of the company, excluding any costs of servicing equity other than ordinary shares
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

#### (ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares; and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

### v) Goods and Services Tax (GST)

Revenue, expenses and assets are recognised net of the amount of GST, except unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of 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 taxation authority is included with other receivables or payables in the statement of financial position.

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

### w) New accounting standards and interpretation

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2016 reporting periods and have not yet been applied in the financial statements. The Company's assessment of the impact of these new standards and interpretations is set out below.

#### (i) AASB 9 *Financial Instruments (Effective 1 January 2018)*.

AASB 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities and introduces new rules for hedge accounting.

The changes to the standard are not expected to have a material impact on the measurement and classification of the Group's financial assets and liabilities.

(ii) AASB 15 Revenue from contracts with customers (Effective 1 January 2018)

AASB 15 introduces a new framework for accounting for revenue and will replace AASB 118 Revenue, AASB 111 Construction Contracts and IFRIC 13 Customer Loyalty Programs. AASB 15 establishes principals for reporting the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The new standard is based on the principal that revenue is recognised when control of a good or service transfers to a customer, therefore the notion of control replaces the exiting notion of risks and rewards.

Given that KRL is predominately involved in exploration and development the impact of this standard is not expected to have a material impact on KRL's financial statements.

(iii) AASB 16 Leases (Effective 1 January 2019)

AASB 16 was issued in February 2016. One of the key changes is that lessees are required to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. The standard will affect primarily the accounting for the Group's operating leases.

Given that currently KRL has no material lease commitments, the impact of this standard is not expected to have a material impact on KRL's financial statements.

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

### x) Parent entity financial information

The financial information of the parent entity, Kangaroo Resources Limited, disclosed in note 3 has been prepared on the same basis as the consolidated financial statements, except as set out below.

(i) *Investments in subsidiaries*

Investments in subsidiaries are accounted for at cost in the financial statements of Kangaroo Resources Limited.

## 2. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

The group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have the most significant impact on the financial statements are discussed below.

### **a) Exploration & evaluation expenditure**

The Group's accounting policy for exploration and evaluation is set out at Note 1(n). The application of this policy necessarily requires management to make certain estimates and assumptions as to future events and circumstances, in particular, the assessment of whether economic quantities of reserves may be determined. Any such estimates and assumptions may change as new information becomes available. If, after having capitalised expenditure, it is determined that recovery of the expenditure by future exploitation or sale is unlikely, then the relevant capitalised amount is written off in the statement of comprehensive income.

### **b) Income Taxes**

The Group is subject to income taxes in Australia and Indonesia. Significant judgement is required in determining the recognition and non-recognition of deferred tax assets arising from tax losses or other temporary differences. The Group recognises the expected future tax benefit from deferred tax assets only when the tax benefit is considered probable of being realised. Assessing the recoverability of deferred tax assets requires management to make significant estimates related to expectations of future taxable income based on existing tax laws enacted or substantially enacted at the end of the reporting period.

### **c) Life of mine estimates**

Life of mine is the estimate of the useful life of a mining property. In order to determine life of mine, estimates and assumptions are required about a range of geological, technical and economic factors, including quantities, grades, production techniques, production costs, transport costs and capabilities, commodity demand, commodity prices and exchange rates.

As economic assumptions factored into the assessment of life of mine change and as additional geological data is generated during the course of operations, estimates of life of mine may vary from period to period. Such changes may affect the Company's financial results and financial position in a number of ways, including the following:

- asset carrying values may be affected due to changes in estimated future cash flows;
- depreciation and amortisation charges in profit and loss may change where such charges are determined by the units of production basis, or where the useful economic lives of assets.

### **d) Carrying Value of long-lived assets**

Significant judgement is required to determine the recoverable amount of mine properties and development, exploration and evaluation, property, plant and equipment and available-for-sale financial assets, in the absence of quoted market prices. These values are typically based on the present value of future cash flows where the estimation is required for reserves, future mine plans and production profiles, operational and capital costs, discount rates and expected coal prices. Changes in circumstances may alter these projections, which may impact the recoverable amount of the assets. In such circumstances, some or all of the carrying value of the assets may be impaired and the impairment would be charged to profit and loss. For available for sale financial assets, any movements in fair value are recorded in Other Comprehensive Income. Judgement is required when assessing amounts recorded as a reduction in the carrying value of the asset to determine whether it is a significant or prolonged decline, in which case, an impairment charge is recorded in profit and loss. Key assumptions applied in determining the recoverable amount of these assets are included in notes 11, 13 and 14.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016



## 3. Parent Entity Financial Information

The individual financial statements for the parent entity show the following aggregate amounts:

	<b>31 December 2016</b>	<b>31 December 2015</b>
	\$	\$
<b>Balance sheet</b>		
Current assets	106,902	147,026
Total assets	111,636,452	146,187,817
Current liabilities	84,758	88,295
Total liabilities	12,187,407	10,605,187
<i>Shareholders' equity</i>		
Contributed equity	469,867,326	469,867,326
Accumulated losses	(370,418,281)	(336,675,290)
Share based payment reserve	-	2,390,594
	<u>99,449,045</u>	<u>135,582,630</u>
Loss for the year	<u>(36,133,585)</u>	<u>(22,433,283)</u>
Total comprehensive loss for the year	<u>(36,133,585)</u>	<u>(22,433,283)</u>

### Contractual Commitments

There are no significant contractual commitments.

### Guarantees and Contingent Liabilities

There are no guarantees or contingent liabilities.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016



## 4. Revenue and other income

	Consolidated	
	Year ended 31 December 2016 \$	Year ended 31 December 2015 \$
<b>(a) Revenue from continuing operations</b>		
Interest revenue	145,685	163,079
	<u>145,685</u>	<u>163,079</u>
<b>(b) Other Income</b>		
Gain on sale of fixed assets <sup>1</sup>	481,708	2,644,115
Foreign exchange gain	602,098	-
<b>Total other income</b>	<u>1,083,806</u>	<u>2,644,115</u>

1 During 2016 KRL sold property, plant and equipment held by its subsidiary SAU to BR and PT Indonesia Pratama (IP) (BR subsidiary). SAU sold this property, plant and equipment for \$16,112,477 (\$12,000,000 USD). This was \$481,708 above its carrying value of \$15,630,769 (\$11,641,241). See note 10.

During 2015 KRL sold the majority of its property, plant and equipment from MCM to BR. As all remaining coal has been barged away from MCM's Long Hubung port and operations have ceased, MCM sold this property, plant and equipment to BR for \$4,230,509 (\$3,179,313 USD). This was \$2,644,115 above its written down value of \$1,586,394.

## 5. Loss from Continuing Operations

Loss from continuing operations before income tax has been arrived at after charging/(crediting) the following items:

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016



	Consolidated	
	Year ended 31 December 2016 \$	Year ended 31 December 2015 \$
<b>(a) Operating Expenses</b>		
Employee costs	64,476	249,713
Depreciation	142,337	610,652
Repairs, maintenance and materials and rental	14,178	(2,221)
Fuel and lubricants	-	133,300
VAT expensed	18,962	46,763
Consultancy Fees	-	120,164
Barging Expenses	-	1,405,897
Royalties	12,421	319,836
Other operating expenses	133,594	232,741
Total operating expenses	385,968	3,116,845
Inventory movement	341,851	(824,630)
	727,819	2,292,215
<b>(b) Administration expenses</b>		
Consultant expenses	407,019	397,893
Legal expenses	25,447	372,632
Directors fees & employee costs	1,126,324	877,693
Office rent	319,490	316,159
Travel and accomodation	2,718	36,803
Withholding tax expense	322,579	-
Other administration expenses	463,246	399,035
	2,666,823	2,400,215
<b>(c) Finance costs</b>		
Interest expense	3,017,875	3,390,833
	3,017,875	3,390,833
<b>(d) Impairment expense</b>		
Impairment of mine properties and development	44,400,000	29,409,097
Impairment of Exploration and Development	-	700,454
Impairment of available-for-sale financial assets	6,168,444	3,630,456
	50,568,444	33,740,007
<b>(e) Other expenses</b>		
Foreign exchange loss	-	1,602,236
	-	1,602,236

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016



## 6. Income Tax Benefit

### (a) Recognised in the statement of comprehensive income

	Consolidated	
	Year ended 31 December 2016	Year ended 31 December 2015
	\$	\$
Deferred tax benefit relating to the origination and reversal of temporary differences	12,890,369	7,863,573
Total income tax benefit	12,890,369	7,863,573

### (b) Reconciliation between income tax expense and pre-tax loss

	Consolidated	
	Year ended 31 December 2016	Year ended 31 December 2015
	\$	\$
Loss before tax	(55,751,470)	(40,618,312)
Income tax using the domestic corporation rate of 30% (31 December 2015: 30%)	(16,725,441)	(12,185,494)
Tax effect of:		
Difference in overseas tax rate	2,746,798	1,760,873
Non-deductible expenses	(180,629)	480,671
Unused tax losses and temporary differences not recognised as deferred tax assets	1,268,903	2,080,377
Total income tax benefit	(12,890,369)	(7,863,573)

### (c) Unrecognised deferred tax balances

	Consolidated	
	Year ended 31 December 2016	Year ended 31 December 2015
	\$	\$
Deferred tax assets calculated at 30% (31 December 2015: 30%) have not been recognised in respect of the following:		
Income tax losses	6,724,560	6,301,202
Foreign tax losses	14,388,954	13,543,409
	21,113,514	19,844,611

Deductible temporary differences and tax losses do not expire under current Australian tax legislation. Indonesian tax losses expire after 5 years. Deferred tax assets (net of deferred tax liabilities relating to capitalised exploration expenditure for which immediate tax write-off is available) have not been recognised in the financial

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016



statements because it is currently not probable that there will be future taxable amounts available to utilise these losses and temporary differences.

## 7. Cash and Cash Equivalents

Reconciliation of cash balance comprises  
Cash at bank

Consolidated	
31 December 2016	31 December 2015
\$	\$
1,739,083	2,406,603
1,739,083	2,406,603

### (a) Interest rate risk exposure

The Group's exposure to interest rate risk is discussed in note 29.

## 8. Trade and Other Receivables

**Current**  
Other receivables  
Prepayments

**Non-current**  
Advances and prepayments

Consolidated	
31 December 2016	31 December 2015
\$	\$
325,387	333,455
464,977	494,332
790,364	827,787
911,920	839,572
911,920	839,572

### (a) Trade receivables past due but not impaired

There were no trade receivables past due but not impaired.

### (b) Foreign exchange and interest rate risk

Information about the group's exposure to foreign currency risk and interest rate risk in relation to trade and other receivables is provided in note 29.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS



For the year ended 31 December 2016

## (c) Fair value and credit risk

Due to the short-term nature of these receivables, their carrying amount is assumed to approximate their fair value.

The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivables mentioned above. Refer to note 29 for more information on the risk management policy of the Company and the credit quality of the Company's trade receivables.

## (d) Other receivables

This represents amounts advanced to parties outside of the consolidated Group for operating activities and are expected to be recovered within one year.

## 9. Inventory

	Consolidated	
	31 December 2016	31 December 2015
	\$	\$
Coal stockpiles - at net realisable value	3,617,142	3,856,820
Other inventory - spare parts fuel etc.	27,443	27,224
	<u>3,644,585</u>	<u>3,884,044</u>

## Inventory expense

Write-downs of inventories to net realisable value recognised as an expense during year ended 31 December 2016 amounted to \$341,851 (2015: \$581,267). The expense is included in 'operating expenses' in comprehensive income.

## 10. Assets Classified as Held For Sale

	Consolidated	
	31 December 2016	31 December 2015
	\$	\$
Assets classified as held for sale	-	15,956,714
	<u>-</u>	<u>15,956,714</u>

Property, plant and equipment with a fair value of \$15,956,714 at 31 December 2015 held by the Company's subsidiary, PT Sumber Aset Utama (SAU), were classified as assets held for sale. In December 2015 the Company and BR signed formal agreements relating to the sale of these assets and access rights to new road and port infrastructure facilities (incorporating long-term tonnage throughput). Approval for the sale of these

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016



assets and the formal agreements relating to the access rights was put to eligible shareholders at a general meeting on the 29 April 2016. The eligible shareholders voted in favour of the transaction and the proceeds from the sale of these assets has been used to reduce the Company's borrowings with BR (see notes 4 and 23(f)).

## 11. Available-for-sale Financial Assets

	Consolidated	
	31 December 2016	31 December 2015
	\$	\$
Opening Balance	55,150,553	52,893,575
Impairment	(6,168,444)	(3,630,456)
Foreign Exchange	(993,030)	5,887,434
Closing Balance	47,989,079	55,150,553

On 13 June 2011 shareholders approved the issue of 2,305 million Kangaroo Resources Limited shares to PT Bayan Resources Tbk and other parties related to the acquisition of a 99% interest in the Pakar Thermal Coal Project in East Kalimantan ("Pakar"), consisting of ten Indonesian entities (see note 22). As at the balance date, four of the entities are awaiting government sign-off and conversion to Indonesian PMA companies (a foreign investment company) which will allow the Company to own a direct equity interest. Until these entities have been converted to PMA companies and the direct equity ownership has been transferred to Kangaroo Resources Limited the accounting standards require them to be classified as available-for-sale financial assets as the Group does not hold right to tenure over the exploration and production licenses. Following the conversion and the transfer of the equity interest in each entity, the above balance will be recognised within mining properties and development and exploration and evaluation expenditure in the Statement of Financial Position.

### Impairment of Available-for-sale Financial Assets

During 2016 due to a further decline in the long-term thermal coal price outlook, management has performed an impairment assessment of the carrying value of all assets.

The available-for-sale financial assets relating to PT Apira Utama (AU), PT Bara Sejati (BS) and PT Cahaya Alam (CA) were impaired by \$700,000 (31 December 2015: \$3,630,456).

As at 31 December 2016 TA's carrying value was based on a range of valuations associated with reasonably possible outcomes. Due to further decreases in the coal price outlook, TA's fair value resulted in a range of \$31million to \$61million, down from 2015. Management used the same methodology as 2015 with regards to discounted cash flow modelling. The key assumption change was a decline in the long-term average benchmark sales price outlook for 6,322 GAR coal, which is then adjusted to the relevant CV for valuation purposes. For 2019 (first year of production) the assumed sale price was \$60/t and increased to \$67/t by year 2025. From 2026 onwards this price was increased annually by the inflation rate of 2.5%. The discount rate decreased from 14.6% in 2015 to 13.1% and the Australian-United States dollar exchange rate decreased from \$0.73 to \$0.72 in 2016.

Given TA's valuation range has declined when compared to 2015, the Group has impaired TA's carrying value in USD from \$38,411,279 to \$34,400,000 a decrease of 10.4%. This decrease was in line with TA's decrease in USD discounted cash flows from 2015 to 2016. As a result of the impairment testing TA's carrying value decreased by \$6,461,474 (impairment: \$5,468,444, Foreign exchange loss: \$993,030).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016



## 12. Property, plant & equipment

	Buildings	Construction in progress	Heavy Equipment	Office furniture, fittings and equipment	Total
	\$	\$	\$	\$	\$
<b>Year Ended 31 December 2015</b>					
Opening net book amount	19,346	276,585	1,279,599	421,621	1,997,151
Depreciation charge	-	(276,585)	(869,466)	(30,642)	(1,176,693)
Closing net book amount	(2,988)	-	(410,133)	(197,531)	(610,652)
	16,358	-	-	193,448	209,806
<b>At 31 December 2015</b>					
Cost or fair value	29,883	-	20,994	992,458	1,043,335
Accumulated depreciation	(13,525)	-	(20,994)	(799,010)	(833,529)
Net book amount	16,358	-	-	193,448	209,806
<b>Year ended 31 December 2016</b>					
Opening net book amount	16,358	-	-	193,448	209,806
Depreciation charge	(4,469)	-	-	(137,868)	(142,337)
Closing net book amount	11,889	-	-	55,580	67,469
<b>At 31 December 2016</b>					
Cost or fair value	29,883	-	20,994	992,458	1,043,335
Accumulated depreciation	(17,994)	-	(20,994)	(936,878)	(975,866)
Net book amount	11,889	-	-	55,580	67,469

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

### 13. Mine Properties and Development

	Consolidated	
	31 December 2016 \$	31 December 2015 \$
<b>Movements in Mine Properties and Development</b>		
Carrying amount at start of period	171,500,000	200,909,097
Impairment	(44,400,000)	(29,409,097)
	<u>127,100,000</u>	<u>171,500,000</u>
<b>Represented by:</b>		
Pakar North	127,100,000	171,500,000
	<u>127,100,000</u>	<u>171,500,000</u>

### Impairment of Mine Properties and Development

Pakar North Cash Generating Unit (CGU) incorporating PT Tanur Jaya (TJ) and PT Dermaga Energi (DE) was impaired from its carrying value of \$171,500,000 to its recoverable amount of \$127,100,000 (impairment charge of \$44,400,000, 31 December 2015: \$29,409,097) which represents its fair value less costs of disposal. Pakar North's fair value measurement is considered to be level 3 of the fair value hierarchy as some of the inputs are not based on observable market data.

Pakar North was originally recorded at its fair value determined on acquisition date which was based on discounted cash flows methodology, which is based on estimated quantities of recoverable coal, expected coal prices (considering current and historical prices, trends and related factors), production levels, operating costs, capital requirements and reclamation costs, all based on life-of-mine plans which reflect management's expectations for the future. For impairment purposes the Company has applied the same methodology in using discounted cash flows updated for the current outlook for coal prices, production and risk (including foreign ownership and other potential government legislation changes) among other items. Management believe that the current outlook for coal prices has changed significantly enough to warrant a reduced outlook for long-term sales price assumptions. Management have also revised its production assumptions.

The key assumptions used in discounted cash flow analysis were the average sales price and the long-term discount rate. The average benchmark sales price of 6,322 GAR coal for 2019 (first year of production) was US\$60/t (31 December 2015: US\$62/t) and increased to US\$67/t (31 December 2015: US\$82/t) by year 2025. From 2026 onwards this price was increased annually by the inflation rate of 2.5% (31 December 2015: 2.5%) (Benchmark sales price is discounted and adjusted to average actual calorific value sold). A post-tax nominal discount rate of 13.1% (31 December 2015: 14.6%) was applied. A 25% (31 December 2015: 25%) discount was applied to net cash flows from 2024 for TJ and 2025 for DE to take into consideration the impact of Indonesian foreign ownership divestment legislation.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

### Sensitivities

Had Pakar North applied a discount rate that was 10% higher / 10% lower than the 13.1% applied (i.e. 11.8% or 14.4%) than the following fair values would have resulted:

Discount Sensitivity	+10%	Carrying Value	-10%
Mine properties and development	117,662,956	127,100,000	142,583,563

Had Pakar North used benchmark sales prices that were on average for every year of the cash flow modelling 10% higher / 10% lower than those used than the following fair values would have resulted:

Sales Price Sensitivity	+10%	Carrying Value	-10%
Mine Properties and development	205,286,522	127,100,000	53,335,660

## 14. Exploration and Evaluation Expenditure

	Consolidated	
	31 December 2016	31 December 2015
	\$	\$
Costs carried forward in respect of areas of interest in exploration phase - at cost		
Balance at beginning of the year	16,580,427	17,280,881
Impairment	-	700,454
Additions	1,697	-
Carrying amount at end of year	16,582,124	16,580,427

The ultimate recoupment of costs carried forward for exploration expenditure phases is dependent on the successful development and commercial exploitation, or alternatively, the sale of the respective areas of interest.

### (a) Impairment of Exploration and Evaluation Expenditure

As at 31 December 2016 management have considered the recoverability of the exploration and evaluation assets and determined that there were no impairment indicators present. Therefore the carrying amount of all exploration and evaluation assets is deemed to be appropriate and no impairment charges have been recognised (31 December 2015: \$700,454).

As at 31 December 2015 KRL management made the decision to impair the Exploration and Evaluation assets of OM, SA and SK by \$700,454.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

OM, SA and SK were impaired from their fair value of \$4,518,797 to \$3,818,343 (Impairment charge of \$700,454). The Company took the view that they be written down further due to continued depressed outlook in the coal market.

The Company carried out an impairment analysis on GPK similar to that applied to Pakar North using discounted cash flow modelling. Most assumptions used mirrored Pakar North including discount rates and sales price assumptions. This resulted in GPK value remaining at its current carrying value, as discounted cash flow resulted in a higher value.

### *Sensitivities*

Had GPK applied a discount rate that was 10% higher / 10% lower than the 13.1% applied (i.e.11.8% or 14.4%) than the following fair values would have resulted:

<b>Discount Sensitivity</b>	<b>+10%</b>	<b>Carrying Value</b>	<b>-10%</b>
Exploration and evaluation expenditure	18,916,807	12,762,084	21,992,664

Had GPK used benchmark sales prices that were on average for every year of the cash flow modelling 10% higher / 10% lower than those used than the following fair values would have applied:

<b>Sales Price Sensitivity</b>	<b>+10%</b>	<b>Carrying Value</b>	<b>-10%</b>
GPK	34,983,749	12,762,084	5,794,104

## 15. Trade and Other Payables

	<b>Consolidated</b>	
	<b>31 December 2016</b>	<b>31 December 2015</b>
	<b>\$</b>	<b>\$</b>
<b>Current</b>		
Trade payables	959,344	1,008,376
Other payables and accruals	5,373,165	5,658,084
	<b>6,332,509</b>	<b>6,666,460</b>

Trade and other payables are non-interest bearing liabilities stated at cost and are predominantly settled within 30 days.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

### 16. Provisions

	Consolidated	
	31 December 2016	31 December 2015
	\$	\$
<b>Non-current</b>		
Provision for mine restoration <sup>(a)</sup>	696,521	672,978
	<u>696,521</u>	<u>672,978</u>

#### (a) Mine restoration

The mining, extraction and processing activities of the Group give rise to obligations for site rehabilitation. Rehabilitation obligations can include facility decommissioning and dismantling, removal or treatment of waste materials, land rehabilitation and site restoration. The extent of work required and the associated costs are estimated based on feasibility and engineering studies using current restoration standards and techniques. Provisions for the cost of each rehabilitation program are recognised at the time that environmental disturbance occurs.

#### (b) Employee entitlements

The provision for employee benefits includes accrued annual leave, vesting sick leave and long service leave. Where settlement can be deferred for more than 12 months the provision is classed as non-current.

### 17. Deferred Tax Liabilities

	Consolidated	
	31 December 2016	31 December 2015
	\$	\$
The balance comprises temporary differences attributable to:		
Available-for-sale financial assets	11,997,269	13,787,638
Exploration and evaluation expenditure	954,586	954,586
Mine properties and development	31,775,000	42,875,000
	<u>44,726,855</u>	<u>57,617,224</u>

Reductions in Deferred Tax Liability relate to the impairment charges and foreign exchange movements recorded against mine properties and development, assets available-for-sale financial assets and exploration and evaluation expenditure for Pakar.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

### 18. Issued Capital

	31 December 2016		31 December 2015	
	Number	\$	Number	\$
Issued and fully paid	3,434,430,012	469,867,326	3,434,430,012	469,867,326

#### Ordinary shares

Ordinary shares participate in dividends and the proceeds on winding up of the entity in proportion to the number of shares held.

At shareholders meetings, each ordinary share is entitled to one vote per share when a poll is called, otherwise each shareholder has one vote on a show of hands.

#### (i) Options

During the financial year no options were issued over unissued ordinary capital nor did any unissued ordinary shares lapse:

#### (ii) Warrant holders

The Company currently has no outstanding warrants with 128,103,448 unissued ordinary shares of Kangaroo Resources Limited that were under warrant expiring on 29 June 2015.

#### (iii) Capital risk management

The Company's capital includes share capital, reserves and accumulated losses. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to achieve this, the Company may issue new shares in order to meet its financial obligations.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

### 19. Reserves and Accumulated losses

#### (a) Reserves

	Consolidated	
	31 December 2016	31 December 2015
	\$	\$
Foreign currency translation reserve	197,328	989,035
Transactions with non-controlling interests reserve	1,321,290	1,321,290
	1,518,618	2,310,325

#### (b) Share-based payments reserve

The share based payments reserve comprises the consideration received for the issue of options over unissued ordinary shares of the Company and the fair value of options over unissued ordinary shares granted to employees, consultants or others as remuneration for goods and/or services received until the options are exercised or expire. These were options that were issued to directors, employees and consultants all of which have now expired.

	Consolidated	
	31 December 2016	31 December 2015
	\$	\$
Balance at beginning of period	-	2,390,594
Less options expiring	-	(2,390,594)
<b>Total share-based payment reserve at end of period</b>	-	-

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

### (c) Foreign currency translation reserve

The foreign currency translation reserve records exchange differences arising on translation of foreign controlled subsidiaries.

	Consolidated	
	31 December 2016	31 December 2015
	\$	\$
Balance at beginning of period	989,035	(2,613,445)
Foreign exchange movements	(791,707)	3,602,480
<b>Total foreign currency translation reserve at end of period</b>	<b>197,328</b>	<b>989,035</b>

### (d) Accumulated Losses

	Consolidated	
	31 December 2016	31 December 2015
	\$	\$
Balance at beginning of period	313,997,076	283,941,250
Net losses attributable to members of the parent entity	42,446,892	32,446,420
Share-based payments reserve expired	-	(2,390,594)
<b>Accumulated losses at the end of the period</b>	<b>356,443,968</b>	<b>313,997,076</b>

## 20. Non-controlling Interest

	Consolidated	
	31 December 2016	31 December 2015
	\$	\$
Balance at the beginning of the period	1,299,164	1,644,372
Comprehensive income/(loss) attributable to non-controlling interest	(423,665)	(345,208)
<b>Non-controlling interest at the end of the period</b>	<b>875,499</b>	<b>1,299,164</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

### 21. Commitments

#### (a) Exploration expenditure commitments

In order to maintain current rights of tenure to exploration tenements, the Company and the Group are required to perform minimum exploration work to meet minimum expenditure requirements specified by various government authorities. These obligations are subject to renegotiation when application for a mining lease is made and at various other times. These obligations are not provided for in the financial report and are payable:

	Consolidated	
	31 December 2016	31 December 2015
	\$	\$
Not later than one year	150,000	150,000
Later than one year but not later than five years	-	-
Total	150,000	150,000

#### (b) GPK Project Co-operation Agreement and Deed of Release with KAL Energy

The Company has entered into a Co-operation Agreement and a Deed of Release with KAL Energy in relation to its previous interest in the GPK Project, giving Kangaroo the ability to consider all possible alternatives for this project without prejudice associated with any historical issues relating to former interests held by other parties.

Under the terms of the Agreement KAL Energy will be entitled to receive 12% of the net sale proceeds of any future sale transaction. Net sales proceeds consists of sales proceeds less costs incurred in connection with the procurement and implementation of a future sale transaction, including any broker fees, royalty buy-outs and other associated costs. In the event KRL takes GPK into production an 8% economic interest will be assigned to KAL Energy. GPK is currently held under a nominee structure pending KRL exercising its option to take up its full equity entitlement.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

### 22. Subsidiaries and Transactions with Non-controlling Interests

#### Significant investments in subsidiaries

Name of controlled entity	Country of Incorporation	Class of shares	Equity holding	
			31 December 2016	31 December 2015
Kangaroo Minerals Pty Ltd (formerly Stonebase Pty Ltd)	Australia	Ordinary	100.00%	100.00%
SGQ Singapore Investment Company Pte Ltd	Singapore	Ordinary	100.00%	100.00%
SGQ Batubara Pte Ltd	Singapore	Ordinary	100.00%	100.00%
PT Karsa Optima Jaya	Indonesia	Ordinary	100.00%	100.00%
PT Multi Mamahak Batubara	Indonesia	Ordinary	100.00%	100.00%
PT Mamahak Coal Mining	Indonesia	Ordinary	99.00%	99.00%
PT Bara Karsa Lestari	Indonesia	Ordinary	99.00%	99.00%
PT Mahakam Energi Lestari	Indonesia	Ordinary	99.00%	99.00%
PT Mahakam Bara Energi	Indonesia	Ordinary	99.00%	99.00%
PT Sumber Aset Utama	Indonesia	Ordinary	99.00%	99.00%
PT Orkida Makmur	Indonesia	Ordinary	99.00%	99.00%
PT Dermaga Energy	Indonesia	Ordinary	99.00%	99.00%
PT Tanur Jaya	Indonesia	Ordinary	99.00%	99.00%
PT Sumber Api	Indonesia	Ordinary	99.00%	99.00%
PT Silau Kencana	Indonesia	Ordinary	99.00%	99.00%

On 13 June 2011 shareholders approved the issue of 2,305 million Kangaroo Resources Limited shares to PT Bayan Resources Tbk and other parties related to the acquisition of a 99% interest in the Pakar Thermal Coal Project in East Kalimantan ("Pakar"), consisting of ten Indonesian entities. As at the balance date, four of the entities (listed below) are awaiting government sign-off and conversion to Indonesian PMA companies (a foreign investment company) which will allow the Company to own a direct equity interest. Until these entities have been converted to PMA companies the direct equity ownership and management control remains with BR (See note 11).

Name of entity	Country of Incorporation
PT Tiwa Abadi	Indonesia
PT Apira Utama	Indonesia
PT Bara Sejati	Indonesia
PT Cahaya Alam	Indonesia



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

### 23. Related Party Disclosures

#### (a) Key management personnel

Key management personnel are those persons that have either directly or indirectly authority and responsibility for planning, directing and controlling the activity of the entity.

The following were key management personnel of the consolidated entity at any time during the reporting period and unless indicated were key management personnel for the entire period.

R Neil <sup>1</sup>	Managing Director
I Ogilvie <sup>2</sup>	Managing Director
T Butcher	Non Executive Director
D Low Yi Ngo	Non Executive Director
S Shah	Non Executive Director
D Henderson	Financial Controller

<sup>1</sup> Appointed as Managing Director 5 May 2016, non-executive director prior to this

<sup>2</sup> Resigned as Managing Director 5 May 2016

There were no other employees that constitute key management personnel.

#### (b) Key management personnel compensation

	Consolidated	
	Year ended 31 December 2016 \$	Year ended 31 December 2015 \$
Short term benefits	668,077	608,737
Termination benefits	155,060	-
	<u>823,137</u>	<u>608,737</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

### Directors and key management personnel disclosures

#### Option holdings

There were no options over ordinary shares in the Company held during the current and the previous financial years by key management personnel, including their personally related parties.

#### Shareholdings

No shares in the Company were held during the financial year by key management personnel of the Company, including their personally related parties.

The following directors held management positions in the Company's majority shareholder PT Bayan Resources Tbk as at 31 December 2016, and therefore have an indirect interest of 56.05% in the Company.

- Russell Neil - Director of Business Development
- David Low Yi Ngo – Director of Sales & Marketing

#### (c) Parent entity

The parent entity within the group is Kangaroo Resources Limited. The ultimate parent entity and ultimate controlling party is PT Bayan Resources Tbk (BR) (incorporated in Indonesia) which at 31 December 2016 owns 56.05% (31 December 2015: 56.05%) of the issued ordinary shares of Kangaroo Resources Limited.

#### (d) Subsidiaries

Interests in subsidiaries are set out in note 22.

#### (e) Other related party transactions

During the year the Company sold infrastructure assets of its subsidiary PT Sumber Aset Utama (SAU) to BR for \$8,518,744 (twelve months ended 31 December 2015: the Company sold plant and equipment for \$322,659) and PT Indonesia Pratama (IP) for \$7,593,733 a subsidiary of PT Bayan Resources Tbk (BR) (twelve months ended 31 December 2015: the Company sold plant and equipment for \$3,823,159). The resolution was put to shareholders at a general meeting on the 29 April 2016, who voted in favour of the transaction (see note 10).

During the year the Company incurred Interest expense of \$3,017,875 on BR loans (twelve months ended 31 December 2015: \$3,390,833). The average interest rate for the full year was 10.88% (twelve months ended 31 December 2015: 9.60%).

During the year the Company was charged \$340,634 by PT Nirmala Matranusa a related party to BR for office rental and associated expenses (twelve months ended 31 December 2015: \$341,594).

During the year the Company was charged \$193,626 by BR for Russell Neil's Managing Director secondment fees (twelve months ended 31 December 2015: nil).

During the year there were no payments to GDA Corporate for administration, accounting and company secretarial services (twelve months ending December 2015: \$117,450). Mr Graham Anderson and Mr Leonard Math's directors fees were paid to GDA Corporate.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

Mr Graham Anderson was a director and had a beneficial interest in GDA Corporate. Mr Leonard Math and Ms Sue Symmons were employees of GDA Corporate.

During the year the Company paid \$18,000 to Nexia Australia for administration, accounting and company secretarial services (twelve months ending December 2015: \$27,000). Mr Leonard Math's directors fees were paid to Nexia Australia.

Mr Leonard Math was an employee of Nexia Australia.

During the year the Company paid \$108,000 to Corporate Consultants Pty Ltd for administration, accounting and company secretarial services (twelve months ending December 2015: \$9,000). Mr Susmit Shah's directors fees were paid to Corporate Consultants Pty Ltd and are included in the amount of \$108,000.

Mr Susmit Shah and Paul Jurman are both directors and have beneficial interests in Corporate Consultants Pty Ltd.

### (f) Loans from related parties

	Consolidated 31 December 2016 \$	Consolidated 31 December 2015 \$
<b>Loans from PT Bayan Resources Tbk</b>		
Opening balance	42,919,105	34,577,954
Loan advanced	1,859,212	4,824,261
Loan repayments <sup>1</sup>	(16,165,808)	(4,230,509)
Interest charged and capitalised	3,017,875	3,390,833
Foreign exchange revaluation	(379,120)	4,356,566
Closing balance	31,251,264	42,919,105

1 Proceeds of SAU infrastructure assets sold to BR and its subsidiary IP.

The loans have been provided to fund the Company's operations.

### (g) Terms and conditions

All transactions were made on normal commercial terms and conditions and at market rates, except there are no fixed terms for the repayment of the loan from PT Bayan Resources Tbk. The average interest rate on the loan during the year was 10.88% (2015: 9.60%).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

### 24. (Loss) / Earnings per Share

	Consolidated	
	Year-ended 31 December 2016	Year-ended 31 December 2015
<b>Loss per share from continuing operations</b>	<b>2016</b>	<b>2015</b>
Loss from continuing operations attributable to ordinary shareholders of the company	(42,446,892)	(32,446,420)
Basic and diluted loss per share (cents)	(1.24)	(0.94)
Weighted average number of Ordinary shares on issue used in the calculation of basic and diluted loss per share	3,434,430,012	3,434,430,012

Basic earnings/(loss) per share ('EPS') is calculated by dividing the net profit/(loss) attributable to ordinary shareholders for the reporting period, after excluding any costs of servicing equity (other than ordinary shares), by the weighted average number of ordinary shares of the Company. Other potential ordinary shares have not been included in the calculation of diluted earnings per share as they are not considered dilutive.

### 25. Statement of Cash Flows

For the purposes of the statement of cash flows, cash includes cash on hand and in banks, and money market investments readily convertible to cash within two working days, net of outstanding bank overdrafts.

#### (a) Reconciliation of cash and cash equivalents

	Consolidated	
	31 December 2016	31 December 2015
Reconciliation of cash balance comprises		
Cash at bank	1,739,083	2,406,603
	1,739,083	2,406,603

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

### (b) Reconciliation of loss after income tax to net out flows from operating activities

#### (b) Reconciliation of loss after income tax to net cash used in operating activities

	Consolidated	
	Year ended 31 December 2016 \$	Year ended 31 December 2015 \$
Loss after income tax	(42,861,101)	(32,754,739)
Depreciation	142,337	610,652
Impairment of Mine Properties and Development	44,400,000	29,409,097
Impairment of Available-for-Sale Financials Assets	7,161,474	3,630,456
Impairment of Exploration and Evaluation	-	700,454
Interest Accruals	3,017,875	3,390,833
Foreign Exchange	(1,495,898)	(2,632,560)
Tax Benefit	(12,890,369)	(7,863,573)
Change in assets and liabilities during the financial year:		
(Increase)/decrease in inventories	(239,459)	(935,957)
(Increase)/decrease in trade & other receivables and prepayments	34,925	235,381
(Increase)/decrease in property, plant and equipment	-	1,176,693
Increase/(decrease) in trade & other payables	333,951	(278,101)
Increase/(decrease) in provisions	(23,543)	(195,917)
Net cash used in Operating activities	(2,419,808)	(5,507,281)

### (c) Non cash financing and investing activities

In 2016 management reduced net borrowings with BR with proceeds from sale of property, plant & equipment from SAU of \$16,165,808. Net borrowings with BR were increased by \$193,626 for Russell Neil's (KRL Managing Director) secondment charges. There were no other non-cash financing and investing activities during the current or previous financial years.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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### 26. Segment Reporting

AASB 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. The segments are consistent with the internal management reporting information that is regularly reviewed by the chief operating decision maker, being the Board of Directors.

The reportable segments are based on aggregated operating segments determined by the similarity of the economic characteristics, the nature of the activities and the regulatory environment in which those segments operate.

The consolidated entity has one reportable segment based on the operating and exploration assets in Indonesia. Unallocated results, assets and liabilities represent corporate amounts that are not core to the reportable segments.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

	Year ended 31 December 2016 \$	Year ended 31 December 2015 \$
<b>(i) Segment performance</b>		
<b>Revenue</b>		
Segment revenue	1,229,477	2,807,149
<b>Segment result</b>	<b>(53,916,157)</b>	<b>(39,222,309)</b>
Impairment Expense	(50,568,444)	(33,740,007)
<b>Unallocated items</b>		
Other corporate revenue	14	45
Other corporate income and expenses	(1,835,327)	(1,396,048)
<b>Net loss before tax from continuing operations</b>	<b>(55,751,470)</b>	<b>(40,618,312)</b>
	<b>31 December 2016 \$</b>	<b>31 December 2015 \$</b>
<b>(ii) Segment assets</b>		
Mine properties & development	127,100,000	171,500,000
Exploration & evaluation expenditure	16,582,124	16,580,427
Assets classified as held for sale	-	15,956,714
Other assets	7,046,519	8,017,090
Available-for-sale financial assets	47,989,079	55,150,553
Total Segment assets	198,717,722	267,204,784
Reconciliation of segment assets to group assets		
Other corporate assets	106,902	150,722
<b>Total Assets</b>	<b>198,824,624</b>	<b>267,355,506</b>
<b>(iii) Segment liabilities</b>		
Total segment liabilities	28,157,802	41,700,180
Reconciliation of segment liabilities		
Deferred tax liability	44,726,855	57,617,224
Other corporate liabilities	10,122,492	8,558,363
<b>Total Liabilities</b>	<b>83,007,149</b>	<b>107,875,767</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

### 27. Contingent Liabilities

The directors are not aware of any material contingent liabilities at the date of these financial statements.

### 28. Events occurring after the reporting period

No matters or circumstances have arisen since the end of the financial period which significantly affected or may significantly affect the operations, results or the state of affairs of the consolidated entity in future financial years other than disclosed in the Directors' report.

### 29. Financial Risk Management

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses different methods to measure different types of risk to which it is exposed.

The Board of Directors monitors domestic and international financial markets and manages the financial risks relating to the operations of the Group through periodically analysing exposures by degree and magnitude of risks. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

The Group holds the following financial instruments:

	31 December 2016 \$	31 December 2015 \$
<b>Financial assets</b>		
Cash and cash equivalents	1,739,083	2,406,603
Trade and other receivables - current	790,364	827,787
Available-for-sale financial assets	47,989,079	55,150,553
Trade and other receivables - non-current	911,920	839,572
	<u>51,430,446</u>	<u>59,224,515</u>
<b>Financial liabilities</b>		
Trade and other payables	6,332,509	6,666,460
Borrowings	31,251,264	42,919,105
	<u>37,583,773</u>	<u>49,585,565</u>



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

### (a) Market risk

#### (i) Foreign currency risk

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the entity's functional currency. The main currency exposure is to United States dollars through the entities cash advances to the current vendors of the Pakar Coal Projects. The Group manages foreign exchange risk by monitoring forecast cash flows in currencies other than Australian dollars and maintaining certain cash balances in United States dollars.

The group's exposure to foreign currency risk at the end of the reporting period, expressed in Australian dollars was as follows:

	31 December 2016 USD \$	31 December 2015 USD \$
Cash and cash equivalents	1,718,230	2,383,342
Trade and other receivables	1,673,797	1,608,281
Available-for-sale financial assets	47,989,079	55,150,553
Trade and other payables	4,169,432	4,517,021
Unsecured loan from related party	31,251,264	42,919,105

#### (ii) Sensitivity

Based on the financial instruments held at 31 December 2016, had the Australian dollar weakened / strengthened by 10% against the US dollar with all other variables held constant, the group's post-tax profit for the year ended 31 December 2016 would have been \$1,773,379 higher / \$1,450,946 lower (twelve months ended 31 December 2014: \$1,300,672 higher / \$1,064,186 lower), as a result of foreign exchange gains/losses on translation of US dollar denominated financial instruments as detailed in the above table.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

### (iii) Interest rate risk

The Group's exposure to interest rate risk and the effective weighted average interest rate for classes of financial assets and liabilities is set out below:

	31 December 2016		31 December 2015	
	Weighted average interest rate	\$	Weighted average interest rate	\$
<b>Financial assets</b>				
Cash and cash equivalents	3.2%	1,739,083	3.2%	2,406,603
<b>Financial liabilities</b>				
Borrowings	10.9%	31,251,264	10.4%	42,919,105

The Group does not have material variable interest-bearing assets and percentage changes in interest rates would not have a material impact on the results.

The Group has a related party loan from PT Bayan Resources Tbk which incurs interest at Libor +10.0%.

### (b) Credit risk

The carrying amount of cash and cash equivalents, trade and other receivables, represent the Group's maximum exposure to credit risk in relation to financial assets.

Cash and short term liquid investment are placed with reputable banks, so no significant credit risk is expected. The Group's main exposure to credit risk arises from its advances and loans to related parties. The credit risk exposure is equivalent to the carrying values of the assets. No security is held over the advances and loans. All receivables are within their credit terms and repayment of these loans and advances is expected within 12 months.

### (c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities to meet obligations when due and to close out market positions. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The table below analyses the group's financial liabilities into relevant maturity groupings. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying amounts as the impact of discounting is not significant.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

	<6 months	>6 - 12 months	> 12 months	Total Contractual Cash Flows	Carrying Amount
	\$	\$	\$	\$	\$
<b>31 December 2016</b>					
<b>Financial liabilities</b>					
Trade and other payables	6,332,509	-	-	6,332,509	6,332,509
Borrowings	31,251,264	-	-	31,251,264	31,251,264
	37,583,773	-	-	37,583,773	37,583,773
<b>31 December 2015</b>					
<b>Financial liabilities</b>					
Trade and other payables	6,944,561	-	-	6,944,561	6,944,561
Borrowings	42,919,105	-	-	42,919,105	42,919,105
	49,863,666	-	-	49,863,666	49,863,666

### (d) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes. AASB 7 *Financial Instruments: Disclosures* requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- (b) inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2), and
- (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

The Company's only financial instrument recognised at fair value is the available-for-sale financial asset acquired at fair value as part of a business combination. This is deemed to be a level 3 financial instrument on the basis that some of the inputs used in determining fair value were not based on observable market data.

Further information relating to the available-for-sale financial asset is set out in note 11.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

### 30. Auditor's Remuneration

During the period the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

	Consolidated	
	Year-ended 31 December 2016 \$	Year-ended 31 December 2015 \$
(a) Pw C Australia and Related Practices		
Audit and review of financial statements	132,600	127,500
Accounting advice	15,000	-
(b) Related practices of Pw C Australia		
Audit and review of financial statements	108,543	114,328
	256,143	241,828

## DIRECTORS DECLARATION

For the year ended 31 December 2016

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In the directors' opinion:

- (a) the financial statements and notes set out on pages 23 to 68 and the Remuneration Report in the Directors' report set out on pages 4 to 20 are in accordance with the *Corporations Act 2001*, including:
  - (i) complying with Australian Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and
  - (ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the year ended on that date, and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Note 1(a) confirms that the financial statements also comply with the International Financial Reporting Standards as issued by the International Accounting Standards Board.

The directors have been given the declarations by the Managing Director, acting in the capacity of Chief Executive Officer and the Financial Controller, acting in the capacity of Chief Financial Officer required by section 295A of the *Corporations Act 2001* for the year ended 31 December 2016.

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



.....  
**Russel Neil**  
Managing Director  
Jakarta, Indonesia  
30 March 2017



## *Independent auditor's report*

To the shareholders of Kangaroo Resources Limited

### *Report on the audit of the financial report*

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#### *Our opinion*

In our opinion:

The accompanying financial report of Kangaroo Resources Limited (the Company) and its controlled entities (together the Group) is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Group's financial position as at 31 December 2016 and of its financial performance for the year then ended
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

#### ***What we have audited***

The financial report comprises:

- the consolidated statement of financial position as at 31 December 2016
- the consolidated statement of comprehensive income for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the notes to the consolidated financial statements, which include a summary of significant accounting policies; and
- the directors' declaration.

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#### *Basis for opinion*

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

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

#### ***Independence***

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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**PricewaterhouseCoopers, ABN 52 780 433 757**

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### *Our audit approach*

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Group, its accounting processes and controls and the industry in which it operates.

The Group is a mineral resources company whose operations include the exploration and exploitation of its portfolio of coal development and exploration assets in Indonesia.



#### **Materiality**

- For the purpose of our audit we used overall group materiality of \$2.0 million, which represents approximately 1% of the Group's total assets.
- We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole.
- We chose total assets as the benchmark because the Group is not currently operating its assets and remains in the exploration and development stage. As a result, there are no sales and therefore profit related measures were not the most appropriate basis for determining materiality for the year.
- We utilised a 1% threshold based on our professional judgement, noting it is within the range of commonly acceptable thresholds in the mining industry.

#### **Audit Scope**

- Our audit focused on where the directors made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.
- Component auditors, operating under our instructions, performed audit procedures over the financial information of the Group's Indonesian operations. These procedures, combined with the work performed by us, as the Group engagement team, provided sufficient appropriate audit evidence as a basis for our opinion on the Group financial report as a whole.
- The Group engagement team visited the key operations as part of the audit, including meeting with Indonesian-based management and the component auditors in Indonesia.



## Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit 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. Further, any commentary on the outcomes of a particular audit procedure is made in that context. We communicated the key audit matters to the directors.

Key audit matter	How our audit addressed the key audit matter
<p><b>Impairment assessment for non-current assets</b></p> <p><i>Refer to Critical accounting estimates and judgements in note 2 and note 11, 13 and 14 to the financial report</i></p> <p>The Group's financial report includes significant non-current assets in the form of Mine Properties and Development, capitalised Exploration and Evaluation Expenditure and Available For Sale financial assets, all relating to the Group's thermal coal assets in Indonesia.</p> <p>Due to a decline in forecast long term thermal coal prices during the year, the net assets of the Group continuing to exceed its market capitalisation and impairment charges being recorded in prior years, the Group identified indications of impairment in its Pakar North and Pakar South Cash Generating Units (CGUs) during the year.</p> <p>As a result, the Group tested the thermal coal assets for impairment. Impairment charges of \$44.4 million were recognised against Mine Properties and Development and \$7.1 million against Available For Sale financial assets as a result of the Group's impairment assessment.</p> <p>These assessments involved significant judgements made in relation to assumptions, such as:</p> <ul style="list-style-type: none"> <li>• forecast long term thermal coal prices for similar market reference thermal coal products</li> <li>• the discount to the forecast market reference thermal coal prices the Group is expecting to achieve for its lower calorific value thermal coal</li> </ul>	<p>We performed the following procedures, amongst others:</p> <ul style="list-style-type: none"> <li>• assessed whether the composition of the Group's CGUs, being Pakar North, Pakar South, Graha Panca Karsa (GPK) and the Mamahak Group, was consistent with our knowledge of the Group's operations</li> <li>• evaluated the Group's assessment that there were indicators of asset impairment at 31 December 2016 in the Pakar North and Pakar South CGUs</li> <li>• assessed whether the CGUs appropriately included directly attributable assets and liabilities</li> <li>• considered whether the discounted cash flow models used to estimate the fair value (the fair value models) were consistent with the requirements of the Australian Accounting Standards</li> <li>• considered whether the forecast cash flows used in the fair value models were reasonable and based on supportable assumptions by: <ul style="list-style-type: none"> <li>○ comparing long term thermal coal pricing data used in the fair value models to independent industry forecasts</li> <li>○ assessing the appropriateness of the product quality adjustments and associated price discounts made to the market reference price assumptions for similar thermal coal products by comparing the discount assumptions to actual sales prices achieved by PT Bayan Resources Tbk for coal sales made from neighbouring projects for coal of equivalent product quality and specifications</li> <li>○ comparing the forecast coal production over the life of mine to the Group's most recent reserves and resources statement</li> <li>○ considering reports and held discussions with the Group to develop an understanding of the status of the thermal coal assets and risks in relation to the estimated date for commissioning and production that are incorporated into the impairment models</li> <li>○ assessing the Group's discount rate, with reference to independently calculated discount rates applying weighted average cost of capital methodology, assisted by PwC</li> </ul> </li> </ul>



<b>Key audit matter</b>	<b>How our audit addressed the key audit matter</b>
<ul style="list-style-type: none"> <li>• reserve and resource estimates and production and processing volumes</li> <li>• discount rates</li> <li>• consideration of the impact of Indonesian foreign divestment legislation on asset values</li> <li>• operating costs, foreign exchange rates and inflation rates, and</li> <li>• timing of project development.</li> </ul> <p>This was a key audit matter due to the significant carrying value of the Group's non-current assets and the judgements and assumptions outlined above in determining whether there are any impairment indicators or impairment charges.</p>	<ul style="list-style-type: none"> <li>valuation experts               <ul style="list-style-type: none"> <li>○ evaluating the Group's method of incorporating the impact of Indonesian foreign ownership legislation in the impairment models through applying an additional discount factor to derive fair value</li> <li>○ comparing production and operating cost assumptions to similar neighbouring operating mines operated by Pt Bayan Resources Tbk, and</li> <li>○ comparing foreign exchange rate and inflation rate assumptions to current independent economic forecasts,</li> </ul> </li> <li>• completed sensitivity analysis over key assumptions in the fair value models</li> <li>• tested the mathematical accuracy of the fair value models' calculations and agreed the impairment calculated in the fair value models to the impairment expense recognised in the consolidated statement of comprehensive income</li> <li>• assessed whether any declines in fair value of the Available For Sale financial assets were significant or prolonged</li> <li>• evaluated the Group's right of tenure over relevant assets, and</li> <li>• evaluated the adequacy of the disclosures made in notes 11, 13 and 14 including those regarding the key assumptions used in the impairment assessment and sensitivities to changes in such assumptions, in light of the requirements of Australian Accounting Standards.</li> </ul>
<p><b>Financial support from major shareholder</b></p> <p><i>Refer to note 1 (a) (iii) to the financial report</i></p> <p>The Group is in the exploration and development phase and is reliant on receiving sufficient funding from shareholders or other sources to finance ongoing exploration and development activities.</p> <p>The Group recorded a total comprehensive loss for the year, with net cash outflows from operating activities and has a working capital deficiency.</p> <p>The Group has been advanced loans from PT Bayan Resources Tbk, the major shareholder of the Company, to fund operating cash flows and capital expenditure. In determining the appropriateness of the going concern basis of preparation of the financial report, the Group made a number</p>	<p>In assessing the appropriateness of the Group's going concern basis of preparation of the financial report, we:</p> <ul style="list-style-type: none"> <li>• evaluated the Group's assessment, including testing the key underlying data and assumptions in the Group's cash flow forecast, that the period covered was at least 12 months from the date of the audit report and that relevant information of which we are aware as a result of the audit had been included</li> <li>• enquired of management and directors as to their knowledge of events or conditions that may cast significant doubt on the Group's ability to continue as a going concern</li> <li>• obtained written confirmation of continued financial support provided to the Company by PT Bayan Resources Tbk as set out in Note 1(a) (iii) of the financial report</li> <li>• evaluated the ability of PT Bayan Resources Tbk to provide sufficient financial assistance as outlined in their written confirmation of support</li> <li>• communicated with the auditors of PT Bayan Resources Tbk and reviewed the results of audit procedures completed by them over the ability of PT Bayan Resources Tbk to continue as a going concern and provide the necessary financial</li> </ul>

<i>Key audit matter</i>	<i>How our audit addressed the key audit matter</i>
<p>of judgements, including over PT Bayan Resources Tbk's ability and willingness to provide sufficient financial assistance to the Group as and when it is needed over a period of at least 12 months from the date of the financial report.</p> <p>Assessing the appropriateness of the basis of preparation for the financial report was a key audit matter due to its importance to the financial report and the level of judgement involved.</p>	<p>support to the Group</p> <ul style="list-style-type: none"> <li>• requested written representations from management and directors regarding their plans for future action and the feasibility of these plans, and</li> <li>• evaluated the adequacy of the disclosures made in note 1 (a) (iii) compared to Australian Accounting Standard requirements.</li> </ul>
<p><b>Classification of Available For Sale financial assets</b></p> <p><i>Refer to note 11 to the financial report</i></p> <p>The Group holds the right to acquire four Indonesian entities from PT Bayan Resources Tbk. These four entities have not received the relevant government approvals to convert their status into one which allows foreign ownership. The contractual rights to acquire these entities have been classified as Available for Sale financial assets and their total carrying value is \$48.0 million.</p> <p>The classification of the Company's investment in the four Indonesian entities is a key audit matter due to the judgement required in assessing the impact of ongoing processes being undertaken by the Company to complete the conversion of the status of these entities to allow direct ownership to be taken up. Should the conversion of the status be achieved, the rights associated with the asset may change and the classification of the investment would need to be reassessed.</p>	<p>We evaluated whether any changes to the legal or contractual status during the year impacted on the classification of these assets. We performed the following procedures, amongst others:</p> <ul style="list-style-type: none"> <li>• enquired of the Group as to their knowledge of any changes to the legal or regulatory environment that may impact the ongoing recognition or classification of these assets.</li> <li>• enquired of internal and external legal advisors as to their knowledge of any changes to the legal or regulatory environment that may impact the ongoing recognition or classification of these assets, and</li> <li>• engaged Indonesian component auditors to assess the current status of these four entities and the impact of any changes in status during the year.</li> </ul>

### *Other information*

The directors are responsible for the other information. The other information comprises the Corporate Directory, Directors Report, Corporate Governance Statement and ASX Additional Information included in the Group's annual report for the year ended 31 December 2016 but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.



In connection with our audit of the financial report, our responsibility is to read the other information identified above and, in doing so, 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.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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### *Responsibilities of the directors for the financial report*

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

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### *Auditor's responsibilities for the audit of the financial report*

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: [http://www.auasb.gov.au/auditors\\_files/ar2.pdf](http://www.auasb.gov.au/auditors_files/ar2.pdf). This description forms part of our auditor's report.

### *Report on the remuneration report*

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#### *Our opinion on the remuneration report*

We have audited the remuneration report included in pages 13 to 18 of the directors' report for the year ended 31 December 2016.

In our opinion, the remuneration report of Kangaroo Resources Limited for the year ended 31 December 2016 complies with section 300A of the *Corporations Act 2001*.



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### *Responsibilities*

The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of *the Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

A handwritten signature in cursive script that reads 'PricewaterhouseCoopers'.

PricewaterhouseCoopers

A handwritten signature in cursive script that reads 'Ben Gargett'.

Ben Gargett  
Partner

Perth  
30 March 2017

# CORPORATE GOVERNANCE STATEMENT

31 DECEMBER 2016



## The Overview

The Board of Directors of Kangaroo Resources Limited is responsible for the corporate governance of the consolidated entity. The Board guides and monitors the business and affairs of Kangaroo Resources Limited on behalf of the shareholders by whom they are elected and to whom they are accountable. The Company's governance approach aims to achieve exploration, development and financial success while meeting stakeholders' expectations of sound corporate governance practices by proactively determining and adopting the most appropriate corporate governance arrangements.

The Company has adopted appropriate systems of control and accountability as the basis for the administration of corporate governance. The Board is committed to administering the policies and procedures with openness and integrity, pursuing the true spirit of corporate governance commensurate with the Company's needs. To the extent they are applicable and given its size and circumstances the Company has adopted the Eight Essential Corporate Governance Principles and Recommendations ("Recommendations"), as published by ASX Corporate Governance Council ("CGC").

However, a number of those principles and recommendations are directed towards listed companies considerably larger than Kangaroo Resources Limited, whose circumstances and requirements accordingly differ markedly from the Company's. For example, the nature of the Company's operations and the size of its staff mean that a number of the Board committees and other governance structures recommended by the CGC are not only unnecessary in Kangaroo's case, but the effort and expense required to establish and maintain them would, in the directors' view, be an unjustified diversion of shareholders' funds.

As the Company's activities develop in size, nature and scope, the size of the Board and the implementation of additional corporate governance structures will be given further consideration.

ASX Listing Rule 4.10.3 requires listed companies to disclose in their Annual Report the extent to which they have complied with the ASX Best Practice Recommendations of the ASX Corporate Governance Council in the reporting period. A description of the Company's main corporate governance practices is set out below. The Corporate Governance Statement is current as at the date of this Annual Report, and has been approved by the Board of Directors. All these practices, unless otherwise stated, were in place for the entire year. They comply with the ASX Corporate Governance Principles and Recommendations (3rd edition).

The Company's website at [www.kangarooresources.com](http://www.kangarooresources.com) contains a corporate governance section that includes copies of the Company's corporate governance policies.

## 1. Laying solid foundations for management and oversight

### Recommendation 1.1:

*Companies should disclose the respective roles and responsibilities of its board and management and those matters expressly reserved to the Board and those delegated to management and disclose those functions.*

The relationship between the Board and senior management is critical to the Company's long term success. The Board is responsible for the performance of the Company in both the short and longer term and seeks to balance sometimes competing objectives in the best interests of the Group as a whole. The key aims of the Board are to enhance the interests of shareholders and other key stakeholders and to ensure the Company is properly managed.

# CORPORATE GOVERNANCE STATEMENT

31 DECEMBER 2016



Day to day management of the Company's affairs and the implementation of the corporate strategy and policy initiatives are formally delegated by the Board to the Chief Executive Officer and senior management.

The responsibilities of the Board as a whole, the Chairman and individual Directors are set out in the Company's Board Charter and are consistent with ASX CGP 1. A copy of the Board Charter is available in the Corporate Governance section of the Company's website.

## **Recommendation 1.2:**

*Companies should undertake appropriate checks before appointing a person, or putting forward to security holders a candidate for election as a director and provide security holders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a director.*

Before appointing a new director, the Company will undertake appropriate checks such as a character reference, police clearance certificate, bankruptcy check and any other checks it deems appropriate. Where a director is to be re-elected or a candidate is put up for election to shareholders, all material information will be provided to shareholders for consideration.

## **Recommendation 1.3:**

*Companies should have a written agreement with each director and senior executive setting out the terms of their appointment.*

The directors have letters of appointment including a director's interest agreement with respect to disclosure of security interests.

## **Recommendation 1.4:**

*The Company Secretary should be accountable directly to the Board, through the chair, on all matters to do with the proper functioning of the Board.*

The Company Secretary is accountable directly to the Board, through the Chairman, on all matters to do with the proper functioning of the Board.

## **Recommendation 1.5:**

*The Company should establish a policy concerning diversity and disclose the policy or summary of the policy. The policy should include requirements for the Board to establish measureable objectives for achieving gender diversity and for the Board to assess annually both the objectives and progress in achieving them.*

The Company recognises that a talented and diverse workforce is a key competitive advantage. The Company is committed to developing a workplace that promotes diversity. The Company's policy is to recruit and manage on the basis of competence and performance regardless of age, nationality, race, gender, religious beliefs, sexuality, physical ability or cultural background. The Company has not yet formalised this policy into a written document. It is the Board's intention to formalise the policy at a time when the size of the Company and its activities warrants such a structure.

The Kangaroo Group has 3 full time and full time equivalent staff, of which none are women. There are no women in senior executive positions or on the board.

# CORPORATE GOVERNANCE STATEMENT

31 DECEMBER 2016



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## Recommendation 1.6:

*The Company should have and disclose a process for periodically evaluating the performance of the Board, its committees and individual directors and whether a performance evaluation was undertaken in the reporting period in accordance with that process.*

Due to the size of the Board and the nature of its business, it has not been deemed necessary to institute a formal documented performance review program of individuals.

## Recommendation 1.7:

*The Company should have and disclose a process for periodically evaluating the performance of senior executives and whether a performance evaluation was undertaken in the reporting period in accordance with that process.*

Due to the size of the Board and the nature of its business, it has not been deemed necessary to institute a formal documented performance review program of senior executives. The Board excluding the Managing Director/Chairman conducted an informal review process whereby the performance of the senior executives and approach toward meeting the short and long term objectives of the Company is discussed. The board considers that at this stage of the Company's development an informal process is appropriate.

## **2. Structure the Board to add value**

### Recommendation 2.1:

*The Board should establish a Nomination Committee of which the majority should be independent directors (including the Chair).*

The Company does not have a nomination committee. The Board considers that the Company is not currently of a size, nor are its affairs of such complexity, to justify the formation of separate or special committees at this time. The Board as a whole is able to address the governance aspects of the full scope of the Company's activities and to ensure that it adheres to appropriate ethical standards. In particular, the full Board considers those matters that would usually be the responsibility of a nomination committee. The Board considers that no efficiencies or other benefits would be gained by establishing a separate nomination committee.

Directors are appointed under the terms of the Company's constitution. Appointments to the Board are based upon merit and against criteria that serves to maintain an appropriate balance of skills, expertise, and experience of the board. The categories considered necessary for this purpose are a blend of accounting and finance, business, technical and administration skills. Casual appointments must stand for election at the next annual general meeting of the Company.

Retirement and rotation of directors are governed by the Corporations Act 2001 and the Constitution of the Company. All directors, with the exception of the Managing Director (if appointed), serve for a period of three years before they are requested to retire and if eligible offer themselves for re-election.

## CORPORATE GOVERNANCE STATEMENT

31 DECEMBER 2016



### Recommendation 2.2:

*The Company should have and disclose a Board skills matrix setting out the mix of skills and diversity that the Board currently has or is looking to achieve in its membership.*

The following table sets out the key skills and experience of the 4 current directors.

	Existing Board
Total Directors	4 Directors
Leadership	4 Directors
Strategy	4 Directors
Communication	2 Directors
Fundraising	2 Directors
Mining Industry - Technical	1 Directors
Mining Industry - General	4 Directors
Marketing	1 Director
Risk	4 Directors
Governance	1 Director
Health and safety	2 Directors
Financial acumen	4 Directors

Each director has the right of access to all relevant company information and to the Company's employees and, subject to prior consultation with the Board Chairperson, may seek independent professional advice from a suitably qualified adviser at the Company's expense. The director must consult with an advisor suitably qualified in the relevant field, and obtain the Board's Chairperson approval of the fee payable for the advice before proceeding with the consultation. A copy of the advice received by the director is made available to all other members of the board.

### Recommendations 2.3, 2.4 and 2.5:

*The Company should disclose the names of the directors considered to be independent directors and length of service of each director.*

A majority of the Board of the Company should be independent directors.

The Chair of the Board should be an independent director, and should not be the CEO of the Company.

The names, experience and responsibilities of directors of the Company in office at the date of this statement are set out in the Directors' Report (including names of the directors considered to be independent directors and length of service of each director).

In assessing whether a director is classified as independent, the Board considers the independence criteria set out in the ASX Corporate Governance Council Recommendation 2.1 and other facts, information and circumstances deemed by the Board to be relevant. Using the ASX Best Practice Recommendations on the assessment of the independence of directors, only 2 directors, Mr Trevor Butcher and Mr Susmit Shah, are deemed Independent directors and therefore the Company does currently not have a majority of independent directors. The remainder of the Board are not independent for the following reasons:-



# CORPORATE GOVERNANCE STATEMENT



31 DECEMBER 2016

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Mr Russell Neil – Chief Executive Officer and Managing Director/Employee of major shareholder  
Mr David Low – Employee of major shareholder

During 2016 both Mr Ian Ogilvie (up until 5 May 2016) and Mr Russell Neil have acted as Chairman. Mr Ian Ogilvie and Mr Russell Neill are not considered independent and therefore the Company does not comply with Recommendation 2.5.

## Independent Decision Making

A majority of the Board are not independent and the Company recognises that this is a departure from ASX CGP 2. All Directors bring to the Board the requisite skills which are complementary to those of the other directors and enable them to adequately discharge their responsibilities and bring independent judgments to bear on their decisions.

It is the Board's intention to review its composition on a continual basis as the Company expands its activities and greater demands and skills amongst directors become necessary.

## Recommendation 2.6:

*The Company should have a program for inducting new directors and provide appropriate professional development opportunities for directors to develop and maintain the skills and knowledge needed to perform their role as directors effectively.*

The Board Charter provides for induction and professional development for the Board.

## 3. Act ethically and responsibly

### Recommendation 3.1:

*Companies should have a Code of Conduct for its directors, senior executives and employees.*

The Company has developed a Code of Conduct (the Code) which has been endorsed by the Board and applies to all employees, directors and officers. The Code may be amended from time to time as necessary to ensure it reflects the practices necessary to maintain confidence in the Company's integrity and to take into account legal obligations and reasonable expectations of the Company's stakeholders. The Code outlines the responsibility and accountability of Company personnel to report and investigate reports of unethical practices.

Trading in Company securities is regulated by the Corporations Act and the ASX Listing Rules. The Board makes all directors, officers and employees aware on appointment that it is prohibited to trade in the Company's securities whilst that director, officer or employee is in the possession of price sensitive information.

For details of shares held by directors and officers please refer to the Directors' Report. Directors are required to report to the Company Secretary any movements in their holdings of Company securities, which are reported to ASX in the required timeframe prescribed by the ASX Listing Rules.

#### **4. Safeguard Integrity in Financial reporting**

##### **Recommendation 4.1**

*The Board should have an Audit Committee.*

The Company does not have an audit committee. The Board considers that the Company is not currently of a size, nor are its affairs of such complexity, to justify the formation of separate or special committees at this time. The Board as a whole is able to address the governance aspects of the full scope of the Company's activities and to ensure that it adheres to appropriate ethical standards. In particular, the full Board considers those matters that would usually be the responsibility of an audit committee. The Board considers that no efficiencies or other benefits would be gained by establishing a separate audit committee.

The Company requires external auditors to demonstrate quality and independence. The performance of the external auditor is reviewed and applications for tender of external audit services are requested as deemed appropriate, taking into consideration assessment of performance, existing value and tender costs.

The audit engagement partner from auditors, PricewaterhouseCoopers is subject to rotation rules under the Corporations Act.

##### **Recommendation 4.2**

*The Board of the Company should, before it approves the Company's financial statements for a financial period, receive from its CEO and CFO a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.*

The CEO and the CFO have declared in writing to the Board that the Company's financial statements for the year ended 31 December 2015 present a true and fair view, in all material aspects, of the Company's financial condition and operational results and are in accordance with relevant accounting standards, that this is founded on a sound system of risk management and internal compliance and control and that the Company's risk management and internal compliance and control system is operating efficiently and effectively. This representation is made by the CEO and CFO prior to the director's approval of the release of the annual and half yearly accounts. This representation is made after enquiry of, and representation by, appropriate levels of management.

##### **Recommendation 4.3**

*The Company should ensure that the external auditor is present at the AGM and be available to answer questions from security holders relevant to the audit.*

The Company invites the auditor or representative of the auditor to the AGM.

#### **5. Make timely and balanced disclosure**

##### **Recommendation 5.1:**

*Companies should have a written policy for complying with its continuous disclosure obligations under the Listing Rules.*

The Company has developed an ASX Listing Rules Disclosure Strategy which has been endorsed by the Board. The ASX Listing Rules Disclosure Strategy ensures compliance with ASX Listing Rules and Corporations Act obligations to keep the market fully informed of information which may have a material effect on the price or value of its securities and outlines accountability at a senior executive level for that compliance. All ASX announcements are to be posted to the Company's website as soon as possible after confirmation of receipt is received from ASX, including all financial reports.

A copy of the Continuous Disclosure Policy is located in the Corporate Governance section of the Company's website and the terms are consistent with ASX CGP 5,

The Company Secretary has been nominated as the person responsible for communications with the Australia Securities Exchange (ASX). This role includes responsibility for ensuring compliance with the continuous disclosure requirements in the ASX Listing Rules and overseeing and co-ordinating information disclosure to the ASX, analysts, brokers, shareholders, the media and the public.

## **6. Respect the rights of security holders**

### **Recommendation 6.1:**

*Companies should provide information about itself and its governance to investors via its website.*

The Company is committed to maintaining a Company website with general information about the Company and its operations, information about governance and information specifically targeted at keeping the Company's shareholders informed about the Company. In particular, where appropriate, after confirmation of receipt by the ASX, the following are posted to the Company's website:

- relevant announcements made to the market via the ASX;
- notices of meetings;
- investment updates;
- company presentations and media releases;
- copies of press releases and announcements for (at least) the preceding three years; and
- copies of annual, half-yearly and quarterly reports including financial statements for (at least) the preceding three years.

### **Recommendations 6.2 and 6.3:**

*Companies should design and implement an investor relations program to facilitate two-way communication with investors.*

Companies should disclose the policies and processes it has in place to facilitate and encourage participation at meetings of security holders.

The CEO makes himself available to meet shareholders and regularly responds to enquiries made via telephone or email. He also completes periodic investor presentations to facilitate engagement with investors and other financial market participants. From time to time other directors and nominated senior management will also engage with shareholders and investors generally.

The Board encourages full participation of shareholders at the Annual General Meeting. In preparing for general meetings of the Company, the Company drafts the notice of meeting and related explanatory information so that shareholders are provided with all of the information that is relevant to shareholders in making decisions on

matters to be voted on by them at the meeting. The Company allows shareholders a reasonable opportunity to ask questions of the Board of Directors and to otherwise participate in the meeting. The external auditor of the Company is asked to attend each annual general meeting and to be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report. Important issues are presented to the shareholders as single resolutions. The shareholders are also responsible for voting on the appointment of Directors.

### **Recommendation 6.4:**

*Companies should give security holders the option to receive communications from, and send communications to, the entity and its security registry electronically.*

Information about the Company is emailed to all shareholders who lodge their email contact details with the Company. Information on lodging email addresses and on submitting information requests with the Company is available on the Company's website. Shareholders can receive communications from, and send communications to, the Company's security registry electronically.

## **7. Recognise and manage risk**

### **Recommendation 7.1:**

*The Board should have a committee or committees to oversee risk.*

The Company is not currently of a size to require the formation of committees to oversee risk. The full Board has the responsibility for the risk management, compliance and internal controls systems of the Company.

Senior management is responsible for designing, implementing and reporting on the adequacy of the Company's risk management and internal control system. The Company's risk management policy is designed to provide the framework to identify, assess, monitor and manage the risks associated with the Company's business. The Company adopts practices designed to identify significant areas of business risk and to effectively manage those risks in accordance with the Company's risk profile. The risks involved in a resources sector company and the specific uncertainties for the Company continue to be regularly monitored. All proposals reviewed by the Board include a consideration of the issues and risks of the proposal.

### **Recommendation 7.2:**

*The Board should review the entity's risk management framework at least annually to satisfy itself that it continues to be sound and disclose whether such a review has taken place.*

The Board considers risks and discusses risk management at each Board meeting. Review of the risk management framework is an on-going process rather than an annual formal review. The Company's main areas of risk include:

- Geological and technical risk posed to exploration and commercial exploitation success;
- Sovereign risk, change in government policy, change in mining and fiscal legislation;
- prevention of access by reason of inability to obtain regulatory or landowner consents or approvals, or native title issues;
- retention of key staff;
- change in metal market conditions;
- mineral title tenure and renewal risks; and

- capital requirement and lack of future funding.

#### **Recommendation 7.3:**

*The Company should disclose if it has an internal audit function.*

The Company does not have an internal audit function. The Board considers that the Company is not currently of a size, nor are its affairs of such complexity, to justify the formation of an internal audit function at this time. The Board as a whole regularly evaluates and improves the effectiveness of its risk management (refer above) and internal control processes.

#### **Recommendation 7.4:**

*The Company should disclose whether it has any material exposure to economic, environmental and social sustainability risks and, if it does, how it manages or intends to manage those risks.*

The Company is of the view that it has adequately disclosed the nature of its operations and relevant information on exposure to economic, environmental and social sustainability risks. Other than general risks associated with the mineral exploration industry, the Company does not currently have material exposure to environmental and social sustainability risks.

## **8. Remunerate fairly and responsibly**

#### **Recommendation 8.1:**

*The Board should have a Remuneration Committee.*

The Company does not have a remuneration committee. The Board considers that the Company is not currently of a size, nor are its affairs of such complexity to justify the formation of separate or special committees at this time. The Board as a whole is able to address the governance aspects of the full scope of the Company's activities and to ensure that it adheres to appropriate ethical standards. In particular, the full Board considers those matters that would usually be the responsibility of a remuneration committee. The Board considers that no efficiencies or other benefits would be gained by establishing a separate remuneration committee.

#### **Recommendation 8.2:**

*Companies should separately disclose its policies and practices regarding the remuneration of non-executive directors and the remuneration of executive directors and other senior executives.*

The Company provides disclosure of its policies and practices regarding the remuneration and all directors and executives remuneration in its annual report.

The remuneration policy of the Company has been designed to align directors' objectives with shareholder and business objectives by providing a fixed remuneration component which is assessed on an annual basis in line with market rates. The Board believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best directors to run and manage the company. Directors' remuneration is approved by resolutions of the Board. The Board's policy for determining the nature and amount of remuneration for Board members is as follows:

## CORPORATE GOVERNANCE STATEMENT

31 DECEMBER 2016

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### Non-Executive Directors

The Board policy is to remunerate Non-Executive directors at market rates for comparable companies for time, commitment and responsibilities. Payments to the non-executive directors are reviewed annually, based on market practice, duties and accountability. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the Annual General Meeting. Fees for non-executive directors are not linked to the performance of the Company. However, to align directors' interests with shareholder interests, the directors are encouraged to hold shares in the Company. Non-executive directors are entitled to receive incentive options or securities (subject to shareholder approval) as it is considered an appropriate method of providing sufficient reward whilst maintaining cash reserves. There is no scheme to provide retirement benefits, other than statutory superannuation, to non-executive directors.

### Executives

The senior executives of the Company are the CEO and the CFO. The Company is committed to remunerating its senior executives in a manner that is market-competitive and consistent with best practice as well as supporting the interests of shareholders. Packages comprise a fixed (cash) element and variable incentive components.

By remunerating senior executives through performance and long-term incentive plans in addition to their fixed remuneration, the Company aims to align the interests of senior executives with those of shareholders and increase performance.

The objective behind using this remuneration structure is to drive improved performance and thereby increase shareholder value as well as aligning the interests of executives and shareholders.

The Board may use its discretion with respect to the payment of variable incentive components and will depend on the Company's financial and the executive's personal performance.

For details of remuneration paid to directors and officers for the financial year please refer to the Remuneration Report forming part of the Directors' Report and the Financial Statements generally.

### **Recommendation 8.3:**

*A Company which has an equity based remuneration scheme should have a policy on whether participants are permitted to enter into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the scheme and disclose that policy or summary of it.*

The Company does not have an equity based remuneration scheme which is affected by this recommendation. Recipients of equity-based remuneration (eg. incentives options) are not permitted to enter into any transactions that would limit the economic risk of options or other unvested entitlements.

Additional information as required by the Australian Securities Exchange Limited Listing Rules and not disclosed elsewhere in this report is set out below.

### 1.1 Distribution of Share and Option Holders (as at 21 March 2017)

Analysis of numbers of equity security holders by size of holding:

Holding	Fully Paid Shares
1-1000	142
1,001-5,000	247
5,001-10,000	228
10,001-100,000	701
100,000-over	270
	<b>1,588</b>

The number of shareholders holding less than a marketable parcel is 1,163.

### 1.2 Twenty Largest Shareholders (as at 21 March 2017)

Name	Number held	Percentage
1 PT Bayan Resources Tbk	1,925,000,000	56.05%
2 HSBC Custody Nominees	495,925,205	14.44%
3 JP Morgan Nominees Australia Ltd	360,334,964	10.49%
4 Citicorp Nominees Pty Ltd	262,906,551	7.66%
5 BNP Paribas Nominees Pty Limited	71,158,586	2.07%
6 RHB Securities Singapore Pte Ltd	35,151,864	1.02%
7 Ms Kw ai Lan Chin	16,691,459	0.49%
8 AH Super Pty Ltd <The AH Super Fund A/C>	16,500,000	0.48%
9 Dempo Global Corporation Pte Ltd	15,000,000	0.44%
10 DBS Vickers Securities (Singapore) Pte Ltd	11,349,000	0.33%
11 Romfal Sifat Pty Ltd <The Fizmail Family A/c>	9,917,788	0.29%
12 Manning Oak Nominees Pty Ltd	9,500,000	0.28%
13 Bayleaf Pty Ltd	9,000,000	0.26%
14 Cahami Pty Ltd	7,023,767	0.20%
15 Mr David John Patrick O'neil & Mrs Sherrel Lynn O'Neil <O'Neil Super Fund /	5,837,024	0.17%
16 Netwealth Investments Limited Wrap Services A/C	5,340,000	0.16%
17 BNP Paribas Nominees Pty Limited UOB Kay Hian Priv Ltd DRP	5,007,065	0.15%
18 Mr Mark O'Keefe & Mrs Belinda O'Keefe - Mark O'Keefe S/F A/C	5,000,000	0.15%
19 Mark O'Keefe - The Australian Oak A/C	5,000,000	0.15%
20 Mr Erle Edw inson	5,340,000	0.16%
<b>Total</b>	<b>3,276,983,273</b>	<b>95.42%</b>
<b>Total remaining holders balance</b>	<b>157,446,739</b>	<b>4.58%</b>
<b>Total all shareholders</b>	<b>3,434,430,012</b>	<b>100%</b>

**1.3 Substantial Shareholders**

Substantial holders in the company are set out below:

<b>Name</b>	<b>Number held</b>	<b>Percentage</b>
PT Bayan Resources Tbk	1,925,000,000	56.05%
HSBC Custody Nominees	495,925,205	14.44%
JP Morgan Nominees Australia Ltd	360,334,964	10.49%
Citicorp Nominees Pty Ltd	262,906,551	7.66%

**1.4 Voting Rights**

Subject to any rights or restrictions for the time being attached to any class or classes (at present there are none) at general meetings of shareholders or classes of shareholders:

- (a) each shareholder entitled to vote, may vote in person or by proxy, attorney or representative;
- (b) on a show of hands, every person present who is a shareholder or a proxy, attorney or representative of a shareholder has one vote; and
- (c) on a poll, every person present who is a shareholder or a proxy, attorney or representative of a shareholder shall, in respect of each Fully Paid Share held, or in respect of which he/she has appointed a proxy, attorney or representative, have one vote for the share, but in respect of partly paid Shares shall have a fraction of a vote equivalent to the proportion which the amount paid up bears to the total issue price for the Share.

**2. Restricted Securities**

At 30 March 2017 there are no restricted securities.



### 3. Tenement Schedule

Tenements	Location	Ownership
PT Mamahak Coal Mining	East Kalimantan, Indonesia	99%
PT Bara Karsa Lestari	East Kalimantan, Indonesia	99%
PT Mahakam Energi Lestari	East Kalimantan, Indonesia	99%
PT Mahakam Bara Energi	East Kalimantan, Indonesia	99%
PT Sumber Aset Utama	East Kalimantan, Indonesia	99%
PT Orkida Makmur	East Kalimantan, Indonesia	99%
PT Dermaga Energy	East Kalimantan, Indonesia	99%
PT Tanur Jaya	East Kalimantan, Indonesia	99%
PT Sumber Api	East Kalimantan, Indonesia	99%
PT Silau Kencana	East Kalimantan, Indonesia	99%
PT Tiw a Abadi <sup>1</sup>	East Kalimantan, Indonesia	100% BR
PT Apira Utama <sup>1</sup>	East Kalimantan, Indonesia	100% BR
PT Bara Sejati <sup>1</sup>	East Kalimantan, Indonesia	100% BR
PT Cahaya Alam <sup>1</sup>	East Kalimantan, Indonesia	100% BR

<sup>1</sup> Mining tenements currently owned by BR. (See note 22)

At 30 March 2017 KRL does not hold any mining tenements in Australia.