



KANGAROO RESOURCES LIMITED

ABN 38 120 284 040

INTERIM FINANCIAL REPORT
FOR THE HALF-YEAR ENDED 30 JUNE 2017

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This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the period ended 31 December 2016 and any public announcements made by Kangaroo Resources Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

Your directors present their report on the consolidated entity (referred to hereafter as "the Group") consisting of Kangaroo Resources Limited ("The Company") and the entities it controlled at the end of, or during, the half-year ended 30 June 2017.

DIRECTORS REPORT FOR THE HALF-YEAR ENDED 30 JUNE 2017

Directors

The following persons were directors of Kangaroo Resources Limited (KRL) during the half-year and up to the date of this report:

Russell Neil¹
Trevor Butcher
David Low Yi Ngo
Susmit Shah
Damien Henderson²
Darcy Wentworth³

¹ On the 30th of August 2017 Mr Russell Neil resigned as a director and from his role as Managing Director and Chief Executive Officer.

² On the 11th of July 2017 Mr Damien Henderson was appointed as an Executive Director.

³ On the 11th of July 2017 Mr Darcy Wentworth was appointed as a Non-Executive Director.

2017 HALF-YEAR REVIEW

The consolidated comprehensive loss for the Group for the half-year ended 30 June 2017 was \$1,469,669 (30 June 2016 loss of \$40,835,761).

The improving coal price that rebounded strongly during the second half of 2016 has remained and the Newcastle Benchmark coal price has been trading between US\$80 per tonne and US\$95 per tonne during the first half of 2017.

- Topographic survey completed, drilling program continuing, and appointment of contractor to complete bathymetric survey at PT Graha Panca Karsa (GPK) concession.
- Drilling program designed for PT Tiwa Abadi (TA) with plan to go for tender early in second-half of 2017.
- The Company continues to monitor and evaluate PT Bayan Resources (BR) as BR continue the ramp up of production at its Tabang project, to which the Company has 30% access rights to the haul road and port infrastructure for its adjacent Pakar project.
- Completion of Pakar JORC resources and reserves updated to 2012 JORC standard.
- Process has begun on the new structure that will allow the Company to complete the outstanding BR/KRL transaction transferring the remaining four concessions (TA, PT Apira Utama, PT Bara Sejati, PT Cahaya Alam) to KRL.

GPK COAL PROJECT

During the period, GPK completed the topographic survey of the existing borrow-use (pinjam pakai) area covering approximately 455 hectares out of the total concession area of 5,060 hectares. The purpose of this study was to improve the accuracy of the topographic information in the survey area and to align this with the drilling program.

35 holes have been drilled totalling 1,494 metres of its total revised drilling program of 41 holes (1,755 metres), or approximately 85%. The original drilling program of 48 holes has been reduced to 41 holes after taking into account the new topography information and site conditions. The program aims to confirm / validate previous drilling works performed on the site as well as gain a better understanding of the coal seam geology. Following completion of this drilling program the Company plans to commission an independent estimate of mineral resources on the GPK concession.

PT. Seascope Surveys Indonesia (a part of the Mermaid Subsea Services Group) were engaged to perform a bathymetric survey of the Mahakam River from a location near the town of Melak, East Kalimantan to the intended location of GPK's barge loading facilities, a distance of approximately 78 kilometres. This survey will allow the Company to make an assessment of the draft limitations of the river and select optimal barge sizes for the transportation of the coal along the river. This work commenced in August 2017.

DIRECTORS REPORT FOR THE HALF-YEAR ENDED 30 JUNE 2017

PAKAR COAL PROJECT (TA, AU, BS, CA, PT ORKIDA MAKMUR (OM), PT TANUR JAYA (TJ), PT DERMAGA ENERGI (DE), PT SILAU KENCANA (SK) AND PT SUMBER API (SA))

During the period, the Company designed a new drilling program for part of the TA concession (total 5,000 hectares). The TA concession is part covered by palm oil plantations (1,711 hectares – approximately 34%) and part covered by forestry concessions (1,517 hectares – approximately 30%); this later part will require borrow-use (pinjam pakai) permits from the forestry department for any exploration and production activities that are undertaken in this area. The remaining 1,772 hectares (approximately 36%) of the TA concession is not restricted however is subject to land compensation with the initial drilling program focusing in this area.

The preliminary drilling program designed for this non-restricted area in TA has been divided into two stages totaling 73 drill holes and 12,090 metres; all holes will be geo-physically logged. The Company will commence a tendering process for this work in the second-half of 2017.

The Company had previously applied to the regional government for exploration borrow-use (pinjam pakai) permits for the 1,517 hectares in TA and the 5,000 hectares in TJ however this was delayed due to the regional government issuing a moratorium on new pinjam pakai permits which ended on 30 April 2017. The Company has reactivated its efforts to obtain these permits and expects the above drilling program in the non-restricted area can then follow on into the forestry areas covering both TA and TJ once these permits have been obtained.

PROJECT INFRASTRUCTURE FOR TABANG PAKAR

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.

During the period, BR commenced asphaltting the haul road to improve its all-weather performance.

Current barge loading capacity at BR's Senyur Port is in the region of 20 - 24 Million metric tonnes per year (1 x 2,000tph and 1 x 4,000tph) using 2 barge loading jetties. BR is currently upgrading the smaller barge loading facility from 2,000 tph to 4,000 tph; this is expected to be completed in the third quarter of 2017. BR is currently achieving approximately 1.4 million tonnes per month of barging from this barge loading facility.

PAKAR JORC RESOURCES AND RESERVES UPDATE

In 2016, the Company engaged PT. Runge Pincock Minarco to update JORC resources and reserves to JORC 2012 for its Pakar concessions. This work has now been completed. For further details including a reconciliation between previous JORC reports please refer to ASX announcement dated 12 September 2017.

BR / KRL TRANSACTION

As previously reported, the Company, in conjunction with its advisors, had identified a structure that would enable it to complete the December 2010 Sale and Purchase Agreement (as amended in April and June 2011). An update of this process is as follows:

- AU has clear and clean Status and has been upgraded to Production Status (IUP OP). During the period, BR commenced the process to convert AU to a Foreign Investment Status (PMA) company. The Company is closely monitoring this process;
- TA has clear and clean status however it is currently in the process of upgrading its permit from Exploration Stage (IUP Exploration) to Production Stage (IUP OP); this is expected to be completed by the end of 2017. Once this has been completed, the process to transfer TA to KRL will be commenced, the first step being BR obtaining approval to convert TA to a foreign investment status (PMA) company; and
- The clear and clean status for CA and BS is currently being impacted by the legal action concerning the overlap with a third party concession (see note 15 for update). Therefore, until this matter is resolved these concessions cannot be transferred to KRL. Once this matter is resolved CA and BS will be transferred to KRL using the structure outlined above.

**DIRECTORS REPORT
FOR THE HALF-YEAR ENDED 30 JUNE 2017**

Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 6.

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

A blue ink signature, likely of Mr Damien Henderson, consisting of several overlapping loops and strokes.

Mr Damien Henderson
Executive Director
12 September 2017



Auditor's Independence Declaration

As lead auditor for the review of Kangaroo Resources Limited for the half-year ended 30 June 2017, 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 review; and
- (b) no contraventions of any applicable code of professional conduct in relation to the review.

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

A handwritten signature in black ink, appearing to read "Ben Gargett", written in a cursive style.

Ben Gargett
Partner
PricewaterhouseCoopers

Perth
12 September 2017

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE HALF-YEAR ENDED 30 JUNE 2017**

		Consolidated	
		6 months ended	6 months ended
		30 June	30 June
		2017	2016
Note		\$	\$
Continuing operations			
	Revenue from continuing operations	41,255	73,761
	Other income	662,112	1,457,003
		703,367	1,530,764
Expenses			
	Operating expenses	(112,000)	(484,658)
	Administration expenses	(1,006,844)	(1,578,114)
	Finance costs	(1,631,784)	(1,861,801)
	Impairment expense	-	(50,568,444)
	Total expenses	(2,750,628)	(54,493,017)
	Loss before income tax	(2,047,261)	(52,962,253)
	Income tax benefit	-	12,890,369
	Loss from continuing operations	(2,047,261)	(40,071,884)
Other comprehensive loss			
	<i>Items that may be reclassified into profit or loss</i>		
	Exchange differences on translation of foreign operations	577,592	(763,877)
	Other comprehensive gain/(loss) for the year, net of tax	577,592	(763,877)
	Total comprehensive loss for the year	(1,469,669)	(40,835,761)
Loss for the year is attributable to:			
	Owners of the Company	(2,036,431)	(39,681,044)
	Non-controlling interests	(10,830)	(390,840)
		(2,047,261)	(40,071,884)
Total comprehensive loss for the year is attributable to:			
	Owners of the Company	(1,457,679)	(40,435,031)
	Non-controlling interests	(11,990)	(400,730)
		(1,469,669)	(40,835,761)
Loss per share attributable to the ordinary equity holders of the company:			
		Cents	Cents
	Basic and diluted loss per share from continuing operations	(0.06)	(1.16)

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

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2017**

		Consolidated	
		30 June	31 December
		2017	2016
Note		\$	\$
Current Assets			
		1,453,186	1,739,083
		612,754	790,364
	6	3,495,238	3,644,585
		5,561,178	6,174,032
Non-Current Assets			
		897,866	911,920
		40,117	67,469
	7	127,100,000	127,100,000
	8	3,822,939	3,820,040
	9	60,751,163	60,751,163
		192,612,085	192,650,592
		198,173,263	198,824,624
Current Liabilities			
		5,782,436	6,332,509
	10	32,642,320	31,251,264
		38,424,756	37,583,773
Non-Current Liabilities			
		673,846	696,521
	11	44,726,855	44,726,855
		45,400,701	45,423,376
		83,825,457	83,007,149
NET ASSETS			
		114,347,806	115,817,475
EQUITY			
Equity attributable to the equity holders of the parent			
		469,867,326	469,867,326
		2,097,370	1,518,618
		(358,480,399)	(356,443,968)
		113,484,297	114,941,976
		863,509	875,499
		114,347,806	115,817,475

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

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF-YEAR ENDED 30 JUNE 2017**

	Contributed Equity \$	Accumulated Losses \$	Reserves \$	Attributable to members of KRL \$	Non-controlling interest \$	Total Equity \$
Balance as at 1 January 2017	469,867,326	(356,443,968)	1,518,618	114,941,976	875,499	115,817,475
Loss attributable to members of KRL	-	(2,036,431)	-	(2,036,431)	(10,830)	(2,047,261)
Other comprehensive loss	-	-	578,752	578,752	(1,160)	577,592
Total comprehensive loss attributable to members of KRL	-	(2,036,431)	578,752	(1,457,679)	(11,990)	(1,469,669)
Balance as at 30 June 2017	469,867,326	(358,480,399)	2,097,370	113,484,297	863,509	114,347,806
Balance as at 1 January 2016	469,867,326	(313,997,076)	2,310,325	158,180,575	1,299,164	159,479,739
Loss attributable to members of KRL	-	(39,681,044)	-	(39,681,044)	(390,840)	(40,071,884)
Other comprehensive loss	-	-	(753,987)	(753,987)	(9,890)	(763,877)
Total comprehensive loss attributable to members of KRL	-	(39,681,044)	(753,987)	(40,435,031)	(400,730)	(40,835,761)
Balance as at 30 June 2016	469,867,326	(353,678,120)	1,556,338	117,745,544	898,434	118,643,978

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

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF-YEAR ENDED 30 JUNE 2017**

	Consolidated	
	6 months ended	6 months ended
	30 June	30 June
	2017	2016
	\$	\$
Cash flows from operating activities		
Payment to suppliers and employees (inclusive of GST and VAT)	(1,200,119)	(1,088,866)
Interest received	41,278	73,916
Net cash outflow from operating activities	(1,158,841)	(1,014,950)
Cash flows from investing activities		
Payments for exploration and evaluation assets	(2,954)	-
Net cash (outflow) inflow from investing activities	(2,954)	-
Cash flows from financing activities		
Proceeds from borrowings - related parties	765,226	1,011,596
Net cash inflow from financing activities	765,226	1,011,596
Net decrease in cash and cash equivalents	(396,569)	(3,354)
Cash and cash equivalents at beginning of financial year	1,739,083	2,406,355
Effect of exchange rate on cash held in foreign currencies	110,672	(102,092)
Cash and cash equivalents at end of period	1,453,186	2,300,909

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 30 JUNE 2017**

1. Basis of preparation of half-year report

This consolidated interim financial report for the half-year reporting period ended 30 June 2017 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

This condensed consolidated interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the period ended 31 December 2016 and any public announcements made by Kangaroo Resources Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except as set out below:

(a) New and amended standards adopted by the group

The group has applied the following standards and amendments for the first time for the current reporting period commencing 1 January 2017.

- AASB 2016-1 Amendments to Australian Accounting Standards
- AASB 2016-2 Amendments to Australian Accounting Standards
- AASB 2017-1 Amendments to Australian Accounting Standards

The adoption of these standards and interpretations did not have any material effect on the financial position or performance of the group.

(b) Impact of standards issued but not yet applied by the group

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2017 reporting periods and have not been early adopted by the group.

(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 group has assessed its financial assets and liabilities and 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 principles 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 principle 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) AASB16 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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 30 JUNE 2017**

There are no other standards that are not yet effective and that would be expected to have a material impact on KRL's financial statements.

(c) Going Concern

For the six months ended 30 June 2017, the Company incurred a total comprehensive loss of \$1,469,669 (six months ended 30 June 2016: \$40,835,761 loss), net cash outflows from operating activities of \$1,158,841 (six months ended 30 June 2016: \$1,014,950) and has a working capital deficiency of \$32,863,578 (31 December 2016: \$31,409,741). The group was advanced loans of \$765,226 by Bayan Resources (BR), the major shareholder of the Company, to fund operating cash flow (30 June 2016: \$1,011,596).

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

2. Segment information

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 reporting 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 Group has one reportable segment based on the operating and exploration assets in Indonesia. Unallocated results, assets and liabilities represent corporate accounts that are not core to the reportable segments.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 30 JUNE 2017**

(i) Segment performance

Revenue

Segment revenue

Segment result

Impairment Expense

Unallocated items

Other corporate revenue

Other corporate income and expenses

Net loss before tax from continuing operations

	6 months ended 30 June 2017 \$	6 months ended 30 June 2016 \$
Segment revenue	703,363	555,462
Segment result	(1,123,447)	(51,932,375)
Impairment Expense	-	(50,568,444)
Other corporate revenue	4	7
Other corporate income and expenses	(923,818)	(1,029,885)
Net loss before tax from continuing operations	(2,047,261)	(52,962,253)
	30 June 2017 \$	31 December 2016 \$

(ii) Segment assets

Mine properties & development

Exploration & evaluation expenditure

Other assets

Available-for-sale financial assets

Total Segment assets

Reconciliation of segment assets to group assets

Other corporate assets

Total Assets

(iii) Segment liabilities

Total segment liabilities

Reconciliation of segment liabilities

Deferred tax liability

Other corporate liabilities

Total Liabilities

Mine properties & development	127,100,000	127,100,000
Exploration & evaluation expenditure	3,822,939	3,820,040
Other assets	6,356,663	7,046,519
Available-for-sale financial assets	60,751,163	60,751,163
Total Segment assets	198,030,765	198,717,722
Other corporate assets	142,498	106,902
Total Assets	198,173,263	198,824,624
Total segment liabilities	9,764,677	28,157,802
Deferred tax liability	44,726,855	44,726,855
Other corporate liabilities	29,333,925	10,122,492
Total Liabilities	83,825,457	83,007,149



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 30 JUNE 2017**

3. Other Revenue

	Consolidated	
	6 months ended	6 months ended
	30 June	30 June
	2017	2016
	\$	\$
Gain on sale of fixed assets ¹	-	481,708
Foreign exchange gain	662,112	975,295
Total other income	662,112	1,457,003

1 During the half-year ending 30 June 2016, KRL through its subsidiary PT Sumber Api (SAU) sold property, plant and equipment to BR and PT Indonesia Pratama (IP) a subsidiary of BR. This was \$481,708 above its carrying value of \$15,630,769.

4. Expenses

	Consolidated	
	6 months ended	6 months ended
	30 June	30 June
	2017	2016
	\$	\$
(a) Operating expenses		
Employee costs	31,565	28,438
Depreciation	17,297	59,525
Repairs, maintenance and materials and rental	9,149	8,713
VAT expensed	8,384	8,544
Royalties	-	12,715
Other operating expenses	45,605	24,872
Total operating expenses	112,000	142,807
Inventory movement	-	341,851
	112,000	484,658
(b) Administration expenses		
Consultant expenses	223,578	212,599
Legal expenses	62,223	32,765
Directors fees & employee costs	460,102	660,345
Office rent	131,587	161,956
Travel and accommodation	3,794	2,718
Withholding tax expense	-	322,579
Other administration expenses	125,560	185,152
	1,006,844	1,578,114

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 30 JUNE 2017**



(c) Finance costs

Interest expense

Consolidated	
6 months ended	6 months ended
30 June	30 June
2017	2016
\$	\$
1,631,784	1,861,801
1,631,784	1,861,801

(d) Impairment expense

Impairment of mine properties and development

Impairment of available-for-sale financial assets

-	44,400,000
-	6,168,444
-	50,568,444

5. Income Tax Benefit

Deferred tax benefit relating to the origination and reversal of temporary differences

Total income tax benefit

Consolidated	
6 months ended	6 months ended
30 June	31 December
2017	2016
\$	\$
-	12,890,369
-	12,890,369

For the period ended 30 June 2016 Income tax benefit of \$12,890,369 arose from reductions in deferred tax liability relating to the impairment charges recorded against mine properties and development and assets available-for-sale financial assets.

6. Inventory

Coal stockpiles - at net realisable value

Other inventory - spare parts fuel etc.

Consolidated	
30 June	31 December
2017	2016
\$	\$
3,468,920	3,617,142
26,318	27,443
3,495,238	3,644,585

Write-downs of inventories to net realisable value recognised as an expense during the six months ended 30 June 2017 amounted to nil (6 months to 30 June 2016: \$264,494).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 30 JUNE 2017**

7. Mine Properties and Development

	Consolidated	
	30 June	31 December
	2017	2016
	\$	\$
Movements in Mine Properties and Development		
Carrying amount at start of period	127,100,000	171,500,000
Impairment	-	(44,400,000)
	127,100,000	127,100,000
Represented by:		
Pakar North	127,100,000	127,100,000
	127,100,000	127,100,000

Impairment of Mine Properties and Development

As at 30 June 2017 management considered the recoverable value of the mine properties and development assets at Pakar North Cash Generating Unit (CGU) incorporating PT Tanur Jaya (TJ) and PT Dermaga Energi (DE) and determined that despite the presence of impairment indicators the carrying value of these assets was deemed appropriate and that no impairment charges should be recognised (30 June 2016: \$44,400,000). 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 not changed significantly enough to warrant a major reduction in the outlook for long-term sales price assumptions. Management have maintained the majority of 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\$63/t (31 December 2016: US\$60/t) and increased to US\$64/t (31 December 2016: US\$67/t) by year 2026. From 2027 onwards this price was increased annually by the inflation rate of 2.5% (31 December 2016: 2.5%) (Benchmark sales price is discounted and adjusted to average actual calorific value sold). A post-tax nominal discount rate of 12.6% (31 December 2016: 13.1%) was applied. A 25% (31 December 2016: 25%) discount was applied to net cash flows from 2024 to take into consideration the impact of foreign ownership divestment legislation.

Aa at 31 December 2016 the Pakar North CGU was impaired from its carrying value of \$171,500,000 to \$127,100,000 (impairment charge of \$44,400,000). This was mainly due to a change in the average benchmark sales price assumption which for year 2026 had decreased from the prior year's assumption of US\$80/t down to US\$67/t.

Sensitivities

Had Pakar North applied a discount rate that was 10% higher / 10% lower than the 12.6% applied (i.e. 13.9% or 11.3%) than the following fair values would have resulted:

Discount Sensitivity	+10%	Carrying Value	-10%
Mine properties and development	118,024,293	127,100,000	139,516,315

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 30 JUNE 2017**

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	201,853,227	127,100,000	54,346,491

The carrying value of PT Mamahak Coal Mining (MCM) at 31 December 2016 was nil and management believe this value still to be appropriate at 30 June 2017.

8. Exploration and Evaluation Expenditure

	Consolidated	
	30 June	31 December
	2017	2016
	\$	\$
Costs carried forward in respect of areas of interest in exploration phase - at cost		
Balance at beginning of the year	3,820,040	3,818,343
Additions	2,899	1,697
Carrying amount at end of year	3,822,939	3,820,040

As at 30 June 2017 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 2016: nil).

9. Available for Sale Financial Assets

	Consolidated	
	30 June	31 December
	2017	2016
	\$	\$
Opening Balance	60,751,163	67,912,637
Impairment	-	(6,168,444)
Foreign Exchange	-	(993,030)
Closing Balance	60,751,163	60,751,163
Represented by:		
Tiwa Abadi (TA), Apira Utama (AU), Bara Sejati (BS) and Cahaya Alam (CA)	47,989,079	47,989,079
Graha Panca Karsa (GPK)	12,762,084	12,762,084
	60,751,163	60,751,163

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 30 JUNE 2017**

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, consisting of ten Indonesian entities. As at the balance date, four of the entities (TA, AU, BS and CA) 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.

GPK is currently held under a nominee structure and is also awaiting government sign-off and conversion to a Indonesian PMA 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. 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 Consolidated Statement of Financial Position.

Impairment of Available-for-sale Financial Assets

As at 30 June 2017 management considered the recoverable value of the Available-for-sale financial assets relating to PT Apira Utama (AU), PT Bara Sehati (BS) and PT Cahaya Alam (CA) and determined that there was no objective evidence of impairment indicated. Therefore, the carrying value of these assets was deemed appropriate and no impairment charges have been recognised (31 December 2016: \$700,000).

As at 30 June 2017 TA's carrying value was again based on a range of valuations associated with reasonably possible outcomes. Due to varying reasons including lower discount rate, partly offset by higher Australian-United States dollar exchange rate and marginal decreases in the coal price outlook, TA's fair value resulted in a range of \$33m to \$65m, up from 2016. Management used the same methodology as 2016 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) it was \$63/t and increased to \$64/t by year 2026. From 2027 onwards this price was increased annually by the inflation rate of 2.5%. The discount rate decreased from 13.1% in 2016 to 12.6% and the Australian-United States dollar exchange rate increased from \$0.72 to \$0.75 as at 30 June 2017.

Given that TA's valuation range has only increased marginally from 2016, management have determined that that there was no objective evidence of impairment indicated. Therefore, TA's carrying value was deemed appropriate and no impairment or reversal was necessary.

As at 30th June 2017 management considered the carrying value of GPK and determined that there was no objective evidence of impairment indicated. Management used the same methodology as 2016 with regards to discount cash flow modelling using the same assumptions as TA.

10. Borrowings

	Consolidated 30 June 2017 \$	Consolidated 31 December 2016 \$
Loans from PT Bayan Resources Tbk		
Opening balance	31,251,264	42,919,105
Loan advanced	765,226	1,859,212
Loan repayments ¹	-	(16,165,808)
Interest charged and capitalised	1,631,784	3,017,875
Foreign exchange revaluation	(1,005,954)	(379,120)
Closing balance	32,642,320	31,251,264

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 30 JUNE 2017**

11. Deferred Tax Liability

	Consolidated	
	30 June	31 December
	2017	2016
	\$	\$
The balance comprises temporary differences attributable to:		
Available-for-sale financial assets	11,997,269	11,997,269
Exploration and evaluation expenditure	954,586	954,586
Mine properties and development	31,775,000	31,775,000
	44,726,855	44,726,855

12. Related Parties

During the 6 months ended 30 June 2016 the Company sold the infrastructure assets of its subsidiary PT Sumber Aset Utama to PT Bayan Resources Tbk for \$8,649,190 (\$6,344,458 USD) and PT Indonesia Pratama a subsidiary of PT Bayan Resources for \$7,710,014 (\$5,655,542 USD). The resolution for the approval of this transaction was put to eligible shareholders at a general meeting on the 29 April 2016, who voted in favour of the transaction.

Interest expense totalling \$1,631,784 was incurred on BR related loans during the half-year (Half-year ended 30 June 2016: \$1,861,801). The average interest rate for the half-year was 11.32% (Half-year ended 30 June 2016: 10.84%).

The Company was charged \$143,198 by BR for Russell Neil's Managing Director secondment fees (half-year ended 2016: \$24,203).

The Company was charged \$166,773 by PT Nirmala Matranusa a related party to PT Bayan Resources Tbk for office rental and associated expenses (Half-year ended 30 June 2016: \$172,493).

The Company was charged \$54,000 by Corporate Consultants Pty Ltd for administration, accounting and company secretarial services (Half-year ended 30 June 2016: \$54,000). Mr Susmit Shah's directors fees were paid to Corporate Consultants Pty Ltd.

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

Refer to note 10 for details of balances outstanding to BR and movements in relation to transactions with BR during the half-year.

13. Commitments and Contingencies

There were no new capital commitments other than those that existed as at 31 December 2016 that the Group has entered into during the period under review.

14. Dividends

No dividend has been paid during the period and no dividend is recommended for the period.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 30 JUNE 2017**

15. Events occurring after the reporting period

As mentioned in the June 2017 Quarterly Activities Report lodged with the ASX on 31 July 2017 KRL through its Indonesian subsidiaries were involved in a legal action concerning the overlap of five of the Company's coal concessions (DE, OM, SA, CA and BS) with a third-party coal company PT.Senyur Sukses Pratama (SSP).

On 18th August 2017, the Jakarta High Court held on appeal that SSP had committed a fatal procedural flaw by filing its legal suit against the provincial government of East Kalimantan beyond the 90 days from cause of action allowed under Indonesian law. That procedural flaw cannot be cured and as such the April 2017 decision of the District Administrative Court in Samarinda in favour of SSP finding the instruction by the East Kalimantan government requiring SSP to relinquish certain overlapping areas as invalid was set aside and costs awarded against SSP.

In this regard, the net result of the Jakarta High Court's decision is that the Company's rights to the overlapped portions of our concessions have been confirmed.

On the 30th August 2017 SSP appealed against the decision of the Jakarta High Court to the Supreme Court of Indonesia.

No other 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.

**DIRECTORS' DECLARATION
FOR THE HALF-YEAR ENDED 30 JUNE 2017**

Directors Declaration

In the director's opinion:

- (a) the financial statements and notes set out on pages 7 to 20 are in accordance with the *Corporations Act 2001*, including:
 - i. complying with 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 30 June 2017 and of its performance for the half-year ended on that date, and
- (b) there are reasonable grounds to believe that Kangaroo Resources Limited will be able to pay its debts as and when they become due and payable.

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



Mr Damien Henderson
Executive Director
Brisbane, Australia

12 September 2017

Independent auditor's review report to the members of Kangaroo Resources Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Kangaroo Resources Limited (the Company), which comprises the consolidated statement of financial position as at 30 June 2017, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration for the Kangaroo Resources Limited Group (the consolidated entity). The consolidated entity comprises the Company and the entities it controlled during that half-year.

Directors' responsibility for the half-year financial report

The directors of the Company are responsible for the preparation of the half-year 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 half-year financial report that is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the consolidated entity's financial position as at 30 June 2017 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Kangaroo Resources Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

PricewaterhouseCoopers, ABN 52 780 433 757

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Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Kangaroo Resources Limited is not in accordance with the *Corporations Act 2001* including:

1. giving a true and fair view of the consolidated entity's financial position as at 30 June 2017 and of its performance for the half-year ended on that date;
2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

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

PricewaterhouseCoopers

A handwritten signature in cursive script that appears to read 'Ben Gargett'.

Ben Gargett
Partner

Perth
12 September 2017