KANGAROO RESOURCES LIMITED

ABN 38 120 284 040

Financial Report for the period ended 31 December 2011

CONTENTS

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 the Australian currency.

The financial statements were authorised for issue by the directors on 30 March 2012. The directors have the power to amend and reissue the financial statements.

CORPORATE DIRECTORY

31 DECEMBER 2011

Directors
Peter Richards - Chairman
Mark O'Keeffe - Managing Director
Trevor Butcher - Non-Executive Director
Alastair Mcleod - Non-Executive Director
Russell Neil - Non-Executive Director
Darcy Wentworth - Non-Executive Director
David Low Yi Ngo - Non-Executive Director

Company Secretary
Sean Henbury

Registered Office
c/o FJH Solutions Pty Ltd
21 Teddington Road
Burswood WA 6100

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E-mail: info@kangarooresources.com
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Stock Exchange
Australian Securities Exchange Limited ("ASX")
Exchange Plaza
2 The Esplanade
Perth WA 6009

Quoted on the official list of the Australian Securities Exchange

ASX Symbol: KRL

Auditors
PricewaterhouseCoopers
250 St Georges Terrace
Perth WA 6000

Solicitors
Steinepreis Paganin
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16 Milligan Street
Perth WA 6000

Bankers
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Share Registry
Advanced Share Registry Services
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Nedlands WA 6009

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Domicile and Country of Incorporation
Australia

Your directors present their report on the consolidated entity (referred to hereafter as the group) consisting of Kangaroo Resources Limited (KRL) and the entities it controlled at the end of, or during, the six month period ended 31 December 2011.

Directors and Company Secretary

The Directors and the Company Secretary of the Company at any time during or since the end of the financial year are as follows:

Peter Richards B.Com – Independent Non-Executive Chairman (appointed 9 February 2010)

Mr Richards is an internationally experienced business executive with a proven track record in the mining services industry. His experience totals 30 years with companies such as British Petroleum (including its mining arm Seltrust Holdings), Wesfarmers, and Dyno Nobel which have provided him with a unique understanding of the global resources and mining services industries.

Mr Richards has managed and supported complex financial and corporate activities, with significant exposure to the investment, broking and analyst community. He has international experience with a diversity of cultures and has started new businesses in a range of offshore locations.

Mr Richards was most recently CEO of the ASX-listed Dyno Nobel Limited and prior to this was based in Salt Lake City, USA, where he was the President of Dyno Nobel North America. Following the takeover of Dyno Nobel in 2008, Peter became a Non-Executive Director of Bradken Limited. He is also a Chairman of Minbos Resources Ltd and Non-Executive Director of NSL Consolidated Limited, Emeco Holdings Limited, Sedgman Limited, Bradken Limited and Norfolk Group Limited. Mr Richards had been a director of Dyno Nobel Limited during the past three years.

Mark O'Keeffe, Managing Director (appointed 19 November 2008)

Mr O'Keeffe has been a successful businessman in the Perth community for the past 19 years and in recent years has become actively involved in the minerals industry. He has provided his services in various corporate capacities, including his direct involvement in a number of private and public company capital raisings.

Mr O'Keeffe's previous business interests have encompassed several established enterprises in the retail and service industries, as well as a range of real estate investments which have seen him develop a wide network of business associates.

Mr O'Keeffe did not hold any directorships in other listed companies in the previous 3 years.

Trevor Butcher, Non-Executive Director (appointed 1 October 2009)

Mr Butcher is an Indonesian-based professional who has spent more than six 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 guide KRL through the next phases of development.

Mr Butcher 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 (Appointed 13 June 2011)

Mr Low is presently acting Marketing Director for PT Bayan Resources Tbk. Mr Low has held various senior management roles within Indonesia and Asia over the past five years.

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

Alastair McLeod CA - Non-Executive Director (Appointed 13 June 2011)

Mr McLeod is an Indonesian-based mining executive with over 20 years experience in senior finance, accounting and management roles and over 10 years directly relating to the Indonesian resource market.

Mr McLeod is currently Chief Financial Officer and a Director of PT Bayan Resources Tbk. He did not hold any directorships in other listed companies in the previous 3 years.

Russell Neil FCPA, CFA - Non-Executive Director (Appointed 13 June 2011)

Mr Neil is an Indonesian-based mining executive with approximately twenty years of corporate experience in accounting, finance and management roles within the mining industries of Australia and Indonesia.

Mr Neil is currently Chief Development Officer and a Director of PT Bayan Resources Tbk. He did not hold any directorships in other listed companies in the previous 3 years.

Darcy Wentworth MSc (Mining), MAusIMM - Non-Executive Director (Appointed 13 June 2011)

Mr Wentworth is an Australian-based mining executive with over 40 years of international experience managing various coal operations around the world, with specific focus and expertise in coal mining and Indonesia.

Mr Wentworth was previously the Operations Manager for PT Bayan Resources Tbk's large Gunungbayan coal operation in East Kalimantan for over 10 years until 2009.

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

Sean Henbury CA, FITA – Company Secretary

Mr Henbury is a Chartered Accountant with over 13 years of experience in public practice with three of Perth's major Accounting firms. Recently, he was a founding director of the accounting firm FJH Solutions Pty Ltd, where he continues to provide client support across a wide range of industries including mining, exploration, research and development, construction and manufacturing.

Mr Henbury has been company secretary of a number of companies and is regularly called upon to advise directors of their duties. He is a former company secretary of ASX listed companies: Environmental Clean Technologies Ltd (formerly Environmental Solutions International Ltd) and Minbos Resources Limited.

Mr Henbury was a director of NSL Consolidated Limited and Computronics Holdings Limited and is still the company secretary of both of these listed public companies.

Directors' Meetings

The number of meetings of the company's board of directors held during the period ended 31 December 2011, and the number of meetings attended by each of director were:

	Board meetings	
	Number eligible to attend	Number attended
P Richards	3	3
M O'Keeffe	3	3
T Butcher	3	3
David Low Yi Ngo	3	-
Alastair McLeod	3	3
Russell Neil	3	2
Darcy Wentworth	3	3

Principal Activities

Kangaroo Resources Limited is a resources company with offices in Perth, Australia and in Jakarta, Indonesia and mineral exploration assets in both countries.

The Company continues to leverage off its strong relationships in Indonesia in particular, to continue to add coal and other projects into the Company over time, whilst moving into operations as quickly as possible on the Indonesian assets already within its portfolio.

Operating and Financial Review

Kangaroo Resources Limited (ASX: **KRL**) has changed its financial year end date from 30 June to 31 December. Accordingly, the financial year just completed is a transitional one from 1 July 2011 to 31 December 2011 (ie. six months). The consolidated comprehensive loss of the Group for the period ended 31 December 2011 was \$7,028,735 (Financial year ended 30 June 2011: \$71,327,269).

During the reporting period, the Company continued to lay the foundations for its development as a leading coal producer following the transformational transaction with the leading Indonesian coal conglomerate PT Bayan Resources Tbk ("Bayan").

Key developments during the reporting period included the signing of a key mining contract at the Mamahak Coking Coal Project and the acquisition of direct foreign ownership of key assets within the Pakar Project, the flagship asset acquired by KRL as part of the transaction with Bayan.

Corporate

The Company released its Annual Report to shareholders and held its Annual General Meeting in Perth on 25th November 2011.

The Company has advised ASIC that the Company has changed its financial year end date from 30 June to 31 December. The change of year end allows the Company to align its financial year end date with that of its majority shareholder PT Bayan Resources Tbk and its Indonesian subsidiaries.

Operations

Indonesian Projects:

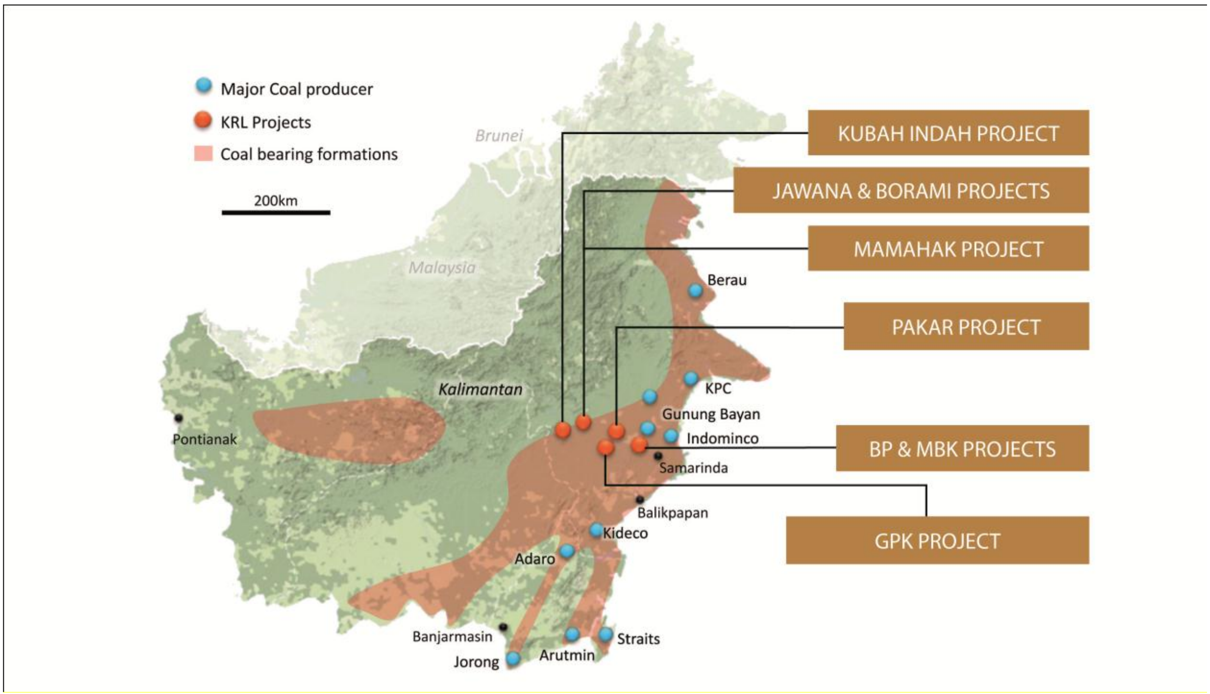
The Company currently has interests in three Indonesian coal projects, located in East Kalimantan:

- Pakar Project (99%) – thermal coal;
- Mamahak Project (100%, direct foreign ownership) – coking coal & high quality thermal coal;
- GPK Project (84.82%) – thermal coal;

The Company also has options over a further five projects, also located in East Kalimantan:

- Kubah Indah Project (100% subject to shareholder approval) – coking coal
- Jawana Project (100% subject to shareholder approval) – coking coal;
- Borami Project (100% subject to shareholder approval) – coking coal;
- MBK Project (100% subject to shareholder approval) – high quality thermal coal; and
- BP Project (100% subject to shareholder approval) – high quality thermal coal.

The location of these coal project areas in Indonesia are shown on the map below:



Pakar Thermal Coal Project

The Company executed deeds of transfer with Bayan giving it direct foreign ownership of five key concessions and one asset-holding company (controlling various assets constituting land, building and other mining support facilities, namely PT Sumber Aset Utama) at the **Pakar Thermal Coal Project** in Kalimantan, Indonesia.

This further enhances KRL's ownership of the project, clearing the way for commercial development of this cornerstone asset to proceed.

The ownership has been effected by converting each of the five concession holding companies (with IUP licences) and one asset-holding company to Indonesian PMA companies (a foreign investment company) and transferring 99 per cent of the shares from Bayan to KRL.

The Pakar Coal Project is a cornerstone asset in KRL's Indonesian coal production strategy and the direct ownership will secure KRL's exposure to future cash flows to be generated by the Project, and complements KRL's existing portfolio of thermal and coking coal projects in Indonesia.

Mamahak Coking Coal Project

The Company's Indonesian subsidiary, PT Mamahak Coal Mining, signed a key five-year mining contract, with an approximate value of US$270 million, with PT Putra Perkasa Abadi to mine up to 4.5 million metric tonnes of coking coal from its 99% owned Mamahak Project in Indonesia.

The contract – which commenced on 1 January 2012 and includes the removal of up to 90 million BCM of overburden – is designed to underpin the ramp-up of production from the Mamahak Project to full commercial levels.

Together with other operational initiatives being implemented under Bayan's management, the new mining contract will cement the transition of Mamahak from the small-scale mining operations carried out to date to full-scale production. The mining contract sets coal production targets over the 5-year period, with a target of up to 1 million metric tonnes per annum.

GPK Thermal Coal Project

At the GPK Project, KRL is continuing the process of acquiring direct foreign ownership of the asset by converting PT GPK into an Indonesian PMA company (a foreign investment company) and transferring approximately 85 per cent of the shares in PT GPK directly to KRL.

Together with Bayan, KRL is continuing preparations of a tender pack for the appointment of mining contractors at GPK. The Company will then invite reputable contractors to prepare mining contract documentation to consider for the appointment and initial mobilisation of sub-contractors during 2012, with additional necessary construction works to commence thereafter.

KRL expects that the works conducted and contractors identified during the Mamahak process will position the Company to fast-track this current GPK tender process.

Significant Changes in the State of Affairs

During the period the Company executed deeds of transfer with Bayan giving the Company direct foreign ownership of five key concessions and one asset holding company at the Pakar Thermal Coal Project in Kalimantan, Indonesia. Pt Bayan Resources Tbk is now the majority shareholder holding 56% of the Company.

Refer to the operating and financial review for further details on significant changes in the state of affairs.

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 period ended 31 December 2011 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 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 remuneration report is set out under the following main headings:
A Principles used to determine the nature and amount of remuneration
B Details of remuneration
C Services agreements
D Share-based compensation

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 as follows:

P Richards	Non-Executive Chairman
M O'Keeffe	Managing Director
T Butcher	Non-Executive Director
D Low Yi Ngo	Non-Executive Director
A McLeod	Non-Executive Director
R Neil	Non-Executive Director
D Wentworth	Non-Executive Director
S Henbury	Company Secretary
M Ralston	Chief Financial Officer (resigned 31 July 2011)

A. Principles used to determine the nature and amount of remuneration

The objective of the Group's remuneration framework is to ensure reward for performance is competitive and appropriate for the results delivered and set to attract the most qualified and experienced candidates. Remuneration levels are competitively set in the context of prevailing market conditions.

The Group embodies the following principles in its remuneration framework:

- the Board seeks independent advice on remuneration policies and practices including recommendations on remuneration packages and other terms of employment for Directors; and

In accordance with best practice corporate governance, the structure of non-executive and executive remuneration is separate and distinct. Remuneration committee responsibilities are carried out by the full Board.

The employment terms and conditions of directors and key management personnel are formalised in contracts of employment.

Fees and payments to the Directors reflect the demands which are made on, and the responsibilities of the Director. Executive Directors and Non-Executive Directors' fees and payments are reviewed annually by the Board. The Non-Executive Chairman fees are determined based on competitive roles in the external market. The Chairman is not present at any discussions relating to the determination of his own remuneration.

Non-Executive Directors' fees are determined within an aggregate Non-Executive Directors' fee pool limit, which will be periodically recommended for approval by shareholders. The maximum currently stands at $400,000 as agreed by shareholders at the Annual General Meeting held on 30 November 2010. Board members representing the major shareholder Pt Bayan Resources Tbk do not receive fees.

No retirement benefits are provided.

The Group does not offer any variable remuneration incentive plans or bonus schemes to Executive Directors or any retirement benefits; as such there is no performance related links to shareholder wealth and remuneration policies.

B. Details of Remuneration

Details of the remuneration of the Directors and other key management personnel of Kangaroo Resources Limited and the Group are set out in the following tables:

Six months ended 31 December 2011	Short-term benefits				Post-employment benefits	Share-based payment		Percentage remuneration consisting of options for the year
	Salary & fees $	Bonus $	Non-monetary $	Other $	Superannuation $	Options & rights $	Total $	
Directors								
P Richards	30,000	-	-	-	-		**30,000**	**0.00%**
M O'Keeffe	116,953	-	-	-	-	-	**116,953**	**0.00%**
T Butcher	44,486	-	-	-	-	-	**44,486**	**0.00%**
D Low Yi Ngo	-	-	-	-	-	-	**-**	**0.00%**
A McLeod	-	-	-	-	-	-	**-**	**0.00%**
R Neil	-	-	-	-	-	-	**-**	**0.00%**
D Wentworth	30,673	-	-	-	-	-	**30,673**	**0.00%**
Sub-total	**222,112**	**-**	**-**	**-**	**-**	**-**	**222,112**	
Other Key Management								
S Henbury (i)	17,296	-	-	-	-	-	**17,296**	**0.00%**
M Ralston (ii)	20,833	-	-	-	1,875	-	**22,708**	**0.00%**
Sub-total	**38,129**	**-**	**-**	**-**	**1,875**	**-**	**40,004**	
Total	**260,241**	**-**	**-**	**-**	**1,875**	**-**	**262,116**	

(i) S Henbury — An agreement is in place between the Company and FJH Solutions Pty Ltd, a company in which Mr Henbury is a Director.

(ii) M Ralston — Resigned 31 July 2011

There are no other employees that are considered to be key management personnel.

Director and Executive remuneration is currently not linked to either long term or short term performance conditions. The Board feels that the expiry date and exercise price of the options currently on issue to the Directors and Executives is a sufficient, long term incentive (LTI) to align the goals of the Directors and Executives with those of the shareholders to maximise shareholders wealth, and as such, has not set any performance conditions for the

Directors or the Executives of the Company. The Board will continue to monitor this policy to ensure that it is appropriate for the Company in future years.

Twelve months ended 30 June 2011	Short-term benefits				Post-employment benefits	Share-based payment		Percentage remuneration consisting of options for the year
	Salary & fees	Bonus	Non-monetary	Other	Superannuation	Options & rights	Total	
	$	$	$	$	$	$	$	
Directors								
P Richards	60,000	-	-	-	-	363,750	**423,750**	**85.84%**
M O'Keeffe	133,110	-	-	-	-	-	**133,110**	**0.00%**
T Butcher (i)	213,450	-	-	-	-	-	**213,450**	**0.00%**
D Low Yi Ngo (ii)	-	-	-	-	-	-	**-**	**0.00%**
A McLeod (iii)	-	-	-	-	-	-	**-**	**0.00%**
R Neil (iv)	-	-	-	-	-	-	**-**	**0.00%**
D Wentworth (v)	-	-	-	-	-	-	**-**	**0.00%**
G Kartasasmita (vi)	75,000	-	-	-	-	-	**75,000**	**0.00%**
F Ismail (vii)	30,532	-	-	-	-	-	**30,532**	**0.00%**
Sub-total	**512,092**	**-**	**-**	**-**	**-**	**363,750**	**875,842**	
Other Key Management								
S Henbury (viii)	-	-	-	-	-	-	**-**	**0.00%**
M Ralston	245,833	-	-	-	22,125	-	**267,958**	**0.00%**
Sub-total	**245,833**	**-**	**-**	**-**	**22,125**	**-**	**267,958**	
Total	**757,925**	**-**	**-**	**-**	**22,125**	**363,750**	**1,143,800**	

(i)	T Butcher	(Executive Director) (Non-executive from 13 June 2011)
(ii)	D Low Yi Ngo	Non-Executive Director (appointed 13 June 2011)
(iii)	A McLeod	Non-Executive Director (appointed 13 June 2011)
(iv)	R Neil	Non-Executive Director (appointed 13 June 2011)
(v)	D Wentworth	Non-Executive Director (appointed 13 June 2011)
(vi)	G Kartasasmita	Executive Director (appointed 14 October 2010, resigned 13 June 2011)
(vii)	F Ismail	Non-Executive Director (resigned 21 January 2011)
(viii)	S Henbury	An agreement is in place between the Company and FJH Solutions Pty Ltd, a company in which Mr Henbury is a Director.

C. Services agreements

On appointment, the Executive and Non-Executive directors enter into a service agreement with the Group 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 service agreements are detailed below:

P Richards

- Term: Ongoing from February 2010
- Base Fee: $5,000 per month plus GST

.

M O'Keeffe

- Term: 2 years from 1 August 2011
- Base Fee: US$12,500 per month plus GST from 1 July 2011 to 31 July 2011, increased to AUD $20,800 per month plus GST from 1 August 2011 commensurate with an increase in responsibilities.
- Termination requires 3 months notice in writing or by mutual agreement.

T Butcher
- Term: 1 year from 1 January 2011
- Base Fee: US$12,500 per month from 1 July 2011 to 31 August 2011, decreased to US$5,000 per month commensurate with the change in role from executive to non-executive.
- Termination requires 3 months notice in writing or by mutual agreement.

D Wentworth
- Term: Ongoing from July 2011
- Base Fee: US$5,000 per month

At period end there are no service agreements in place with Messrs Low, McLeod or Neil.

Termination benefits
The Group is not liable for any termination benefits on termination of the directors.

There are no other key management personnel other than the former Chief Financial Officer, Mr M Ralston, who had an employment contract as per below:

M Ralston (Resigned 31 July 2011)
- Term: Ongoing from August 2009
- Base Salary: $250,000 per annum (plus superannuation)
- Termination requires one month notice or the payment of one months salary in lieu of such notice.

An agreement is in place between the Company and FJH Solutions Pty Limited, a company in which Mr Henbury is a Director, whereby FJH Solutions provides company secretarial, administration, and accounting services to the Company. The engagement is not for a fixed period, and may be terminated by the Company or by Mr Henbury at any time. The terms and conditions to which this contract is entered is a normal arm's length transaction. Payments made to FJH Solutions during the period totaled $17,296 (Financial year ended 30 June 2011: $41,109)

D. Share-based compensation

Options
No options were issued during the period.

Options may be issued by the Company as an appropriate form of remuneration to provide directors, executive officers and employees with incentives to maximise returns to shareholders.

Shares provided on exercise of remuneration options
There were no shares issued from the exercise of remuneration options during the period.

This is the end of the audited remuneration report.

Shares under Option

Unissued ordinary shares of Kangaroo Resources Limited under option as at the date of this report are as follows:

Grant Date	Expiry Date	Exercise Price	Number
30 September 2009	30 September 2012	$0.05	5,000,000
30 September 2009	30 September 2012	$0.10	5,000,000
2 September 2009	2 September 2012	$0.25	2,500,000
2 September 2009	2 September 2012	$0.35	2,500,000
2 September 2009	2 September 2012	$0.50	2,500,000
15 September 2009	15 September 2012	$0.25	1,000,000
			18,500,000

During the period nil (Financial year ended 30 June 2011: 10,000,000) ordinary shares were issued upon the exercise of options.

No option holder has any right under the options to participate in any other share issue of the Company or any other entity. The options are exercisable at any time on or before the expiry date.

Shares under Warrant

There are currently 128,103,448 unissued ordinary shares of Kangaroo Resources Limited under warrant as at the date of this report with an exercise price of $0.133 AUD and expiry date of 29 June 2015.

Directors' Interests

The relevant interest of each Director in the share capital of the Company as at the date of this report is:

Director	Fully paid ordinary shares	Unlisted options
P Richards	1,000,000	7,500,000
M O'Keeffe	25,000,000	-
T Butcher	-	-
D Low Yi Ngo	-	-
A McLeod	-	-
R Neil	-	-
D Wentworth	-	-

Indemnification and Insurance of Officers

The Company has not, during or since the financial year-end, in respect of any person who is, or has been an officer or auditor of the Company or a related body corporate:

- indemnified or made any relevant agreement for indemnifying against a liability incurred as an officer, including costs and expenses in successfully defending legal proceedings; or

- paid or agreed to pay a premium in respect of a contract insuring against a liability incurred as an officer for the costs or expenses to defend legal proceedings.

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 operations were subject to environmental regulations under both Commonwealth and State legislation in relation to its exploration activities. 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 34 to the financial statements. There were no non-audit services provided.

The Directors are satisfied that the provision of non-audit services, during the year, by the auditor (or by another person or firm on the auditor's behalf) is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the services disclosed in note 34 did not compromise the external auditor's independence for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and

- the nature of the services provided do not compromise the general principles relating to auditor independence in accordance with APES 110 *Code of Ethics* for Professional Accountants set by the Accounting Professional and Ethical Standards Board.

Auditor's Independence Declaration

A copy of the auditor's independence declaration for the period ended 31 December 2011 has been received as required under Section 307C of the *Corporations Act 2001* and is included on page 13.

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:

Mark O'Keeffe
Managing Director
Perth, Western Australia
30 March 2012

Auditor's Independence Declaration

As lead auditor for the audit of Kangaroo Resources Limited for the period 1 July to 31 December 2011, 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.

David J Smith
Partner
PricewaterhouseCoopers

Perth
30 March 2012

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Corporate governance is the system by which companies are directed and managed. It influences how the objectives of the Company are set and achieved, how risk is monitored and assessed, and how performance is optimised. Good corporate governance structures encourage companies to create value (through entrepreneurism, innovation, development and exploration) and provide accountability and control systems commensurate with risks involved.

The Company's Board and management are committed to a high standard of corporate governance practices, ensuring that the Company complies with the Corporations Act 2001, Australian Securities Exchange (ASX) Listing Rules, Company Constitution and other applicable laws and regulations.

Good corporate governance will evolve with the changing circumstances of a company and must be tailored to meet these circumstances. As a junior exploration company, at this stage of the Company's corporate development, implementation of the ASX Corporate Governance Principles and Recommendations, whilst wholeheartedly supported, is not practical in every instance given the modest size and simplicity of the business. The principles and recommendations and details of the current and evolving governance practices are identified in the following pages.

Principle 1: Lay solid foundations for management and oversight

The Board has the responsibility of protecting the rights and interests of shareholders and enhancement of long-term shareholder value. To fulfill this role, the Board is responsible for:

- Appointment of the Chief Executive Officer and other senior executives and the determination of their terms and conditions including remuneration and termination;
- Driving the strategic direction of the Company, ensuring appropriate resources are available to meet objectives and monitoring management's performance;
- Reviewing and ratifying systems of risk management and internal compliance and control, codes of conduct and legal compliance;
- Approving and monitoring the progress of major capital expenditure, capital management and significant acquisitions and divestitures;
- Approving and monitoring the budget and the adequacy and integrity of financial and other reporting;
- Approving the annual, half yearly and quarterly accounts;
- Approving significant changes to the organisational structure;
- Approving the issue of any shares, options, equity instruments or other securities in the Company;
- Ensuring a high standard of corporate governance practice and regulatory compliance and promoting ethical and responsible decision making;
- Recommending to shareholders the appointment of the external auditor as and when their appointment or re-appointment is required to be approved by them; and
- Meeting with the external auditor, at their request, without management being present.

The Board intends to introduce a formal process for the performance assessment of senior executives.

Principle 2: Structure the Board to add value

Board composition and directors' independence

Board members possess complementary business disciplines and experience aligned with the Company objectives. The experience, qualifications, terms of office and independence status of directors is noted in the Directors' Report.

The Board is currently made up of seven directors, of which one is considered to be independent. Materiality thresholds have not been set to determine independence. However, the Board considers a director to be independent where he or she is not a member of management and is free of any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the director's ability to act in the best interests of the Company. In making this assessment, the Board considers all relevant facts and circumstances. Relationships that the Board will take into consideration when assessing independence are whether a Director:

- is a substantial shareholder of the Company or an officer of, or otherwise associated directly with, a substantial shareholder of the Company;

- is employed, or has previously been employed in an executive capacity by the Company or another Company member, and there has not been a period of at least three years between ceasing such employment and serving on the Board;
- has within the last three years been a principal of a material professional advisor or a material consultant to the Company or another Company member, or an employee materially associated with the service provided;
- is a material supplier or customer of the Company or other Company member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer; or
- has a material contractual relationship with the Company or another Company member other than as a Director.

Given the principles above only Mr Peter Richards, who was appointed as the Company's Non-Executive Chairman on 9 February 2010, is considered to be independent.

The Board believes that during the year the Company was not of sufficient size to warrant the inclusion of more independent Non-Executive Directors in order to meet the ASX recommendation of maintaining a majority of independent Non-Executive Directors. The Company maintains a mix of Directors from different backgrounds with complementary skills and experience.

Term of office

Under the Company's Constitution and the Australian Securities Exchange Listing Rules, all directors are subject to shareholder re-election every three years.

Commitment

The full Board currently hold a number of scheduled meetings each year, plus strategy meetings and any extraordinary meetings at such other times as may be necessary to address significant matters as they arise.

Standing Board meeting agenda items include a Managing Director's report, financial reports, strategic matters, governance and compliance.

Conflicts of interest

Where any director has a personal interest in a matter, the director is not permitted to be present during discussions or to vote on the matter. The enforcement of this requirement ensures that the interest of shareholders, as a whole, are pursued and not jeopardised by a lack of a majority of independent directors.

Board committees

Due to the size of the Group during the year the Board has not established committees to review compensation arrangements of senior executives or to manage Board succession. The full board approves all management remuneration including the allocation of options and involves itself in the nomination, selection and retirement of directors.

The Company will give consideration at an appropriate juncture in the Company's development, for the creation of a Nomination and Remuneration Committee. The current size of the full Board permits it to act as the Nomination Committee and to regularly review membership. The Board will give consideration to appointment of specialist and independent directors when the activities and scale of operation of the Company warrant such appointments.

The Board reviews the performance of Board members regularly on an on-going basis. The reviews are conducted by the Chairman and involve an exchange of views with all the members of the Board. In particular, the Board assesses the appropriate mix of skills, experience and expertise required by the Board and assesses the extent to which the required skills and experience are represented on the Board.

The Board intends to introduce a formal process of self-assessment of its collective performance, the performance of individual directors and of Board committees.

Access to professional advice
Issues of substance are considered by the Board with external advice from its professional advisers as required. The Board's individual members can seek independent professional advice at the Company's expense in carrying out their duties.

Principle 3: Promote ethical and responsible decision making

The Company actively promotes ethical and responsible decision-making. As at 31 December 2011, the Company had established a formal code of conduct that address practices necessary to maintain confidence in the Company's integrity, The code takes into account the Board's legal obligations and the reasonable expectations of its stakeholders. In addition, it is a condition of each employee's employment contract that they uphold minimum standards of generally accepted ethical conduct.

Dealing in company shares
The Board has formally instituted a Company requirement that limits the purchase or disposal of shares by directors, officers and employees to the period of 4 weeks from the:

(a) date of the Company's Annual General Meeting;
(b) release of the quarterly results announcement to the Australian Securities Exchange (**ASX**);
(c) release of the half yearly results announcement to the ASX;
(d) release of the preliminary final results announcement to the ASX; or
(e) release of a disclosure document offering securities in the Company.

Kangaroo Resources has a policy agreed to by the Board members, other company officers and employees that any proposed trade in the Company's securities is to be firstly advised to the Chairman. Once the Chairman has given approval, the relevant person may execute the trade. Such policy clearly mitigates the risk of breaching the insider trading provisions and gives the Chairman control to restrict trading if the Chairman may be privy to sensitive information before the other company officers and personnel are, or the Chairman has knowledge that certain sensitive information (e.g. exploration results) are due for receipt within a short term timeframe.

Directors, officers and employees with any non-public sensitive information are prohibited from purchasing or disposing of Company shares, in accordance with the Corporations Act 2001.

Directors must advise the Company of any transactions conducted by them in the shares of the Company, in accordance with the Corporations Act 2001 and ASX Listing Rules.

Diversity policy
The company values diversity and recognizes the benefits it can bring to the organisation's ability to achieve its goals. Accordingly, the company has developed a diversity policy. This policy outlines the company's diversity objectives in relation to gender, age, cultural background and ethnicity. It includes requirements for the board to establish measurable objectives for achieving diversity, and for the board to assess annually both the objectives, and the company's progress in achieving them.

The company has not yet set measurable objectives, however, these will be considered by the board and the board will review progress against any objectives identified on an annual basis. The diversity policy has not yet been placed on the company website.

Principle 4: Safeguard integrity in financial reporting

The Company presently does not have a separately constituted audit committee as it is not of a size, or its affairs of such complexity, to warrant such a committee. All matters capable of delegation to such a committee are presently dealt with by the full Board. The Board is responsible for the establishment and maintenance of a framework of internal control and appropriate ethical standards for the management of the Company.

Audit committee responsibilities undertaken by the Board include:

- reviewing and approving statutory financial reports and all other financial information distributed externally;
- monitoring the effective operation of the risk management and compliance framework;
- reviewing the effectiveness of the Company's internal control environment including compliance with applicable laws and regulations;
- the nomination of the external auditors and the review of the adequacy of the existing external audit arrangements; and
- considering whether non-audit services provided by the external auditor are consistent with maintaining the external auditor's independence.

Principle 5 & 6: Make timely and balanced disclosures and respect the rights of shareholders

The Board adopts strategies and practices to promote communication with shareholders, in language capable of interpretation, and to encourage effective participation at General Meetings. The external auditor will attend the meeting to respond to specific questions from shareholders relating to the conduct of the audit and the preparation and content of the auditor's report.

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

The Board aims to ensure that shareholders are informed of all major developments affecting the Company's state of affairs. Information is communicated to shareholders as follows:

- reports distributed to all shareholders; and
- notices of all meetings to shareholders.

The Board encourages full participation of shareholders at the General Meetings to ensure a high level of accountability and identification with the Company's strategy and goals. Important issues are presented to shareholders as single resolutions.

Shareholders are requested to vote on the appointment of directors, the granting of options and shares to directors and changes to the Constitution. Copies of the Constitution are available to any shareholder upon request.

Timely and balanced disclosure

The Board supports the Australasian Investor Relations Association "Best Practice Guidelines for Communication between Listed Entities and the Investment Community". The Board endorses a culture in favour of continuous disclosure and recognises the benefits of consistency to be achieved through a dedicated authorised spokesperson.

Material information is lodged immediately with the ASX and on acknowledgement disseminated by posting to the website. A strict protocol is practiced for all investors/ analyst/ media meetings, group briefings and conference calls.

Principle 7: Recognise and manage risk

The Board is responsible for the identification, monitoring and management of significant business risks and the implementation of appropriate levels of internal control, recognizing however that no cost effective internal control system will preclude all errors and irregularities. Areas of significant business risk and the effectiveness of internal controls are monitored and reviewed regularly.

In complying with recommendation 7.3 the Managing Director has made the following certifications to the board:

- that the company's financial reports are complete and present a true and fair view, in all material respects, of the financial condition and operational results of the company and group and are in accordance with relevant accounting standards; and
- that the above statement is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the board and that the company's risk management and internal compliance and control is operating efficiently and effectively in all material respects in relation to financial reporting risks.

Principle 8: Remunerate fairly and responsibly

Due to the size of the Group the Board has not established committees to review compensation arrangements of senior executives or to manage Board succession. The full board approves all management remuneration including the allocation of options and involves itself in the nomination, selection and retirement of directors.

The Board is kept advised on remuneration and incentive policies and practices generally and makes specific recommendations in relation to compensation arrangements for executive and non-executive directors and in respect of all equity based remuneration plans.

The remuneration policy states that executive directors may participate in share option schemes with the prior approval of shareholders. Other executives may also participate in employee share option schemes, with any option issues normally being made in accordance with thresholds set in plans approved by shareholders. The Board however, considers it appropriate to retain the flexibility to issue options to executives outside of approved employee option plans in appropriate circumstances. The Company has not distinguished the structure of non-executive directors' remuneration from that of executive director due to its size.

The Board also assumes responsibility for overseeing management succession planning, including the implementation of appropriate executive development programmes and ensuring adequate arrangements are in place, so that appropriate candidates are recruited for later promotion to senior promotions.

Further information on directors' remuneration is set out in the directors' report under the heading "Remuneration Report."

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 31 December 2011

Kangaroo Resources Limited

	Note	Consolidated 6 months to 31 December 2011 $	Consolidated 12 months to 30 June 2011 $
Continuing operations			
Sales revenue	6	-	5,820,470
Other income	6	15,419	269,637
		15,419	6,090,107
Expenses			
Cost of sales		-	(6,580,332)
Administration expenses	7	(5,936,781)	(59,207,236)
Finance costs	7	(1,334)	(1,993,265)
Other expenses	7	(731,398)	(9,429,757)
Total expenses		(6,669,513)	(77,210,590)
Loss before income tax		(6,654,094)	(71,120,483)
Income tax benefit/(expense)	8	-	-
Loss from continuing operations after income tax		**(6,654,094)**	**(71,120,483)**
Other comprehensive income/(loss)			
Exchange differences on translating foreign operations		(374,641)	(206,786)
Other comprehensive loss for the year, net of tax		(374,641)	(206,786)
Total comprehensive loss for the year		**(7,028,735)**	**(71,327,269)**
Loss for the year is attributable to:			
Owners of the Company		(6,595,915)	(71,044,791)
Non-controlling interests		(58,179)	(75,692)
		(6,654,094)	(71,120,483)
Total comprehensive loss for the year is attributable to:			
Owners of the Company		(6,967,774)	(71,249,509)
Non-controlling interests		(60,961)	(77,760)
		(7,028,735)	(71,327,269)
Loss per share attributable to the ordinary equity holders of the company:		Cents	Cents
Basic and diluted loss per share from continuing operations	28	(0.39)	(7.73)

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 2011

	Note	Consolidated 31 December 2011 $	Consolidated 30 June 2011 $
Current Assets			
Cash & cash equivalents	9	4,664,331	2,369,156
Trade & other receivables	10	12,366,881	18,930,318
Inventory	11	2,599,246	838,226
Other financial assets	12	-	740,000
Total Current Assets		**19,630,458**	**22,877,700**
Non-Current Assets			
Receivables	10	190,731	408,062
Property, plant & equipment	13	13,192,965	2,272,831
Mine properties and development	14	221,023,950	-
Exploration and evaluation expenditure	15	30,933,038	42,816,519
Other financial assets	12	109,772,949	-
Goodwill	16	47,595,047	-
Total Non-Current Assets		**422,708,680**	**45,497,412**
TOTAL ASSETS		**442,339,138**	**68,375,112**
Current Liabilities			
Trade & other payables	17	10,445,548	3,883,265
Provisions	18	-	45,062
Total Current Liabilities		**10,445,548**	**3,928,327**
Non-Current Liabilities			
Provisions	18	1,125,697	1,075,873
Deferred tax liabilities	19	83,768,793	-
Total Non-Current Liabilities		**84,894,490**	**1,075,873**
TOTAL LIABILITIES		**95,340,038**	**5,004,200**
NET ASSETS		**346,999,100**	**63,370,912**
EQUITY			
Equity attributable to the equity holders of the parent			
Issued capital	20	469,867,326	181,857,326
Reserves	21	2,980,600	3,352,459
Accumulated losses	21	(128,523,205)	(121,927,290)
Capital & reserves attributable to owners of Kangaroo Resources Limited		344,324,721	63,282,495
Non-controlling interest	22	2,674,379	88,417
TOTAL EQUITY		**346,999,100**	**63,370,912**

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

Kangaroo Resources Limited

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December 2011

	Contributed Equity	Accumulated Losses	Share Based Payments Reserve	Foreign Curreny Translation Reserve	Transactions with non-controlling interests reserve	Attibutable to members of KRL	Non-controlling interest	Total Equity
	$	$	$	$	$	$	$	$
Balance as at 1 July 2011	**181,857,326**	**(121,927,290)**	**2,390,594**	**(359,425)**	**1,321,290**	**63,282,495**	**88,417**	**63,370,912**
Loss attributable to members of KRL	-	(6,595,915)	-	-	-	(6,595,915)	(58,179)	(6,654,094)
Foreign currency translation reserve	-	-	-	(371,859)	-	(371,859)	(2,782)	(374,641)
Total comprehensive income/(loss) attributable to members of KRL	-	(6,595,915)	-	(371,859)	-	(6,967,774)	(60,961)	(7,028,735)
Transactions with owners in their capacity as owners:								
Shares issued during the period year less transaction costs	288,010,000	-	-	-	-	288,010,000	-	288,010,000
Share based payments	-	-	-	-	-	-	-	-
Non-controlling interest on acquisition of subsidiaries	-	-	-	-	-	-	2,646,923	2,646,923
Balance as at 31 December 2011	**469,867,326**	**(128,523,205)**	**2,390,594**	**(731,284)**	**1,321,290**	**344,324,721**	**2,674,379**	**346,999,100**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the financial year ended 30 June 2011

	Contributed Equity	Accumulated Losses	Share Based Payments Reserve	Foreign Curreny Translation Reserve	Transactions with non-controlling interests reserve	Attibutable to members of KRL	Non-controlling interest	Total Equity
	`	$	$	$	$	$		$
Balance as at 1 July 2010	**80,187,397**	**(50,882,499)**	**1,968,230**	**(154,707)**	**-**	**31,118,421**	**1,487,467**	**32,605,888**
Loss attributable to members of KRL	-	(71,044,791)	-	-	-	(71,044,791)	(75,692)	(71,120,483)
Foreign currency translation reserve	-	-	-	(204,718)	-	(204,718)	(2,068)	(206,786)
Total comprehensive income/(loss) attributable to members of KRL	-	(71,044,791)	-	(204,718)	-	(71,249,509)	(77,760)	(71,327,269)
Transactions with owners in their capacity as owners:								-
Shares issued during the financial year less transaction costs	101,669,929	-	-	-	-	101,669,929	-	101,669,929
Share based payments	-	-	422,364	-	-	422,364	-	422,364
Non-controlling interest on acquisition of subsidiaries	-	-	-	-	-	-		-
Transactions with non-controlling interests	-	-	-		1,321,290	1,321,290	(1,321,290)	-
Balance as at 30 June 2011	**181,857,326**	**(121,927,290)**	**2,390,594**	**(359,425)**	**1,321,290**	**63,282,495**	**88,417**	**63,370,912**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 31 December 2011

	Note	Consolidated 6 months to 31 December 2011 $	12 months to 30 June 2011 $
Cash flows used in operating activities			
Receipts from customers		3,184,036	3,682,451
Payment to suppliers and employees		(7,319,949)	(12,362,248)
Interest received		15,419	124,578
Interest paid		-	(16,692)
Net cash flows used in operating activities	29	(4,120,494)	(8,571,911)
Cash flows used in investing activities			
Payments for exploration and evaluation assets	15	(39,557)	(7,630,628)
Payments for plant and equipment		(638,416)	(2,167,809)
Net cash acquired pursuant to a business combination	24(b)	3,742,378	-
Loans to/(from) other entities		889,724	(18,237,231)
Return of tenement bonds		2,500	7,500
Proceeds from sale of tenements		-	60,600
Net cash flows from/(used) in investing activities		3,956,629	(27,967,568)
Cash flows from financing activities			
Proceeds from issue of equity securities		-	24,710,517
Convertible note funding		-	13,090,498
Proceeds from borrowings - related parties		2,443,280	-
Repayment of borrowings		-	(307,314)
Payments pursuant to convertible notes		-	(1,211,523)
Net cash flows from financing activities		2,443,280	36,282,178
Net increase/(decrease) in cash and cash equivalents		2,279,415	(257,301)
Cash and cash equivalents at beginning of financial year		2,369,156	3,505,614
Effect of exchange rate on cash held in foreign currencies		15,760	(879,157)
Cash and cash equivalents at end of period	29	4,664,331	2,369,156

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

1. Reporting Entity

Kangaroo Resources Limited (the "Company") is a publicly listed company limited by shares and is listed in Australia on the ASX. It is incorporated and domiciled in Australia. The addresses of its registered office and principal place of business are disclosed in the Company Particulars at the beginning of the Annual Report.

An analysis of the nature of operations and the principal activities of the group is included in the Directors Report.

2. 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”).

(a) Statement of compliance

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations 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).

(b) Basis of preparation

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.

On 17 July 2006 the Company issued 17,500,000 fully paid ordinary shares to the shareholders of Kangaroo Minerals Pty Ltd (formerly Stonebase Pty Ltd) resulting in Kangaroo Minerals Pty Ltd becoming a wholly owned subsidiary. Pursuant to Australian Accounting Standard AASB 3 ‘Business Combinations’, this transaction represented a reverse acquisition with the result that Kangaroo Minerals Pty Ltd was identified as the acquirer of Kangaroo Resources Limited (the “acquiree” and “legal parent”).

Further to the reverse acquisition described above, the consolidated financial statements reflect the consolidated assets, liabilities and results of the operations of the Company and Kangaroo Minerals Pty Ltd subsequent to the reverse acquisition.

The consolidated financial statements are issued under the name of the legal parent (the Company) but are deemed to be a continuation of the legal subsidiary (Kangaroo Minerals Pty Ltd).

(c) Going Concern

For the six months ended 31 December 2011, the Company experienced a comprehensive loss of $7,028,735 (Financial year ended 30 June 2011: $71,327,269) and net cash outflows from operating activities of $4,120,494 (Financial year ended 30 June 2011: $8,571,911). The directors of PT Bayan Resources Tbk have accepted the responsibility of providing and undertake 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 30 March 2012.

(d) Use of estimates and judgements

The preparation of a financial report in conformity with Australian Accounting Standards requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. These accounting policies have been consistently applied by each entity in the consolidated entity.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

Business combinations
Significant judgement is required in determining whether the acquisition of a project constitutes a business combination. The Consolidated Entity assesses whether the project acquired meets the definition of a business as set out in AASB 3 “Business Combinations”. If the project acquired falls within the prescribed definition of a business, it is accounted for as a business combination. Where the project acquired does not fall within the prescribed definition of a business, it is treated as an asset acquisition.

During the current period, the Company acquired the Pakar Project from PT Bayan Resources Tbk. Management have determined that the acquisition is a business combination and have made a number of assumptions in determining the fair values of the assets acquired and the liabilities assumed pursuant to this business combination. These judgements include assumptions in relation to future coal prices, production volume and costs.

Share-based payment arrangements

The Group measures the cost of equity settled share based payments at fair value at the grant date using the Black-Scholes model taking into account the exercise price, the term of the option, the impact of dilution, the share price at grant date, the expected volatility of the underlying share, the expected dividend yield and risk free interest rate for the term of the option.

Exploration & evaluation expenditure
The Group’s accounting policy for exploration and evaluation is set out at Note 4(p). 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.

Income taxes
The Group is subject to income taxes in Australia and Indonesia. Significant judgement is required in determining the worldwide provision for income taxes. There are certain transactions and calculations undertaken during the ordinary course of business for wich the ultimate tax determination is uncertain. The group estimates its tax liabilities based on the group’s understanding of the tax law.

3. Adoption of New and Revised Accounting Standards

In the current period, the Company has adopted all of the applicable new and revised Standards and Interpretations issued by the Australian Accounting Standards Board that are relevant to its operations and effective for the current reporting period. Details of the impact of the adoption of these new accounting standards are set out in the individual accounting policy notes set out below.

Revised AASB 124 Related Party Disclosures and AASB 2009-12 Amendments to Australian Accounting Standards (effective for annual reporting periods beginning on or after 1 January 2011)

In December 2009 the AASB issued a revised AASB 124 Related Party Disclosures. It is effective for accounting periods beginning on or after 1 January 2011 and must be applied retrospectively. The amendment clarifies and simplifies the definition of a related party. The Group has applied the amended standard from 1 July 2011.

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

4. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by the Group entities.

(a) 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 2011 and the results of all subsidiaries for the period 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 entities (including special purpose entities) over which the group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another 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 of 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.

(b) 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 Board of Directors.

(c) 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.

(d) Financial instruments

(i) Non-derivative financial assets

Financial assets are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

Non-derivative financial assets comprise deposits, loans and receivables and cash and cash equivalents.

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) Non-derivative financial liabilities

Financial liabilities are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument. The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Non-derivative financial liabilities comprise loans and borrowings and trade and other payables. They are recognised initially at fair value and subsequently at amortised cost.

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.

The fair value of the conversion option (embedded derivative) of the convertible bond is determined using valuation techniques including Black-Scholes. This amount is recorded as a liability on the statement of financial position and is fair valued through the statement of comprehensive income. The remainder of the proceeds is allocated to the debt component which is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bonds.

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.

(iii) Impairment of financial assets

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.
Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.
All impairment losses are recognised in the profit or loss.

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.

(e) 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.

Sales revenue comprises of revenue earned from the provision of products to entities outside the company. Sales revenue is recognised when the product is suitable for delivery and:

(i) Risk has passed to the customer;
(ii) The quantity of the product can be determined with reasonable accuracy;
(iii) The product has been dispatched to the customer and is no longer under the physical control of the company;
(iv) The selling price can be determined with reasonable accuracy.

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

(f) 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.

(g) Leases

Finance leases, which transfer to the group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments.

Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income. Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term. Initial direct costs incurred in negotiating a finance lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as the lease income.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

(h) Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of assets transferred, the liabilities incurred and the equity interests issued by the group. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the group recognises any non-controlling interest in the acquiree either at fair value or at non-controlling interest’s proportionate share of the acquiree’s net identifiable assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the group's share of net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of the exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

(i) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

(j) 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.

(k) Trade receivables

Trade and other receivables are recorded at fair value initially then subsequently at amortised cost less any allowance for doubtful debts.

(l) 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.

(m) 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.

(n) 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.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the Statement of Financial Position date which are classified as non-current assets. Loans and receivables are included in receivables in the Statement of Financial Position.

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.

Impairment

Assets classified as available-for-sale
If there is objective evidence of impairment for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss.

Impairment losses on equity instruments that were recognised in profit or loss are not reversed through profit or loss in a subsequent period.

(o) 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 from 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 diminishing value method so as to write off the net cost of each asset during their expected useful life as follows:

-	Buildings	10 years
-	Vehicles	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.

(p) 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 will not 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 mining property and development.

(q) Mine properties

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.

(r) Intangible assets

Goodwill is measured as described in note 4(h). Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill is not amortised but is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose, identified according to operating segments (note 30).

(s) 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.

(t) 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 discontinuing 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.

(u) 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.

(v) 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.

(w) 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.

(x) 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.

(y) New standards and interpretation not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2011 reporting periods and have not yet been applied in the financial report. The Group's assessment of the impact of these new standards and interpretations is set out below.

AASB 9 Financial Instruments, AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 and AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) **(effective for annual reporting periods beginning on or after 1 January 2015)**

AASB 9 *Financial Instruments* addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2015 but is available for early adoption. When adopted, the standard will affect in particular the Company's accounting for its available-for-sale financial assets, since AASB 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. Fair value gains and losses on available-for-sale debt investments, for example, will therefore have to be recognised directly in profit or loss. In the current reporting period, the Company recognised nil of such losses in other comprehensive income.

There will be no impact on the Company's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated as at fair value through profit or loss and the Company does not have any such liabilities. The derecognition rules have been transferred from AASB 139 *Financial Instruments: Recognition and Measurement* and have not been changed. The Company has not yet decided when to adopt AASB 9.

AASB 10 Consolidated Financial Statements, AASB 12 Disclosure of Interests in Other Entities, revised AASB 127 Separate Financial Statements and AASB 128 Investments in Associates and Joint Ventures and AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards **(effective 1 January 2013)**

In August 2011, the AASB issued a suite of new and amended standards which address the accounting for consolidated financial statements and associated disclosures.

AASB 10 introduces a single definition of control that applies to all entities. It focuses on the need to have both power and rights or exposure to variable returns before control is present. There is also new guidance on participating and protective rights and on agent/principal relationships. While the Company does not expect the new standard to have a significant impact on its composition, it has yet to perform a detailed analysis of the new guidance in the context of its various investees that may or may not be controlled under the new rules.

AASB 12 sets out the required disclosures for entities reporting under the new AASB 10 standard and replaces the disclosure requirements currently found in AASB 128. Application of this standard by the Company will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the group's investments.

AASB 127 is renamed *Separate Financial Statements* and is now a standard dealing solely with separate financial statements.

Amendments to AASB 128 provide clarification that an entity continues to apply the equity method and does not remeasure its retained interest as part of ownership changes where a joint venture becomes an associate, and vice versa. The amendments also introduce a "partial disposal" concept.

The Company does not expect to adopt the new standards before their operative date.

AASB 13 *Fair Value Measurement* and AASB 2011-8 *Amendments to Australian Accounting Standards arising from AASB 13* (effective 1 January 2013)

AASB 13 was released in September 2011. It explains how to measure fair value and aims to enhance fair value disclosures. The Company has yet to determine which, if any, of its current measurement techniques will have to change as a result of the new guidance. It is therefore not possible to state the impact, if any, of the new rules on any of the amounts recognised in the financial statements. Application of the new standard will impact the type of information disclosed in the notes to the financial statements. The Company does not intend to adopt the new standard before its operative date.

***AASB 2011-9 Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income* (effective 1 July 2012)**

In September 2011, the AASB made an amendment to AASB 101 Presentation of Financial Statements which requires entities to separate items presented in other comprehensive income into two groups, based on whether they may be recycled to profit or loss in the future. This will not affect the measurement of any of the items recognised in the balance sheet or the profit or loss in the current period. The group intends to adopt the new standard from 1 January 2012.

***Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32) and Disclosures-Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)* (effective 1 January 2014 and 1 January 2013 respectively)**

In December 2011, the IASB made amendments to the application guidance in IAS 32 Financial Instruments: Presentation, to clarify some of the requirements for offsetting financial assets and financial liabilities in the balance sheet. These amendments are effective from 1 January 2014. They are unlikely to affect the accounting for any of the group's current offsetting arrangements. However, the IASB has also introduced more extensive disclosure requirements into IFRS 7 which will apply from 1 January 2013. The AASB is expected to make equivalent changes to IAS 32 and AASB 7 shortly. When they become applicable, the group will have to provide a number of additional disclosures in relation to its offsetting arrangements. The group intends to apply the new rules for the first time in the financial year commencing 1 July 2013.

AASB 1054 *Australian Additional Disclosures,* AASB 2011-1 *Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project* and AASB 2011-2 *Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project - Reduced Disclosure Requirements* (effective 1 July 2011)

The AASB and NZ FRSB have issued accounting standards that eliminate most of the existing differences between their local standards and IFRS. Where additional disclosures were considered necessary, they were moved to the new standard AASB 1054. Adoption of the new rules will not affect any of the amounts recognised in the financial statements, but may simplify some of the Company’s current disclosures.

AASB 2011-4 *Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements* (effective 1 July 2013)

In July 2011 the AASB decided to remove the individual key management personnel (KMP) disclosure requirements from AASB 124 *Related Party Disclosures*, to achieve consistency with the international equivalent standard and remove a duplication of the requirements with the *Corporations Act 2001*. While this will reduce the disclosures that are currently required in the notes to the financial statements, it will not affect any of the amounts recognised in the financial statements. The amendments apply from 1 July 2013 and cannot be adopted early. The *Corporations Act* requirements in relation to remuneration reports will remain unchanged for now, but these requirements are currently subject to review and may also be revised in the near future.

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

(z) Parent entity information

The financial information of the parent entity, Kangaroo Resources Limited, disclosed in note 5 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.

5. Parent Entity Information

The following information relates to the parent entity, Kangaroo Resources Limited. The information presented has been prepared using accounting policies that are consistent with those presented in Note 4.

	31 December 2011 $	30 June 2011 $
Current Assets	11,341,885	17,215,816
Non-current assets	337,766,217	34,850,911
Total Assets	349,108,102	52,066,727
Current Liabilities	552,716	621,197
Non-current liabilities	-	-
Total Liabilities	552,716	621,197
Net Assets	348,555,386	51,445,530
Contributed equity	469,867,327	181,857,326
Accumulated losses	(123,702,536)	(132,802,391)
Share based payment reserve	2,390,595	2,390,595
Total shareholder's equity	348,555,386	51,445,530
Profit/(loss) of the parent entity	9,099,855	(74,984,760)
Other comprehensive income/(loss) for the year	-	-
Total comprehensive income of the parent entity	9,099,855	(74,984,760)

Contractual Commitments
Refer to note 23 for details of contractual commitments

Guarantees and Contingent Liabilities
Refer to note 31 for details of guarantees and contingent liabilities.

6. Revenue and Other Income

	Consolidated	
	6 months to 31 December 2011 $	12 months to 30 June 2011 $
(a) Revenue from continuing operations		
Coal sales	-	5,820,470
(b) Other Income		
Interest income	15,419	124,578
Sale of tenements and data	-	60,600
Other income	-	20,000
Foreign exchange gain	-	64,459
Total other income	15,419	269,637

7. Loss from Continuing Operations

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

	Consolidated	
	6 months to 31 December 2011 $	12 months to 30 June 2011 $
Administration expenses		
Advertising and marketing	92,584	156,576
ASX Fees	42,014	306,300
Consultant expenses	1,604,244	3,926,079
Directors fees	222,112	512,092
Employee entitlements	920,727	1,127,059
Employee entitlements - share-based payments	-	422,364
Equipment rental	1,736,099	-
Consultants fees - projects[a]	-	51,300,000
Travel and accomodation	210,211	680,144
Other administration expenses	1,108,790	776,622
	5,936,781	59,207,236
Finance costs		
Interest expense	1,334	95,359
Interest expense - convertible notes	-	1,897,906
	1,334	1,993,265

	Consolidated	
	6 months to 31 December 2011 $	12 months to 30 June 2010 $
Other expenses		
Loss on disposal of fixed assets	149,411	3,860
Impairment of exploration expenditure	2,750	435,333
Impairment of financial assets	5,342	716,219
Fair value loss on embedded derivative	-	8,274,345
Foreign exchange loss	573,895	-
	731,398	9,429,757
Depreciation expense		
Buildings	1,268	281
Furniture, fittings and equipment	65,338	84,558
Motor vehicles	279,199	11,299
	345,805	96,138
Included in:		
Cost of sales	-	75,251
Administration expenses	345,805	20,887
	345,805	96,138
Employee benefits expense in cost of sales	-	489,727

(a) Consultants fees - projects

Refer to note 26 for details, these payments relate primarily to share based payments.

8. Income Tax Expense

(a) Recognised in the statement of comprehensive income

	Consolidated	
	6 months to 31 December 2011 $	12 months to 30 June 2011 $
Current income tax	-	-
Deferred tax expense relating to the origination and reversal of temporary differences	-	-
Total income tax expense	-	-

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

	Consolidated	
	6 months to 31 December 2011 $	12 months to 30 June 2011 $
Loss before tax	(6,654,094)	(71,120,483)
Income tax using the domestic corporation rate of 30% (30 June 2011: 30%)	(1,996,228)	(21,336,145)
Tax effect of:		
Difference in overseas tax rate	296,350	43,407
Non-deductible expenses	2,428	18,344,478
Unused tax losses and temporary differences not recognised as deferred tax assets	1,697,450	2,948,260
Total income tax expense	-	-

(c) Unrecognised deferred tax balances

	Consolidated	
	31 December 2011 $	30 June 2011 $
Deferred tax assets / (liabilities) calculated at 30% (30 June 2011: 30%) have not been recognised in respect of the following:		
Income tax losses	4,474,409	4,217,145
Other temporary differences	-	41,565
Foreign tax losses	2,827,361	1,345,609
	7,301,770	5,604,319

Deductible temporary differences and tax losses do not expire under current tax legislation. 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 statements because it is not probable that there will be future taxable amounts available to utilise these losses and temporary differences.

9. Cash and Cash Equivalents

(a) Reconciliation to cash at the end of the period

	Consolidated	
	31 December 2011 $	30 June 2011 $
Reconciliation of cash balance comprises		
Cash at bank	4,587,479	2,292,304
Restricted bank deposits	76,852	76,852
	4,664,331	2,369,156

(b) Interest rate risk exposure

The Group's exposure to interest rate risk is discussed in note 33.

10. Trade and Other Receivables

	Consolidated	
	31 December 2011 $	30 June 2011 $
Current		
Other receivables [d]	68,370	1,952,411
Prepayments	1,243,586	54,849
Trade receivables	-	2,057,696
Loans to other entities [e]	11,054,925	14,865,362
	12,366,881	18,930,318
Non-current		
Tenement security bonds	26,160	28,660
Advances and prepayments	164,571	379,402
	190,731	408,062

(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 33.

(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 33 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.

(e) Loans to other entities

Funds totalling $11,054,925 (USD$11,250,000) (30 June 2011: $14,865,362, USD$15,750,000) have been advanced to the current vendors of the Pakar Coal Projects to expedite licensing and company restructuring prior to their acquisition by Kangaroo Resources Limited. These advances will be refunded to Kangaroo Resources Limited upon completion of the acquisition.

11. Inventories

	Consolidated	
	31 December 2011 $	30 June 2011 $
Coal stockpiles - at net realisable value	2,599,246	838,226
	2,599,246	838,226

Write-downs of inventories to net realisable value recognised as an expense during the six months ended 31 December 2011 amounted to $0 (12 months to 30 June 2011: $1,843,246). The expense is included in cost of sales.

12. Other Financial Assets

	Consolidated	
	31 December 2011 $	30 June 2011 $
Current		
Stonebridge [(a)]	-	1,000,000
Provision for non-recovery	-	(260,000)
	-	740,000
Non-current		
Available-for-sale financial assets [(b)]	109,772,949	-

(a) Stonebridge Securities Ltd acquired four million Kangaroo Resources Limited shares at 25 cents a share in the December 2009 placement under an "Equity Swap Transaction" Agreement that guarantees Stonebridge against any losses if the shares are transferred or sold for less than 25 cents a share. A deposit for the full amount of the investment was placed with Stonebridge in the prior period. This amount was settled in full during the period.

(b) 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 Therman Coal Project in East Kalimantan ("Pakar"), consisting of ten Indonesian entities. (See note 24) 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. 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.

13. Property, Plant and Equipment

	Land	Buildings	Plant & Infrastructure	Construction in progress	Motor Vehicles	Furniture, fittings and equipment	Total
	$	$	$	$	$	$	$
At 1 July 2010							
Cost or fair value	-	-	-	-	188,562	45,650	234,212
Accumulated depreciation	-	-	-	-	(26,017)	(3,174)	(29,191)
Net book amount	-	-	-	-	162,545	42,476	205,021
Year ended 30 June 2011							
Opening net book amount	-	-	-	-	162,545	42,476	205,021
Additions	-	16,882	-	406,002	1,517,317	227,607	2,167,808
Disposals / write-off	-	-	-	-	-	(3,860)	(3,860)
Depreciation charge	-	(281)	-	-	(84,558)	(11,299)	(96,138)
Closing net book amount	-	16,601	-	406,002	1,595,304	254,924	2,272,831
At 30 June 2011							
Cost or fair value	-	16,882	-	406,002	1,705,879	269,397	2,398,160
Accumulated depreciation	-	(281)	-	-	(110,575)	(14,473)	(125,329)
Net book amount	-	16,601	-	406,002	1,595,304	254,924	2,272,831
Six months ended 31 December 2011							
Opening net book amount	-	16,601	-	406,002	1,595,304	254,924	2,272,831
Additions	-	13,001	-	40,600	161,269	423,546	638,416
Acquired through business combination	164,677	451,029	6,168,549	-	3,826,652	240,303	10,851,210
Disposals / write-off	-	-	-	-	(143,511)	(80,176)	(223,687)
Depreciation charge	-	(1,268)	-	-	(279,199)	(65,338)	(345,805)
Closing net book amount	164,677	479,363	6,168,549	446,602	5,160,515	773,259	13,192,965
At 31 December 2011							
Cost or fair value	164,677	480,912	6,168,549	446,602	5,550,289	853,070	13,664,099
Accumulated depreciation	-	(1,549)	-	-	(389,774)	(79,811)	(471,134)
Net book amount	164,677	479,363	6,168,549	446,602	5,160,515	773,259	13,192,965

14. Mine Properties and Development

	Consolidated	
	31 December 2011 $	30 June 2011 $
Non-Current		
Cost	221,023,950	-
Accumulated amortisation	-	-
	221,023,950	-
Movements in Mine Properties and Development		
Carrying amount at start of period	-	-
Transferred from exploration and evaluationexpenditure	13,622,819	-
Acquired through business combination [(a)]	207,401,131	-
Carrying amount at end of period	221,023,950	-
Represented by:		
Mamahak Project	13,622,819	
North Pakar	207,401,131	
	221,023,950	-

(a) See note 24(c)

15. Exploration and Evaluation Expenditure

	Consolidated	
	31 December 2011 $	30 June 2011 $
Costs carried forward in respect of areas of interest in exploration phase - at cost		
Balance at beginning of the year	42,816,519	24,023,800
Transferred to mine properties and development	(13,622,819)	-
Transfer from / (to) assets held for sale	-	11,597,422
Exploration and evaluation expenditure	39,557	1,563,187
Deposit on Tanur Jaya Coal Project [(a)]	(16,468,423)	6,067,443
Exploration costs written off [(b)]	(2,750)	(435,333)
Pakar exploration expenditure acquired[(c)]	18,170,954	-
Carrying amount at end of year	30,933,038	42,816,519

(a) Funds totalling $16,468,423 (30 June 2011: $16,468,423) had been paid as a deposit for a 49% interest in the Tanur Jaya Thermal Coal Project, entitling the Company to the rights to the offtake of coal and/or production from the project. As part of the Pakar acquisition this right was relinquished and a 99% equity position in the project was acquired. See note 24.

(b) Current year write-offs relate to expenditure that has not been capitalised on the Group's Australian tenements and its GPK project as they do not meet the requirements under the accounting policy.

(c) As disclosed in note 24(c) the provisional fair value of exploration expenditure acquired with the acquisition of the Pakar Project was $18,170,954.

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.

16. Intangible Assets

	Goodwill
	$
Six months ended 31 December 2011	
Opening net book amount	-
Acquisition of business [(a)]	47,595,047
Closing net book amount	47,595,047
At 31 December 2011	
Cost or fair value	47,595,047
Accumulated amortisation and impairment	-
Net book amount	47,595,047

(a) See note 24(c)

17. Trade and Other Payables

	Consolidated	
	31 December 2011	**30 June 2011**
	$	**.**
Trade payables	4,058,888	2,778,164
Other payables and accruals	2,799,566	1,105,101
Other payables and accruals - related parties	3,587,094	-
	10,445,548	3,883,265

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

18. Provisions

	Consolidated 31 December 2011 $	Consolidated 30 June 2011 $
Current		
Employee entitlements [a]	-	45,062
Non-current		
Provision for mine restoration [b]	1,019,742	1,009,472
Employee entitlements [a]	73,585	66,401
Deferred exploration	32,370	-
	1,125,697	1,075,873

(a) 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.

(b) 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.

(c) Movements in provisions

	Mine Restoration $
Current	
Carrying amount at start of year	1,009,472
Charged/(credited) to profit or loss	
- additional provisions recognised	22,040
Amounts used during the year	-
Foreign exchange movement	(11,770)
Carrying amount at end of year	1,019,742

19. Deferred tax liability

	Consolidated	
	31 December 2011 $	30 June 2011 $
The balance comprises temporary differences attributable to:		
Exploration and evaluation expenditure	31,918,510	
Mine properties and development	51,850,283	-
	83,768,793	-

Movements	Exploration Expenditure $	Mine Properties $	Mine Properties $
At 1 July 2011	-	-	-
Acquisition of subsidiary [(a)]	31,918,510	51,850,283	83,768,793
At 31 December 2011	31,918,510	51,850,283	83,768,793

(a) See note 24(c)

20. Issued Capital

	31 December 2011 Number	31 December 2011 $	30 June 2011 Number	30 June 2011 $
Issued and fully paid	3,434,430,012	469,867,326	1,509,430,012	181,857,326

(i) Movement in ordinary share capital

	31 December 2011 Number	31 December 2011 $	30 June 2011 Number	30 June 2011 $
Balance as at 1 July	1,509,430,012	181,857,326	776,976,265	80,187,397
Issuance of fully paid shares during the period	-	-	200,000,000	23,800,000
Conversion of convertible notes	-	-	128,879,305	24,071,142
Conversion of options	-	-	10,000,000	750,000
Conversion of warrants	-	-	1,206,897	160,517
Issue of shares on acquisition - Fee for introduction of Pakar project to KRL [(a)]	-	-	380,000,000	51,300,000
Issue of shares on acquisition - Pakar [(a)]	1,925,000,000	288,750,000	-	-
Share based payments issued to consultants [(a)]	-	-	12,367,545	1,588,270
Less: Transaction costs	-	(740,000)	-	-
Balance as at end of period	3,434,430,012	469,867,326	1,509,430,012	181,857,326

(a) Refer to share based payments details in note 26.

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.

(ii) Options

As at 31 December 2011, the following options over unissued ordinary shares were on issue:

Grant Date	Expiry Date	Exercise Price	Number
30 September 2009	30 September 2012	$0.05	5,000,000
30 September 2009	30 September 2012	$0.10	5,000,000
2 September 2009	2 September 2012	$0.25	2,500,000
2 September 2009	2 September 2012	$0.35	2,500,000
2 September 2009	2 September 2012	$0.50	2,500,000
15 September 2009	15 September 2012	$0.25	1,000,000
			18,500,000

(iii) Warrant holders

The warrant holders are not entitled to participate in dividends or any other distribution or right declared and have no voting rights. The warrant holders have the option to convert to ordinary shares at an exercise price of $0.133 and would assume the same rights as an ordinary shareholder.

There are 128,103,448 unissued ordinary shares of Kangaroo Resources Limited under warrant as at 31 December 2011 expiring on 29 June 2015.

(iv) 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.

21. Reserves and Retained Earnings

(a) Reserves

	Consolidated	
	31 December 2011 $	**30 June 2011 $**
Share based payments reserve	2,390,594	2,390,594
Foreign currency translation reserve	(731,284)	(359,425)
Transactions with non-controlling interests reserve	1,321,290	1,321,290
	2,980,600	3,352,459

Kangaroo Resources Limited

(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.

	Consolidated	
	31 December 2011 $	30 June 2011 $
Balance 1 July	2,390,594	1,968,230
Share based payments - employees	-	422,364
Total share-based payment reserve at end of period	2,390,594	2,390,594

(c) Foreign currency translation reserve

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

	Consolidated	
	31 December 2011 $	30 June 2011 $
Balance 1 July	(359,425)	(154,707)
Foreign exchange movements	(371,859)	(204,718)
Total foreign currency translation reserve at end of period	(731,284)	(359,425)

(d) Transactions with non-controlling interests

	Consolidated	
	31 December 2011 $	30 June 2011 $
Balance 1 July	1,321,290	-
Acquisition of additional ownership in SGQ Batubara Pt Ltd	-	1,321,290
Total reserve at end of period	1,321,290	1,321,290

(e) Accumulated Losses

	Consolidated 31 December 2011 $	30 June 2011 $
Balance 1 July	121,927,290	50,882,499
Net losses attributable to members of the parent entity	6,595,915	71,044,791
Accumulated losses at the end of the period	128,523,205	121,927,290

22. Non-controlling Interest

	Consolidated 31 December 2011 $	30 June 2011 $
Balance 1 July	88,417	1,487,467
Non-controlling interest on acquisition of subsidiaries	2,646,923	-
Transactions with non-controlling interests	-	(1,321,290)
Comprehensive income attributable to non-controlling interest	(60,961)	(77,760)
Non-controlling interest at the end of the period	2,674,379	88,417

23. 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 2011 $	30 June 2011 $
Not later than one year	75,000	185,000
Later than one year but not later than five years	-	40,000
Total	75,000	225,000

(b) Mining service agreement

The Company's subsidiary PT Mamahak Coal Mining (MCM) has entered into a five year mining contract with PT Putra Perkasa Abadi which is scheduled to commence on 1 January 2012. PT MCM's approximate obligations under the contract are:

	Consolidated	
	31 December 2011 $	30 June 2011 $
Not later than one year	29,479,800	-
Later than one year but not later than five years	235,838,400	-
Total	265,318,200	-

(c) Equipment rental agreement

On 22 April 2010, MCM entered into a deed of novation agreement with PT Trima Traktor Indonesia (PTI) whereas PTI will provide heavy equipment to support mining activities in MCM's areas. This agreement was valid until 10 May 2011. The extension agreement shall be valid from 11 January 2012 until 10 July 2012.

(d) 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 their 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.

24. Business Combination

Acquisition and Disposal of Controlled Entities

On 14 December 2011, the Company acquired an interest in the Pakar project, from PT Bayan Resources Tbk, which consisted of a 99% equity interest in the following entities:

	Country of Incorporation	Ownership Interest	
		31-Dec-11	30-Jun-11
Name of controlled entity			
PT Sumber Aset Utama	Indonesia	99.00%	0.00%
PT Orkida Makmur	Indonesia	99.00%	0.00%
PT Dermaga Energy	Indonesia	99.00%	0.00%
PT Tanur Jaya	Indonesia	99.00%	0.00%
PT Sumber Api	Indonesia	99.00%	0.00%
PT Silau Kencana	Indonesia	99.00%	0.00%
PT. Tiwa Abadi	Indonesia	0%[(a)]	0.00%
PT. Cahaya Alam	Indonesia	0%[(a)]	0.00%
PT. Bara Sejati	Indonesia	0%[(a)]	0.00%
PT. Apira Utama	Indonesia	0%[(a)]	0.00%

(a) See Note 12(b)

(a) Purchase consideration

Details of the consideration were as follows:

	$
Purchase consideration	
Deposit for Tanur Jaya in prior periods	16,468,424
Loan funds advanced in prior periods	4,421,970
Shares issued as consideration	288,750,000
Total purchase consideration	309,640,394

The fair value of the 1,925,000,000 ordinary shares issued was based on the listed share price of the Group at 14 December 2011 of 15 cents per share.

(b) Summary of cash inflow

	$
Inflow of cash to acquire subsidiary, net of cash acquired	
Cash consideration	-
Less: Cash acquired	3,742,378
Net inflow of cash	3,742,378

(c) Assets and liabilities acquired

At 31 December 2011 the preliminary fair value of the assets and liabilities acquired are as follows:

	Book Value $	Provisional Fair Value $
Cash and cash equivalents	3,742,378	3,742,378
Prepayments	1,045,635	1,045,635
Property, plant and equipment	10,851,210	10,851,210
Available-for-sale financial assets (See note 12(b))	-	109,772,949
Exploration expenditure	269,864	18,170,954
Mine properties and development	-	207,401,131
Trade and other payables	(2,490,824)	(2,490,824)
Deferred exploration payable	(32,370)	(32,370)
Deferred tax liability	-	(83,768,793)
Net identifiable assets and liabilities	13,385,893	264,692,270
Less: net assets attributable to minority interests	(133,859)	(2,646,923)
Add: Goodwill acquired	-	47,595,047
Net assets attributable to shareholders of KRL	13,252,034	309,640,394

(d) Acquisition related costs

Acquisition related costs of $51,300,000 were included within administration costs in the statement of comprehensive income in the prior year. See note 26(e).

(e) Revenue and profit contribution

In the six months to 31 December 2011 the Pakar Group contributed nil revenue and did not contribute to the loss. Had the acquisition been completed on 1 July 2011, the Pakar Group would have contributed an additional $75,468 in revenue and increased the Group loss by $501,256.

25. Subsidiaries and Transactions with Non-controlling Interests

(a) Significant investments in subsidiaries

	Country of Incorporation	Class of shares	Equity holding	
			31 December	30 June
			2011	2011
Name of controlled entity				
Kangaroo Minerals Pty Ltd (formerly Stonebase Pty Ltd)	Australia	Ordinary	100.00%	100.00%
Kangaroo Resources (Singapore) Pte Ltd	Singapore	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%	0.00%
PT Orkida Makmur	Indonesia	Ordinary	99.00%	0.00%
PT Dermaga Energy	Indonesia	Ordinary	99.00%	0.00%
PT Tanur Jaya	Indonesia	Ordinary	99.00%	0.00%
PT Sumber Api	Indonesia	Ordinary	99.00%	0.00%
PT Silau Kencana	Indonesia	Ordinary	99.00%	0.00%

(b) Transactions with non-controlling interests

On 1 June 2011 SGQ Singapore Investment Company Pte Ltd acquired an additional 15% of the issued shares of SGQ Batubara Pte Ltd for a purchase consideration of $1. The carrying amount of the non-controlling interests in SGQ Batubara Pte Ltd and its subsidiaries on the date of acquisition was $1,321,291. The group recognised a decrease in non-controlling interests of $1,321,290 and a decrease in equity attributable to owners of the parent of $1. The effect of changes in the ownership interest of SGQ Batubara Pte Ltd on the equity attributable to owners of Kangaroo Resources Limited during the year is summarised as follows:

	Consolidated	
	31 December 2011 $	30 June 2011 $
Carrying amount of non-controlling interests acquired	-	1,321,291
Consideration paid to non-controlling interests	-	(1)
Excess of interest acquired recognised in the transactions with non-controlling interests reserve within equity	-	1,321,290

26. Share Based Payments

Six months ended 31 December 2011 Share based payments

There were no share based payments during the period.

Financial year ended 30 June 2011 Share based payments

During the financial year ended on 30 June 2011, the Group issued the following share-based payments.

(a) Employee Share Options – Incentive Options

Set out below are summaries of the options granted:

	Number of options	Value per option (cents)	Vested during the period	Exercisable at period end
Exercisable at 25 cents, on or before 2 September 2012	2,500,000	5.86	2,500,000	2,500,000
Exercisable at 35 cents, on or before 2 September 2012	2,500,000	4.85	2,500,000	2,500,000
Exercisable at 50 cents, on or before 2 September 2012	2,500,000	3.84	2,500,000	2,500,000
Employee Options				
Exercisable at 25 cents, on or before 15 September 2012	1,000,000	5.86	1,000,000	1,000,000

The price was calculated by using Black Scholes Pricing Model applying the following inputs:

	2011
Life of the option (years)	2
Share price at grant date (cents)	13.5
Expected share price volatility (based on historic share price performance)	107.5%
Risk free interest rate	4.75%

Total value of the options above is $422,364.

(b) Consulting fees – Carmine Lion Group

On 31 August 2010 the Company issued 5,000,000 shares to Carmine Lion Group Ltd as consideration for services provided by the consultants.

The shares were issued for nil consideration. The closing share price on 31 August 2010 was 12.5 cents, and the value of the shares is $625,000 based on this 31 August 2010 share price.

(c) Consulting fees - ASEAMCO

On 18 November 2010 and 22 December 2010 the Company issued 541,353 shares (total 1,082,706 shares) to ASEAMCO as consideration for services provided by their consultants.

The shares were issued for 13.3 cents and the value of the shares issued was $144,000.

(d) Consulting fees – Chimaera Financial Group

On 22 December 2010 the Company issued 6,284,829 shares to Chimaera for services provided by those consultants.

The shares were issued at an average of 13 cents and the value of the shares issued was $819,270.

(e) Introduction of Pakar Projects

On 13 June 2011 the Company issued 380,000,000 shares to Jedi Resources Limited in consideration for the introduction and assistance in the acquisition process of a major coal acquisition, the Pakar Projects.

The shares were issued for nil cash proceeds and were approved at a meeting of shareholders held on 13 June 2011. The closing share price on 13 June 2011 was 13.5 cents, and the value of the shares is $51,300,000 based on this 13 June 2011 share price.

27. Related Party Disclosures

a) Key management personnel

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.

Directors	
P Richards	Non-Executive Chairman
M O'Keeffe	Managing Director
T Butcher	Non-Executive Director
D Low Yi Ngo	Non-Executive Director
A McLeod	Non-Executive Director
R Neil	Non-Executive Director
D Wentworth	Non-Executive Director
Other key management personnel	
S Henbury	Company Secretary

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.

There were no other employees that constitute key management personnel.

(b) Key management personnel compensation

The key management personnel compensation is as follows:

	Consolidated	
	6 months to 31 December 2011 $	12 months to 30 June 2011 $
Short term benefits	260,241	757,925
Post employment benefits	1,875	22,125
Share based payments	-	363,750
	262,116	1,143,800

Directors and key management personnel disclosures

Option holdings

The number of options over ordinary shares in the Company held during the financial year by key management personnel, including their personally related parties, is set out below:

31 December 2011 Name	Balance at the start of period	Granted as compensation	Exercised	Other changes	Balance at the end of the period	Vested and exercisable
Directors						
P Richards	7,500,000	-	-	-	7,500,000	7,500,000
M O'Keeffe	-	.	-	-	-	-
T Butcher	-	-	-	-	-	-
F Ismail	-	-	-	-	-	-
G Kartasasmita	-	-	-	-	-	-
D Low	-	-	-	-	-	-
A McLeod	-	-	-	-	-	-
R Neil	-	-	-	-	-	-
D Wentworth	-	-	-	-	-	-
Other key management personnel						
S Henbury	-	-	-	-	-	-

30 June 2011 Name	Balance at the start of year	Granted as compensation	Exercised	Other changes	Balance at the end of the year	Vested and exercisable
Directors						
P Richards	-	7,500,000	-	-	7,500,000	7,500,000
M O'Keeffe	-	.	-	-	-	-
T Butcher	-	-	-	-	-	-
F Ismail	-	-	-	-	-	-
G Kartasasmita	-	-	-	-	-	-
D Low	-	-	-	-	-	-
A McLeod	-	-	-	-	-	-
R Neil	-	-	-	-	-	-
D Wentworth	-	-	-	-	-	-
Other key management personnel						
M Ralston	10,000,000	-	(10,000,000)	-	-	-
S Henbury	-	-	-	-	-	-

Shareholdings

The number of shares in the Company held during the financial year by key management personnel of the Company, including their personally related parties, is set out below:

31 December 2011 Name	Balance at the start of period	Received during the period on exercise of options	Share based payments	Other changes	Balance at the end of the period
Directors					
M O'Keeffe	50,000,000	-	-	(25,000,000)	25,000,000
P Richards	1,000,000	-	-	-	1,000,000
T Butcher	-	-	-	-	-
D Low	-	-	-	-	-
A McLeod	-	-	-	-	-
R Neil	-	-	-	-	-
D Wentworth	-	-	-	-	-
Other key management personnel					
M Ralston*	12,500,000	-	-	(12,500,000)	-
S Henbury	180,000	-	-	-	180,000

* M Ralston ceased to be key management personnel on 31 July 2011

30 June 2011 Name	Balance at the start of year	Received during the year on exercise of options	Share based payments	Other changes	Balance at the end of the year
Directors					
M O'Keeffe	50,750,000	-	-	(750,000)	50,000,000
P Richards	1,000,000	-	-	-	1,000,000
T Butcher	-	-	-	-	-
F Ismail*	27,500,000	-	-	(27,500,000)	-
G Kartasasmita	-	-	-	-	-
D Low	-	-	-	-	-
A McLeod	-	-	-	-	-
R Neil	-	-	-	-	-
D Wentworth	-	-	-	-	-
Other key management personnel					
M Ralston	2,500,000	10,000,000	-	-	12,500,000
S Henbury	180,000	-	-	-	180,000

* F Ismail ceased to be a director on 21 January 2011

d) 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 (incorporated in Indonesia) which at 31 December 2011 owns 56.05% (30 June 2011: 0%) of the issued ordinary shares of Kangaroo Resources Limited.

e) Subsidiaries

Interests in subsidiaries are set out in note 25.

f) Non-key management disclosures

The following balances are outstanding at the end of the reporting period in relation to transactions with PT Bayan Resources Tbk:

	Consolidated	
	31 December 2011 $	30 June 2011 $
Current receivables		
Trade receivables	-	2,057,696
	-	2,057,696
Current payables		
Advances for coal sales	1,156,510	
Loan funds advanced	2,430,584	-
	3,587,094	-

Outstanding balances are unsecured and are repayable in cash.

28. Earnings per Share

Loss per share from continuing operations	Consolidated 6 months to 31 December 2011	 12 months to 30 June 2011
Loss from continuing operations attributable to ordinary shareholders of the company	(6,595,915)	(71,044,791)
Basic loss per share (cents)	(0.39)	(7.73)
Weighted average number of Ordinary shares on issue used in the calculation of basic earnings per share	1,697,745,229	918,735,813

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.

29. 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 2011 $	 30 June 2011 $
Reconciliation of cash balance comprises		
Cash at bank	4,587,479	2,292,304
Restricted bank deposits	76,852	76,852
	4,664,331	2,369,156

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

	Consolidated	
	6 months to 31 December 2011 $	12 months to 30 June 2010 $
Loss after income tax	(6,654,094)	(71,120,483)
Depreciation	345,805	96,138
Impairments	8,092	1,151,547
Loss on disposal of plant and equipment	149,411	3,860
Share based payments expense	-	53,310,634
Foreign exchange (gain)/loss	575,960	(139,004)
Fair value loss on embedded derivative	-	8,274,345
Convertible note costs	-	1,897,906
Other non cash income	-	(20,000)
Change in assets and liabilities during the financial year:		
Increase in inventories	(1,761,020)	(838,226)
(Increase)/decrease in prepayments	(424,053)	741,150
Increase/(decrease) in trade payables	1,604,751	158,012
Increase/(decrease) in employee entitlements	(45,062)	27,872
(Increase)/decrease in trade receivables	2,057,676	(2,057,676)
Increase/(decrease) in provisions	22,040	2,614
Return of bonds included in investing activities	-	(60,600)
Net cash used in Operating activities	(4,120,494)	(8,571,911)

(c) Non cash financing and investing activities

During the period the Pakar project was acquired from Pt Bayan Resources Tbk through the issue of 1,925 million Kangaroo Resources Limited Shares. See note 24.

During the previous financial year convertible notes and embedded derivative liabilities totalling $24,071,142 were converted into equity as a result of the holders of the convertible notes exercising their option to convert the notes into shares.

30. 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 Group engages in one business being coal exploration in Indonesia. Its results are analysed as a whole by the chief operating decision maker. Consequently revenue, profit and net assets for the operating segment and geographical segment are reflected in this annual report.

Segment Revenue

There is no sales revenue for the period.

Non-current assets other than financial instruments and deferred tax assets

	Consolidated	
	31 December 2011 $	30 June 2011 $
Located in Australia	36,943	185,806
Located in Indonesia	265,113,010	44,903,544
Total	265,149,953	45,089,350

31. Contingent Liabilities

No contingent liabilities were noted for the Company for the period ended 31 December 2011

32. 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.

33. 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 monitor 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 2011 $	30 June 2011 $
Financial assets		
Cash and cash equivalents	4,664,331	2,369,156
Trade and other receivables - current	12,366,881	18,930,318
Other financial assets	-	740,000
Assets held available for sale	109,772,949	-
Trade and other receivables - non-current	190,731	408,063
	126,994,892	22,447,537
Financial liabilities		
Trade and other payables	10,445,548	3,883,265
	10,445,548	3,883,265

(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 2011 USD $	30 June 2011 USD $
Cash and cash equivalents	627,879	524,386
Trade and other receivables	11,054,925	14,865,362
Trade and other payables	253,450	142,823

Sensitivity
Based on the financial instruments held at 31 December 2011, 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 six months ended 31 December 2011 would have been $1,143,000 higher / $1,039,000 lower (Financial year ended 30 June 2011: $1,525,000 higher / $1,386,000 lower), as a result of foreign exchange gains/losses on translation of US dollar denominated financial instruments as detailed in the above table.

(ii) Price risk
The Group does not hold investments and therefore is not exposed to equity securities price risk.

(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 2011		**30 June 2011**	
	Weighted average interest rate	**$**	**Weighted average interest rate**	**$**
Financial assets				
Cash and cash equivalents	2.3%	4,664,331	0.6%	2,369,156

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

(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. The Group is comfortable with recovery of the cash advances (see note 10(e)) as the vendor will refund the Company through cash generated from the initial Pakar sale.

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.

	<6 months	>6 - 12 months	> 12 months	Total Contractual Cash Flows	Carrying Amount
31 December 2011					
Financial liabilities					
Trade and other payables	10,445,548			10,445,548	10,445,548
30 June 2011					
Financial liabilities					
Trade and other payables	3,883,265			3,883,265	3,883,265

(c) Fair value estimation

The group does not carry any financial instruments at fair value at 31 December 2011 or 30 June 2011.

34. 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	
	6 months to 31 December 2011 $	**12 months to 30 June 2011 $**
(a) PwC Australia		
Audit and review of financial statements	112,200	81,000
(b) Related practices of PwC Australia		
Audit and review of financial statements	85,486	139,392
(c) Non-PwC audit firms		
Audit and review of financial statements	-	60,460
Tax compliance services	-	2,000
Independent experts report	-	30,516
	197,686	313,368

In the directors' opinion:

(a) the financial statements and notes set out on pages 19 to 67 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 31 December 2011 and of its performance for the six months 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 2(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 Chief Financial Officer required by section 295A of the *Corporations Act 2001*.

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

....

Mark O'Keeffe
Managing Director
Perth, Western Australia
30 March 2012

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

Report on the financial report

We have audited the accompanying financial report of Kangaroo Resources Limited (the company), which comprises the statement of financial position as at 31 December 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the period 1 July to 31 December 2011, a summary of significant accounting policies, other 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 at the period's end or from time to time during the financial period.

Directors' responsibility 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 is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

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

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

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

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T +61 8 9238 3000, F +61 8 9238 3999, www.pwc.com.au

Independent auditor's report to the members of Kangaroo Resources Limited (cont'd)

Independence

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

Auditor's opinion

In our opinion:

(a) the financial report of Kangaroo Resources Limited is in accordance with the *Corporations Act 2001*, including:

   (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and of their performance for the period 1 July to 31 December 2011; and

   (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001;* and

(b) the consolidated financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 2.

Report on the Remuneration Report

We have audited the remuneration report included in pages 7 to 10 of the directors' report for the period 1 July to 31 December 2011. 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.

Auditor's opinion

In our opinion, the remuneration report of Kangaroo Resources Limited for the period 1 July to 31 December 2011, complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

David J Smith

David J Smith
Partner

Perth
30 March 2012

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 23 March 2011)

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

Holding	Fully Paid Shares	Unlisted Options 2-Sep-12	Unlisted Options 15-Sep-12	Unlisted Options 30-Sep-12
1-1000	134	-	-	-
1,001-5,000	303	-	-	-
5,001-10,000	304	-	-	-
10,001-100,000	1,011	-	-	-
100,000-over	346	1	1	1
	2,098	1	1	1

The number of shareholders holding less than a marketable parcel is 262.

1.2 Twenty Largest Shareholders (as at 23 March 2012)

	Name	Number held	Percentage
1	PT Bayan Resources Tbk	1,925,000,000	56.05%
2	HSBC Custody Nominees (Australia) Ltd	250,029,201	7.28%
3	National Nominees Limited	222,270,889	6.47%
4	JP Morgan Nominees Australia Ltd	193,599,952	5.64%
5	Saxenburg Enterprises Ltd	100,000,000	2.91%
6	Citicorp Nominees Pty Ltd	82,642,871	2.41%
7	Virtus Consultants Limited	65,000,000	1.89%
8	Capital Enterprises Trading Corp	60,000,000	1.75%
9	SouthGobi Resources Limited	42,895,427	1.25%
10	Far East Holdings Securities Limited	40,000,000	1.16%
11	Nannook Holdings Pty Ltd	35,364,175	1.03%
12	One Six Eight Limited	35,000,000	1.02%
13	Nefco Nominees Pty Ltd	24,939,085	0.73%
14	Mark O'Keeffe <The Australian Oak A/c>	20,000,000	0.58%
15	Romfal Sifat Pty Ltd <The Fizmail Family A/c>	20,000,000	0.58%
16	Remarkable Capital Limited	19,667,000	0.57%
17	UOB Kay Hian Private Limited	15,756,886	0.46%
18	Dempo Global Corporation Pte Ltd	15,000,000	0.44%
19	Mr Paul Andrew O'Keeffe <Green Oak Family A/c>	12,150,000	0.35%
20	DBS Vickers Securities (Singapore) Pte Ltd	10,259,000	0.30%
	Total	3,189,574,486	92.87%
	Total remaining holders balance	244,855,526	7.13%
	Total all shareholders	**3,434,430,012**	**100%**

1.3 Substantial Shareholders

Substantial holders in the company are set out below:

	Number held	Percentage
PT Bayan Resources Tbk	1,925,000,000	56.05%
HSBC Custody Nominees (Australia) Ltd	250,029,201	7.28%
National Nominees Limited	222,270,889	6.47%
JP Morgan Nominees Australia Ltd	193,599,952	5.64%

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 23 March 2012 there are no restricted securities.

3. Tenement Schedule

Project	Tenement Details	Registered Holder	KML Interest %	Application or Grant Date	Expiry Date	Area
Queensland						
Ravenshoe East	EPM 14880	Kangaroo Minerals Pty Ltd	100%	28/02/2006	27/02/2012	20 blks
The Source	EPM 17051	Kangaroo Minerals Pty Ltd	100%	11/02/2009	10/02/2012	10 blks