KANGAROO RESOURCES LIMITED

ABN 38 120 284 040

INTERIM FINANCIAL REPORT
FOR THE HALF-YEAR ENDED 30 JUNE 2018

Kangaroo Resources Limited

CONTENTS

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 year ended 31 December 2017 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*.

DIRECTORS REPORT
FOR THE HALF-YEAR ENDED 30 JUNE 2018

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 2018.

Directors

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

Trevor Butcher
David Low Yi Ngo
Susmit Shah
Damien Henderson
Darcy Wentworth
Alexander Wibowo [1]

[1] On the 21st of March 2018 Mr Alexander Wibowo was appointed as managing director (effective 1 April 2018).

2018 HALF-YEAR REVIEW

Results and Review of Operations

The loss from continuing operations for the Group for the half-year ended 30 June 2018 was $2,919,809 (30 June 2017 loss of $2,047,261), whilst the total comprehensive loss was $63,433 (30 June 2017: $1,469,669).

This comprehensive loss was driven by the following factors:

Revenue $6,006,442
Revenue of $6,006,442 was predominately made up of the Mamahak Coal Mining (MCM) coal sale to Bayan Resources (BR) (See notes 3 and 12).

Operating Expenses $(4,060,980)
Operating expenditure of $(4,060,980) was made up of the expenditure associated with the sale of MCM coal including the expensing of the coal inventory, coal terminal charges and royalties.

Administrative Expenses $(865,221)
Administrative expenditure of $(865,221) includes consultancy fees, legal fees, director's fees and other general and administrative expenditure.

Finance Costs $(1,215,005)
Finance costs of $(1,215,005) represents interest charges on the Company's borrowings with PT Bayan Resources (BR).

Foreign Exchange Loss $(2,085,576)
Foreign exchange loss of $(2,085,576) represents losses incurred on the revaluation of USD denominated borrowings.

Income Tax Expense $(699,469)
Income tax expense of $(699,469) relates to income tax paid though KRL's subsidiary MCM after the sale of MCM coal to BR.

Other Comprehensive Income - Income Tax Expense $(918,746)
Income tax expense of $(918,746) related to increases in the deferred tax liability associated with the movements in the carrying value of financial assets at fair value through other comprehensive income associated with Pakar. The financial assets at fair value through other comprehensive income increased due to foreign currency revaluations.

Other Comprehensive Income - Exchange differences $3,775,122
Exchange differences of $3,674,984 were mainly due to foreign exchange gains arising from revaluation of "Financial assets" associated with Pakar and GPK and exchange differences on translation of foreign operations $100,136.

The Newcastle Benchmark coal price has continued to trade strongly at just over US$100 per tonne through most of the first half of 2018, providing confidence in the coal sector in Indonesia.

Pakar Coal Project [PT Tiwa Abadi (TA), PT Apira Utama (AU), PT Bara Sejati (BS), PT Cahaya Alam (CA), PT Orkida Makmur (OM), PT Tanur Jaya (TJ), PT Dermaga Energi (DE), PT Silau Kencana (SK) and PT Sumber Api (SA)]

The Company initially received approval for its exploration Pinjam Pakais' at TA and TJ from the Department of Minerals and Coal (Minerba) in Q4 2017. Following submission to the Ministry of Forestry via the Foreign Investment Coordinating Board / Badan Koordinasi Penanaman Modal (BKPM), the final grant of exploration Pinjam Pakais' for both concessions was completed in June 2018.

Granting of these permits allows the Company to undertake exploration works in those parts of the concessions currently covered by forestry area. For TA this is 1,517 hectares or approximately 30% of the total concession area and for TJ this is 5,000 hectares or 100% of the total concession area. The Company has appointed a drilling contractor, PT Noras Nusantara for a 5-month contract. The drilling program will initially concentrate on the non-Pinjam Pakai area of TA and then subsequently move into the recently granted Pinjam Pakai areas of TA and TJ. The drill program will commence in the third quarter of 2018.

As a prelude to the drilling program and ultimately bringing the concession into production, the Company continues to compensate land on the TA concession. Approximately 35% of the total concession area of 4,996 hectares have been compensated to date with further land compensation activities continuing into the remainder of 2018, 2019 and 2020 for TA. TJ and DE.

A permit was granted in May 2018, converting the non-forestry portion of the TA project area to production status. The Company will apply for upgrading the TJ permit to production status once feasibility studies and AMDAL are completed. The Company has appointed a local consultant to conduct a feasibility study and AMDAL for TJ's production status, with these studies expected to be concluded in the fourth quarter of 2018.

Five of the Company's coal concessions in this area (DE, OM, SA, CA and BS) had an overlap with a third-party coal company, PT. Senyiur Sukses Pratama ("SSP"). Following various legal processes, the Supreme Court of Indonesia rendered its enforceable judgment during the Half-Year, the consequence of which was to rule in favour of the Company. DE, SA, CA and BS have been issued a recommendation for grant of Clear and Clean status by the Ministry of Energy and Mineral Resources, which is now in progress, whereas OM had already been granted Clear and Clean Status.

GPK Coal Project

A successful drill program in 2017 (42 drill holes totalling 1,858 metres) inside the Pinjam Pakai area confirmed the results of previous exploration at GPK in that the seams are continuous and retain similar coal quality characteristics.

Consequently, during the Half-Year, the Company has continued the process of making an application for an exploration Pinjam Pakai to undertake a follow up drill program into areas which are currently not the subject of Pinjam Pakai to evaluate the extent of further mineralisation.

Bathymetric survey results indicate that utilising 300' barges along this route would not be possible all year round. The Company is investigating the suitability of using smaller barges (180' and/or 230') as well as the possibility of dredging critical locations to improve the reliability of any future barging operations. The Company will also consider the economics of extending the coal haul road to bypass these critical spots on the river.

Mamahak Coal Project

Mining operations remain suspended. Resumption of mining activity at Mamahak remains dependent on further improvements in coal markets and establishing a more reliable logistics route for coal sales.

Project Infrastructure

The Company has rights to utilise 30% of parent company, BR's haul road and barge loading capacity at Senyiur through an Access Agreement. Bayan's haul road passes either through or near to the majority of the Company's concessions in Pakar.

During the Half-Year, Bayan has continued to asphalt its 69km haul road to improve its all-weather performance. This program will continue throughout 2018 and is targeted to be completed in 2019. Bayan also continues to make various upgrades to its infrastructure for the Tabang Mine (adjoining Pakar), the consequence of which should be to lift the overall capacity at Senyiur to approximately 30 million metric tonnes per year in the near term.

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.

Mr Alexander Wibowo
Managing Director
7 September 2018

pwc

Auditor's Independence Declaration

As lead auditor for the audit of Kangaroo Resources Limited for the half-year ended 30 June 2018, 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 period.

Helen Bathurst

Helen Bathurst
Partner
PricewaterhouseCoopers

Perth
7 September 2018

PricewaterhouseCoopers, ABN 52 780 433 757
Brookfield Place, 125 St Georges Terrace, PERTH WA 6000, GPO Box D198, PERTH WA 6840
T: +61 8 9238 3000, F: +61 8 9238 3999, www.pwc.com.au

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE HALF-YEAR ENDED 30 JUNE 2018

	Note	Consolidated 6 months ended 30 June 2018 $	 6 months ended 30 June 2017 $
Continuing operations			
Revenue from continuing operations	3	6,006,442	41,255
Foreign exchange gain	3	-	662,112
		6,006,442	703,367
Expenses			
Operating expenses	4	(4,060,980)	(112,000)
Administration expenses	4	(865,221)	(1,006,844)
Finance costs	4	(1,215,005)	(1,631,784)
Foreign exchange loss	4	(2,085,576)	-
Total expenses		(8,226,782)	(2,750,628)
Loss before income tax		(2,220,340)	(2,047,261)
Income tax expense	5	(699,469)	-
Loss from continuing operations		**(2,919,809)**	**(2,047,261)**
Other comprehensive income			
Items that will not be reclassified into profit or loss			
Unrealised foreign exchange gain on financial assets at fair value through other comprehensive income		3,674,984	-
Income tax expense		(918,746)	-
Items that may be reclassified into profit or loss			
Exchange differences on translation of foreign operations		100,138	577,592
Other comprehensive gain/(loss) for the period, net of tax		2,856,376	577,592
Total comprehensive loss for the period		**(63,433)**	**(1,469,669)**
Loss for the period is attributable to:			
Owners of the Company		(2,899,164)	(2,036,431)
Non-controlling interests		(20,645)	(10,830)
		(2,919,809)	**(2,047,261)**
Total comprehensive loss for the period is attributable to:			
Owners of the Company		(43,174)	(1,457,679)
Non-controlling interests		(20,259)	(11,990)
		(63,433)	**(1,469,669)**
Loss per share attributable to the ordinary equity holders of the company:		Cents	Cents
Basic and diluted loss per share from continuing operations		(0.08)	(0.06)

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

Kangaroo Resources Limited

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2018

	Note	Consolidated 30 June 2018 $	Consolidated 31 December 2017 - Restated $
Current Assets			
Cash & cash equivalents		1,135,230	1,304,851
Trade & other receivables		612,575	846,856
Inventory	6	33,955	3,384,900
Total Current Assets		**1,781,760**	**5,536,607**
Non-Current Assets			
Receivables		295,977	285,120
Property, plant & equipment		23,355	24,189
Mine properties & development	7	127,100,000	127,100,000
Exploration & evaluation expenditure	8	3,837,366	3,837,411
Financial assets at fair value through other comprehensive income	9	66,960,304	60,535,282
Total Non-Current Assets		**198,217,002**	**191,782,002**
TOTAL ASSETS		**199,998,762**	**197,318,609**
Current Liabilities			
Trade & other payables		6,240,047	5,102,593
Borrowings	10	35,173,834	34,484,955
Total Current Liabilities		**41,413,881**	**39,587,548**
Non-Current Liabilities			
Provisions		640,050	641,543
Deferred tax liabilities	11	45,504,830	44,586,084
Total Non-Current Liabilities		**46,144,880**	**45,227,627**
TOTAL LIABILITIES		**87,558,761**	**84,815,175**
NET ASSETS		**112,440,001**	**112,503,434**
EQUITY			
Equity attributable to the equity holders of the parent			
Issued capital		469,867,326	469,867,326
Reserves		(45,019,118)	(47,875,108)
Accumulated losses		(313,240,875)	(310,341,711)
Capital & reserves attributable to owners of Kangaroo Resources Limited		111,607,333	111,650,507
Non-controlling interest		832,668	852,927
TOTAL EQUITY		**112,440,001**	**112,503,434**

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

See note 1(c) (i) for details regarding the restatement as a result of change in accounting policy.

Kangaroo Resources Limited

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF-YEAR ENDED 30 JUNE 2018

	Issued Capital $	Accumulated Losses $	Reserves $	Attibutable to members of KRL $	Non-controlling interest $	Total Equity $
Balance as at 1 January 2018 - Restated	469,867,326	(310,341,711)	(47,875,108)	111,650,507	852,927	112,503,434
Loss attributable to members of KRL	-	(2,899,164)	-	(2,899,164)	(20,645)	(2,919,809)
Other comprehensive income	-	-	2,855,990	2,855,990	386	2,856,376
Total comprehensive loss attributable to members of KRL	-	(2,899,164)	2,855,990	(43,174)	(20,259)	(63,433)
Balance as at 30 June 2018	469,867,326	(313,240,875)	(45,019,118)	111,607,333	832,668	112,440,001

	Issued Capital $	Accumulated Losses $	Reserves $	Attibutable to members of KRL $	Non-controlling interest $	Total Equity $
Balance as at 1 January 2017 - Restated	469,867,326	(307,011,809)	(47,913,541)	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 income	-	-	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	(309,048,240)	(47,334,789)	113,484,297	863,509	114,347,806

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

See note 1(c) (i) for details regarding the restatement as a result of change in accounting policy.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF-YEAR ENDED 30 JUNE 2018

	Consolidated	
	6 months ended 30 June 2018	6 months ended 30 June 2017
	$	$
Cash flows from operating activities		
Payment to suppliers and employees (inclusive of GST and VAT)	(1,044,824)	(1,200,119)
Interest received	29,745	41,278
Net cash outflow from operating activities	(1,015,079)	(1,158,841)
Cash flows from investing activities		
Payments for exploration and evaluation assets	(2,480,694)	(2,954)
Net cash outflow from investing activities	(2,480,694)	(2,954)
Cash flows from financing activities		
Proceeds from borrowings - related parties	3,076,023	765,226
Net cash inflow from financing activities	3,076,023	765,226
Net decrease in cash and cash equivalents	(419,750)	(396,569)
Cash and cash equivalents at beginning of period	1,304,851	1,739,083
Effect of exchange rate on cash held in foreign currencies	250,129	110,672
Cash and cash equivalents at end of period	1,135,230	1,453,186

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

1. Basis of preparation of half-year report

This condensed consolidated interim financial report of Kangaroo Resources Limited (the “Company” or “KRL”) and its controlled entities (together referred to as the “Group”) for the half-year reporting period ended 30 June 2018 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 year ended 31 December 2017 and any public announcements made by the Company 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 for the adoption of new and amended standards as set out below:

(a) New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period and the Group had to change its accounting policies and make retrospective adjustments as a result of adopting the following standards:

- AASB 9 Financial Instruments, and
- AASB 15 Revenue from Contracts with Customers.

The impact of the adoption of these standards and the new accounting policies are disclosed in note 1(c) below.

The adoption of other applicable standards, amendments and interpretations did not have any material effect on the Group’s financial position or performance.

(b) Standards issued but not yet applied by the Group

The following new accounting standard has been published that is not mandatory for 30 June 2018 reporting periods and has not been early adopted by the Group:

AASB 16 Leases (Effective 1 January 2019)
AASB 16 was issued in February 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change. The standard will affect primarily the accounting for the Group’s operating leases.

Given that KRL has no material lease commitments, 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 have a material impact on KRL’s financial statements.

(c) Impact on adoption of new standards and changes in accounting policies

This note explains the impact of the adoption of AASB 9 *Financial Instruments* and AASB 15 *Revenue from Contracts with Customers* on the Group’s condensed consolidated interim financial report and also discloses the new accounting policies that have been applied from 1 January 2018, where they are different to those applied in prior periods.

(i) AASB 9 Financial Instruments - Impact on adoption
AASB 9 replaces the provisions of AASB 139 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. The retrospective adoption of AASB 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policies and adjustments to the comparative amounts recognised in the financial statements.

The new accounting policies are set out in note 1(c)(ii) below. Adjustments to the comparative amounts recognised in the financial statements pertain to:

Available-for-sale financial assets
The Group elected to present in other comprehensive income (OCI), changes in the fair value of all its equity investments previously classified as available-for-sale, because these investments are held as long-term strategic investments that are not expected to be sold in the short to medium term. As a result, assets with a fair value of $60,535,282 as at 31 December 2017 (31 December 2016: $60,751,163) were reclassified from available-for-sale financial assets to financial assets at fair value through other comprehensive income (FVOCI) and the related impairment losses of $37,434,889 and deferred tax expenses of $11,856,499 as at 31 December 2017 (31 December 2016: impairment losses of $37,434,889 and net deferred tax expenses of $11,987,270) were reclassified from accumulated losses to the FVOCI reserve.

The following tables show the adjustments recognised and restated amounts for each individual line item affected as at 1 January 2018 and 1 January 2017:

	31 December 2017 As originally presented $	AASB 9 adjustment $	1 January 2018 Restated $
Available-for-sale financial assets	60,535,282	(60,535,282)	-
Financial assets at FVOCI	-	60,535,282	60,535,282
Foreign currency translation reserve	94,990	-	94,990
Transactions with non-controlling interests reserve	1,321,290	-	1,321,290
FVOCI reserve	-	(49,291,388)	(49,291,388)
Reserves	1,416,280	(49,291,388)	(47,875,108)
Accumulated losses	(359,633,099)	49,291,388	(310,341,711)

	31 December 2016 As originally presented $	AASB 9 adjustment $	1 January 2017 Restated $
Available-for-sale financial assets	60,751,163	(60,751,163)	-
Financial assets at FVOCI	-	60,751,163	60,751,163
Foreign currency translation reserve	197,328	-	197,328
Transactions with non-controlling interests reserve	1,321,290	-	1,321,290
FVOCI reserve	-	(49,432,159)	(49,432,159)
Reserves	1,518,618	(49,432,159)	(47,913,541)
Accumulated losses	(356,443,968)	49,432,159	(307,011,809)

(ii) AASB 9 Financial Instruments – Accounting policies applied from 1 January 2018

Other financial assets

Classification:
From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value, and
- those to be measured at amortised cost.

The classification depends on whether the financial asset is an equity instrument or a debt instrument, the Group's business model for managing the financial assets and the contractual terms of the cash flows.

Measurement:
At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Equity instruments
The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in other gains/(losses) in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

Debt instruments
Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses), together with foreign exchange gains and losses. Impairment losses are presented as separate line item in profit or loss.

- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in profit or loss.

- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

Impairment:
From 1 January 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by AASB 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

(iii) AASB 15 Revenue from Contracts with Customers - Impact on adoption
The Group has adopted AASB 15 *Revenue from Contracts with Customers* from 1 January 2018 which resulted in changes in accounting policies. The new accounting policies are set out in note 1(c)(iv) below. Given that KRL is predominately involved in exploration and development, the adoption of this standard and its retrospective application did not result in any adjustments to the comparative amounts recognised in the financial statements.

(iv) AASB 15 Revenue from Contracts with Customers – Accounting policies applied from 1 January 2018

<u>Revenue from contracts with customers</u>

Revenue from contracts with customers is recognised when a customer obtains control of the promised asset and the Group satisfies its performance obligations under the contract. Revenue is allocated to each performance obligation. The Group considers the terms of the contract in determining the transaction price. The transaction price is based upon the amount the entity expects to be entitled to in exchange for the transferring of promised goods.

The Group earns revenue from contracts with customers related to its coal sales arrangements. The Group satisfies its performance obligations for its coal sales based upon specified contract terms, which are generally when coal is transferred to the vessel on which it will be shipped. Revenue from coal sales is recorded based upon forward market prices of the expected final sales date. Certain coal sales arrangements allow for an adjustment to the sales price based on a survey of the coal by the customer (an assay for calorific value and certain other criteria). Accordingly, initial consideration received is considered variable and recognised using the most recently determined estimate of the product specifications and subsequently adjusted, if necessary, based on the results of the survey of the coal by the customer.

(d) Going Concern

For the six months ended 30 June 2018, the Company incurred a total comprehensive loss of $63,433 (six months ended 30 June 2017: $1,469,669 loss), net cash outflows from operating activities of $1,015,079, (six months ended 30 June 2017: $1,158,841) and has a working capital deficiency of $39,632,121 (31 December 2017 $34,050,941). The group was advanced loans of $3,076,023 by Bayan Resources (BR), the major shareholder of the Company, to fund operating cash flow (30 June 2017: $765,226).

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.

	6 months ended 30 June 2018 $	6 months ended 30 June 2017 $
(i) Segment performance		
Revenue		
Segment revenue	6,006,438	703,363
Segment result	(688,853)	(1,123,447)
Unallocated items		
Other corporate revenue	4	4
Other corporate income and expenses	(1,531,491)	(923,818)
Net loss before tax from continuing operations	**(2,220,340)**	**(2,047,261)**

	30 June 2018 $	31 December 2017 $
(ii) Segment assets		
Mine properties & development	127,100,000	127,100,000
Exploration & evaluation expenditure	3,837,366	3,837,411
Other assets	2,075,274	5,727,824
Financial assets at fair value through other comprehensive income	66,960,304	60,535,282
Total segment assets	199,972,944	197,200,517
Reconciliation of segment assets to group assets		
Other corporate assets	25,818	118,092
Total Assets	**199,998,762**	**197,318,609**
(iii) Segment liabilities		
Total segment liabilities	14,258,354	9,862,997
Reconciliation of segment liabilities		
Deferred tax liability	45,504,830	44,586,084
Other corporate liabilities	27,795,577	30,366,094
Total Liabilities	**87,558,761**	**84,815,175**

3. Revenue

	Consolidated	
	6 months ended 30 June 2018 $	6 months ended 30 June 2017 $
(a) Revenue from continuing operations		
Coal Sales [1]	5,976,557	-
Interest revenue	29,885	41,255
	6,006,442	41,255
(b) Foreign exchange gain		
Foreign exchange gain	-	662,112
	-	662,112

1 During the half-year ending 30 June 2018, KRL through its subsidiary PT Mamahak Coal Mining (MCM) sold coal to BR. The coal sale sale was subject to shareholder approval as it was a related party transaction (see note 12).

4. Expenses

	Consolidated	
	6 months ended 30 June 2018 $	6 months ended 30 June 2017 $
(a) Operating expenses		
Employee costs	29,676	31,565
Depreciation	2,023	17,297
Repairs, maintenance and materials and rental	2,422	9,149
VAT expensed	8,088	8,384
Coal terminal charges	242,470	-
Royalties	362,133	-
Other operating expenses	34,233	45,605
	681,045	112,000
Inventory movement	3,379,935	-
	4,060,980	112,000

	Consolidated	
	6 months ended 30 June 2018 $	6 months ended 30 June 2017 $
(b) Administration expenses		
Consultant expenses	244,096	223,578
Legal expenses	34,813	62,223
Directors fees & employee costs	305,542	460,102
Office rent	76,842	131,587
Travel and accommodation	26,853	3,794
Other administration expenses	177,075	125,560
	865,221	1,006,844
(c) Finance costs		
Interest expense	1,215,005	1,631,784
	1,215,005	1,631,784
(d) Foreign exchange loss		
Foreign exchange loss	2,085,576	-
	2,085,576	-

5. Income Tax Expense

	Consolidated	
	6 months ended 30 June 2018 $	6 months ended 30 June 2017 $
Current tax expense - recognised in profit and loss	699,469	-
Deferred tax expense relating to the origination and reversal of temporary differences recognised in other comprehensive income	918,746	-
Total income tax expense	1,618,215	-

For the period ended 30 June 2018 deferred tax expense of $918,746 arose from increases in deferred tax liability relating to foreign currency translation increases in financial assets at fair value through other comprehensive income. Current tax expense of $699,469 arose on profit reported by KRL subsidiary MCM.

6. Inventory

	Consolidated	
	30 June 2018 $	31 December 2017 $
Coal stockpiles - at net realisable value	-	3,359,413
Other inventory - spare parts fuel etc.	33,955	25,487
	33,955	3,384,900

Reduction in coal stockpile due to KRL through its subsidiary PT Mamahak Coal Mining (MCM) selling coal to BR (see notes 3 and 12).

7. Mine Properties and Development

	Consolidated	
	30 June 2018 $	31 December 2017 $
Movements in Mine Properties and Development		
Carrying amount	127,100,000	127,100,000
	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 2018 management has not performed an impairment assessment on the carrying value of its mine properties and development assets due to the fact that there were no indicators of impairment. Management took into consideration external indicators including long-term average benchmark sales price outlook for 6,322 GAR coal which increased. The sales price assumptions have increased for every production year forecasted in our discounted cash flow modelling.

8. Exploration and Evaluation Expenditure

	Consolidated	
	30 June 2018 $	31 December 2017 $
Costs carried forward in respect of areas of interest in exploration phase - at cost		
Carrying amount	3,837,366	3,837,411
	3,837,366	3,837,411

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.

As at 30 June 2018 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.

9. Financial Assets at Fair Value through Other Comprehensive Income

	Consolidated	
	30 June 2018	31 December 2017
	$	$
Opening balance	60,535,282	60,751,163
Additions	2,750,038	347,204
Foreign exchange	3,674,984	(563,085)
Closing balance	66,960,304	60,535,282
Represented by:		
Tiwa Abadi, Apira Utama, Bara Sejati and Cahaya Alam	51,274,607	45,813,234
Graha Panca Karsa	15,685,697	14,722,048
	66,960,304	60,535,282

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 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. Further to this GPK is currently held by a nominee company and also requires government sign-off and conversion to PMA. 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 financial assets at fair value through other comprehensive income 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.

Fair value of financial assets at fair value through other comprehensive income

As at 30 June 2018 management assessed the fair value of its financial assets at fair value through other comprehensive income. Management took the view that the current carrying value of these assets represents fair value because the current carrying value of these assets has mainly been derived in prior years using future cash flows and no observable data indicates a significant increase or decrease in this carrying value. In arriving at this conclusion, management has also taken into account that these entities are not operational and there has been not been any change in budgets, plans, expected technical milestones or regulations since their last valuation.

Further to this with regards to GPK, management also considered the impact of the PT Seacape Surveys Indonesia bathymetric surveys carried out in 2017. The Company is assessing the economics of bypassing a portion of these critical points by having a longer truck haul, dredging these locations or a combination of both. Management does not believe that this would indicate a decrease in estimated future cash flows at this point, as we are still assessing the economics of alternatives and the fact that the long-term average benchmark sales price for 6,322 kcal/kg coal has increased for every production year forecasted in our discounted cash flow modelling.

10. Borrowings

	Consolidated	
	30 June 2018	31 December 2017
	$	$
Loans from PT Bayan Resources Tbk		
Opening balance	34,484,955	31,251,264
Loan advanced	3,076,023	2,112,462
Loan repayments [1]	(5,734,089)	-
Interest charged and capitalised	1,215,005	3,419,692
Foreign exchange revaluation	2,131,940	(2,298,463)
Closing balance	35,173,834	34,484,955

1 Net proceeds from KRL through its subsidiary PT Mamahak Coal Mining (MCM) selling coal to BR after deduction of coal terminal charges (see notes 3 and 12).

11. Deferred Tax Liability

	Consolidated	
	30 June 2018	31 December 2017
	$	$
The balance comprises temporary differences attributable to:		
Financial assets at fair value through other comprehensive income	12,775,244	11,856,498
Exploration and evaluation expenditure	954,586	954,586
Mine properties and development	31,775,000	31,775,000
	45,504,830	44,586,084

12. Related Parties

During the half-year ending 30 June 2018, KRL through its subsidiary PT Mamahak Coal Mining (MCM) sold coal to PT Bayan Resources Tbk for $5,976,557 ($4,619,970 USD). The resolution for the approval of this transaction was put to eligible shareholders at a general meeting on the 25 May 2018, who voted in favour of the transaction.

Interest expense totalling $1,215,005 was incurred on BR related loans during the half-year (half-year ended 30 June 2017: $1,631,784). The average interest rate for the half-year was 6.84% (half-year ended 30 June 2017: 11.32%).

The Company was charged $42,690 by BR for Alexander Wibowo's Managing Director secondment fees (half-year ended 30 June 2017: nil) For the half-year ending 30 June 2017 the Company was charged $143,198 by BR for Russell Neil's Managing Director secondment fees.

The Company was charged $160,000 by PT Nirmala Matranusa a related party to PT Bayan Resources Tbk for office rental and associated expenses (half-year ended 30 June 2017: $166,773).

The Company was charged $69,000 by Corporate Consultants Pty Ltd for administration, accounting and company secretarial services (half-year ended 30 June 2017: $54,000). Mr Susmit Shah's director's fees were paid to Corporate Consultants Pty Ltd.

Mr Susmit Shah is a director and stakeholder 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 2017 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.

15. Events occurring after the reporting period

On the 17th of August 2018, KRL announced that it had entered into a binding Scheme of Implementation (SID) with its majority shareholder Bayan Resources (BR). The SID provides that BR will acquire all issued shares in KRL that it doesn't already hold, by way of an Australian Court approved Scheme of Arrangement, for an offer consideration of $0.15 per share.

BR currently holds 56.05% of KRL and if the scheme is approved by the minority shareholders and various regulatory authorities the minority shareholders will receive cash consideration of $0.15 for each share they own.

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 2018

In the director's opinion:

(a) the financial statements and notes set out on pages 7 to 21 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 2018 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 Alexander Wibowo
Managing Director
Jakarta, Indonesia

7 September 2018

Independent auditor's report

To the members of Kangaroo Resources Limited

Report on the audit of the half-year financial report

Our opinion

In our opinion:

The accompanying half-year 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 30 June 2018 and of its financial performance for the half-year then ended

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

What we have audited

The Group half-year financial report comprises:

- the consolidated statement of financial position as at 30 June 2018
- the consolidated statement of comprehensive income for the half-year then ended
- the consolidated statement of changes in equity for the half-year then ended
- the consolidated statement of cash flows for the half-year then ended
- the notes to the consolidated financial statements
- the directors' declaration.

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 half-year 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 half-year financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

PricewaterhouseCoopers, ABN 52 780 433 757
Brookfield Place, 125 St Georges Terrace, PERTH WA 6000, GPO Box D198, PERTH WA 6840
T: +61 8 9238 3000, F: +61 8 9238 3999, www.pwc.com.au

Other information

The directors are responsible for the other information. The other information comprises the information included in the Group's interim financial report for the half-year ended 30 June 2018, including the Directors' Report, but does not include the half-year financial report and our auditor's report thereon.

Our opinion on the half-year 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 half-year 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 half-year 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.

Other matter: prior period financial report not audited

The Group was not required to prepare or lodge an audited half-year financial report for the half-year ended 30 June 2017. The comparative amounts included in this half-year financial report, other than those pertaining to the consolidated statement of financial position and related notes which were audited, are therefore unaudited. These comparative amounts were subject to a review. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards.

Responsibilities of the directors 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 Accounting Standard AASB 134 *Interim Financial Reporting* and *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 gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the half-year 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.

Auditor's responsibilities for the audit of the half-year financial report

Our objectives are to obtain reasonable assurance about whether the half-year 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 half-year financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the half-year financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the half-year financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the half-year financial report, including the disclosures, and whether the half-year financial report represents the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the half-year financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

PricewaterhouseCoopers

PricewaterhouseCoopers

Helen Bathurst

Helen Bathurst
Partner

Perth
7 September 2018