

31 October 2017

## **SEPTEMBER 2017 QUARTERLY ACTIVITIES REPORT**

### **HIGHLIGHTS**

- Coal Reserves and Coal Resources for Pakar North and South announced in accordance with JORC 2012 standard. In summary, the reserves in Pakar North and South are 236Mt and 163Mt respectively (proved plus probable) and resources are 699Mt and 391Mt respectively (measured, indicated plus inferred)
- Drilling program completed on the Graha Panca Karsa ("GPK") concession. The Company has appointed RungePincockMinarco to report exploration results to 2012 JORC standard
- Bathymetric survey of portion of Mahakam River for the GPK project completed and formal report expected by end of November 2017
- Tender for drilling at TA undertaken and bids received; these are currently under evaluation and negotiation
- The Company continues to monitor and evaluate the performance of BAYAN's logistics infrastructure at its TABANG project to which the Company has 30% Access Rights for its adjacent PAKAR project
- Cash at bank at the end of the quarter was AU\$1.3 million.

### **COAL RESOURCE AND COAL RESERVE STATEMENTS**

During the quarter, the Company announced updated Coal Reserves and Coal Resources for the Pakar Coal Projects as completed by PT. RungePincockMinarco in accordance with the JORC Code 2012. The below tables summarize the results. See 12<sup>th</sup> September 2017 press release for further details.

#### **COAL RESOURCES:**

JORC 2012 Code	Measured	Indicated	Inferred	Total	Total Moisture	Calorific Value	Total Sulphur
as at 31 December 2016	Million Tonnes				% AR	Kcal/kg GAR	% ADB
<b>Pakar North</b>							
- PT. Tiwa Abadi	7	79	65	151	34.4	4,315	0.11
- PT. Tanur Jaya	103	105	181	389	38.8	3,970	0.12
- PT. Dermaga Energi	81	56	22	159	43.0	3,680	0.13
Sub-Total Pakar North	191	240	268	699	38.8	3,980	0.12
<b>Pakar South</b>							
- PT. Sumber Api	-	9	6	15	46.4	3,200	0.21
- PT. Cahaya Alam	-	99	56	155	48.4	3,140	0.21
- PT. Bara Sejati	-	185	36	221	49.6	3,020	0.19
- PT. Apira Utama	-	-	-	-	-	-	-
- PT. Silau Kencana	-	-	-	-	-	-	-
Sub-Total Pakar South	-	293	98	391	49.0	3,075	0.20
<b>Total</b>	<b>191</b>	<b>533</b>	<b>366</b>	<b>1,090</b>	<b>42.5</b>	<b>3,655</b>	<b>0.15</b>



## COAL RESERVES:

JORC 2012 Code	Proved	Probable	Total	Total Moisture	Average Calorific Value	Total Sulphur
as at 31 December 2016	Million Tonnes			% AR	Kcal/kg GAR*	% ADB
<b>Pakar North</b>						
- PT. Tiwa Abadi	3	58	61	34.9	4,250	0.10
- PT. Tanur Jaya	69	40	109	39.0	3,820	0.11
- PT. Dermaga Energi	55	11	66	42.6	3,660	0.09
Sub-Total Pakar North	127	109	236	38.9	3,885	0.10
<b>Pakar South</b>						
- PT. Sumber Api	-	5	5	46.7	3,100	0.14
- PT. Cahaya Alam	-	40	40	51.1	2,900	0.11
- PT. Bara Sejati	-	118	118	50.1	2,980	0.11
- PT. Apira Utama	-	-	-	-	-	-
- PT. Silau Kencana	-	-	-	-	-	-
Sub-Total Pakar South	-	163	163	50.2	2,965	0.11
<b>Total</b>	<b>127</b>	<b>272</b>	<b>399</b>	<b>43.6</b>	<b>3,510</b>	<b>0.11</b>

Key takeaways from the updated Coal Reserves and Coal Resources are as follows:

- Pakar North Coal Reserves increased by 52% from 155Mt to 236Mt. Importantly, the average Calorific Value (“**CV**”) for Pakar North has increased from 3,785 Kcal/kg GAR to 3,885 Kcal/kg GAR.
- Coal Resources (which includes Coal Reserves) estimated at 1,090Mt (191Mt Measured, 533Mt Indicated and 366Mt Inferred). Previously estimated Coal Resources at 31 December 2010 were 3,019Mt (111Mt Measured, 1,092Mt Indicated and 1,816Mt Inferred) with the primary reasons for the current reduction being:
  - application of rigorous pit optimisation limits to Coal Resource estimates to satisfy JORC Code 2012 requirement to demonstrate reasonable prospects for eventual economic extraction;
  - relinquishment of approximately 5,118 hectares of Pakar South concessions (refer announcement dated 21 December 2016); and
  - the exclusion of 2,229 hectares of concessions in North and Pakar South that overlap with a third-party coal concession as a result of an ongoing legal dispute (refer announcement dated 22 August 2017).
- Coal Reserves estimated at 399Mt (127Mt Proved and 272Mt Probable). Previously estimated Coal Reserves at 31 December 2010 were 442Mt (16Mt Proved and 426Mt Probable). The small reduction in overall Coal Reserves is primarily due to:



- a reduction in the long-term Newcastle coal price for Coal Reserve estimation purposes from Free on Board US\$95 per tonne to USD\$70 per tonne; and
- relinquishment and exclusion of licence areas as detailed in the preceding highlight point.
- The significant improvement in the Coal Reserves proved to probable ratio (32%:68% versus 4%:96%) is primarily due to the radius of influence of drilling on the adjacent Bayan concessions.

## **GRAHA PANCA KARSA COAL PROJECT (GPK)**

### Drilling Program

During the quarter, GPK drilled 7 holes totaling approximately 334 metres to complete its drilling program at GPK within the Pinjam Pakai area. This brings the total holes drilled under this program to 42 and 1,857.65 metres. The program aimed to confirm / validate historical drilling works performed by a previous explorer as well as gain a better understanding of the coal seam geology. The Company has appointed PT. RungePincockMinarco to report exploration results to 2012 JORC standard.

### Bathymetric Survey

During the quarter, PT. Seascapes Surveys Indonesia (a part of the Mermaid Subsea Services Group) completed its bathymetric survey of the Mahakam River from a location near the town of Melak, East Kalimantan to the intended location of GPK's barge loading facilities, a distance of approximately 78 kilometres. The Company expects to receive the final survey report in mid- November 2017.

## **PAKAR COAL PROJECT (TA, TJ, DE, OM, SA, CA, BS, AU & SK)**

### Drilling Program

During the quarter, TA issued a tender for stage 1 of a drilling program for 31 holes covering 5,780 metres within the non-forestry area to several drilling companies. A number of bids were received.

In an effort to obtain better pricing for this work, TA is currently negotiating with a few of the selected contractors based on a larger drilling program covering both the non-forestry and forestry areas in progressive stages.

### Pinjam Pakai

The Company had previously applied to the regional government for exploration borrow-use (pinjam pakai) permits for the 1,517 hectares in TA and the 5,000 hectares in TJ that are in forestry areas. However, the regional government subsequently issued a moratorium on granting of new pinjam pakai permits.

The moratorium ended on 30 April 2017 and the Company has recently completed all of the requirements and submitted fresh applications for both TA and TJ to the Department of Minerals and Coal (Minerba). Upon receiving approval from Minerba the Company will proceed to lodge the completed applications to the Ministry of Forestry in accordance with procedure.



## Clear and Clean Status

As reported previously, five of the Company's coal concessions in this area (DE, OM, SA, CA and BS) have an overlap with a third-party coal company, PT. Senyuir Sukses Pratama ("SSP"):

- Uncertainty surrounding the exact boundary line between the Kutai Kartanegara regency and Kutai Timur regency at the time the respective concessions were issued gave rise to this overlap.
- In 2012, the East Kalimantan government together with the heads of the respective regencies agreed on a final boundary which was in the Company's favour and the East Kalimantan government instructed SSP to relinquish those overlapping areas.
- In August 2016, SSP filed a lawsuit against the provincial government of East Kalimantan in the District Administrative Court in Samarinda in relation to this matter.
- As the Company had an interest in the outcome of this case, KRL took the decision in October 2016 to intervene in this action through OM.
- In April 2017, the Administrative Court in Samarinda ruled in favour of SSP finding that the instruction by the East Kalimantan government requiring SSP to relinquish certain overlapping areas was invalid.
- In April 2017, both the East Kalimantan government and OM appealed this decision which will be heard by the Jakarta Administrative High Court.

The Company understands that as long as the abovementioned lawsuit remains pending, the government will not issue Clear and Clean status for these concessions (other than OM which already has Clear and Clean status). The Company continues to monitor the progress in this case.

TA and TJ have been listed as Clear and Clean status and have been certificated. AU and SK have been listed as Clear and Clean status but have not yet been certificated.

## Project Infrastructure for TABANG and PAKAR

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

During the quarter, BAYAN continued to asphalt its 69km haul road to improve its all-weather performance. This program is expected to continue into 2018.

During the quarter, BAYAN completed the upgrade of one of its barge loading lines at Senyuir from 2,000 tph to 4,000 tph. This brings the total barge loading capacity at Senyuir to 8,000 tph (approx. 24 Million metric tonnes per year - 2 x 4,000tph). BAYAN is currently achieving approximately 1.3 – 1.4 million tonnes per month of barging from this barge loading facility.



## **BAYAN / KRL TRANSACTION**

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

- During the quarter, the Company submitted its application to convert AU into a Foreign Investment Status (PMA) company with the provincial government of East Kalimantan. The provincial government responded to this application with a request for additional documentation which is currently being prepared and will be submitted shortly.
- TA has Clear and Clean status however it is currently in the process of upgrading its permit from Exploration Stage (IUP Exploration) to Production Stage (IUP OP); In July, TA received approval from the government regarding its Feasibility Study, with some changes required to the Environmental Impact Study (AMDAL) which are in progress. In this regard, the Company expects the upgrade to IUP to now be completed in Q4 2017. Once this step has been completed, the process to transfer TA to KRL will commence, the first step being BAYAN obtaining approval from the provincial government to convert TA to a foreign investment status (PMA) company; and
- The Clear and Clean status for CA and BS is currently being impacted by the overlap with a third party concession (refer preceding page). Therefore until this matter is resolved these concessions cannot be transferred to KRL. Once this matter is resolved CA and BS will be transferred to KRL using the structure outlined above.

## **MAMAHAK COAL PROJECT (MCM, MEL, MBE & BKL)**

Mining operations remain suspended.

Resumption of mining activity at MCM remains dependent on coal markets improving, and establishing a more reliable logistics route for coal sales.

## **LIST OF MINING TENEMENTS HELD AT END OF QUARTER**

### East Kalimantan, Indonesia

- PT Mamahak Coal Mining - 99% (Equity via KOJ)
- PT Bara Karsa Lestari - 99% (Equity via KOJ)
- PT Mahakam Energi Lestari - 99% (Equity via KOJ)
- PT Mahakam Bara Energi - 99% (equity via KOJ)
- PT Tiwi Abadi - 99% (currently pending share transfer from BAYAN to KRL)
- PT Tanur Jaya - 99% (Equity)
- PT Dermaga Energi - 99% (Equity)
- PT Orkida Makmur - 99% (Equity)
- PT Sumber Api - 99% (Equity)
- PT Cahaya Alam - 99% (currently pending share transfer from BAYAN to KRL)
- PT Bara Sejati - 99% (currently pending share transfer from BAYAN to KRL)
- PT Apira Utama - 99% (currently pending share transfer from BAYAN to KRL)
- PT Silau Kencana - 99% (Equity)
- PT Graha Panca Karsa - 84.82% (commercial interest currently pending conversion to equity, with a further obligation to transfer 8% to a third party after equity transfer)



**Changes in the Quarter to mineral interests / farm-in and joint venture agreements:** None of the mineral interests listed above are the subject of any farm-in / farm-out or joint venture arrangements. There were no changes during the quarter.

## **GLOSSARY**

### **CORPORATE**

- Company – Kangaroo Resources Limited (ASX – KRL)
- BAYAN – PT Bayan Resources Tbk
- TABANG – 3 BAYAN concessions on the northern boundary of PAKAR North
- PMA – Perusahaan Model Asing (local term used for a foreign investment company)
- BCT – Balikpapan Coal Terminal
- DPP – PT Dermaga Perkasapratama – (operators of BCT and owned by BAYAN)
- CnC – Clear & Clean Status (granted by Department of Mines)
- SPA – Sale & Purchase Agreement
- IP – PT Indonesia Pratama (services company owned by BAYAN)
- BIS – PT BIS Industries (current Coal Haulage Contractors for TABANG)
- PTP – PT Petrosea Tbk (current Mining & Construction Contractors at TABANG)
- BT – PT Bara Tabang (one of the 2 BAYAN owned existing coal-mines at TABANG)
- GOI – Government of Indonesia
- Mtpa – Million tonnes per annum

### **MAMAHAK**

- KOJ – PT Karsa Optima Jaya (the holding company for MCM, MEL, MBE & BKL)
- MCM – PT Mamahak Coal Mining
- BKL – PT Bara Karsa Lestari
- MEL – Mahakam Energi Lestari
- MBE – Mahakam Bara Energi
- Long Hubung (current Port location on Mahakam River for MAMAHAK projects)

### **PAKAR (NORTH)**

- TA – PT Tiwi Abadi (currently pending share transfer from BAYAN to KRL)
- TJ – PT Tanur Jaya
- DE – PT Dermaga Energi

### **PAKAR (SOUTH)**

- OM – PT Orkida Makmur
- SA – PT Sumber Api
- CA – PT Cahaya Alam (currently pending share transfer from BAYAN to KRL)
- BS – PT Bara Sejati (currently pending share transfer from BAYAN to KRL)
- AU – PT Apira Utama (currently pending share transfer from BAYAN to KRL)
- SK – PT Silau Kencana

### **PAKAR (NORTH & SOUTH)**

- SAU – PT Sumber Aset Utama
- Senyur – proposed port location on Kedang Kepala River for PAKAR projects
- Gunung Sari – existing Port location on Belayan River for TABANG projects

### **GRAHA PANCA**

- GPK – PT Graha Panca Karsa



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The information in this report that relates to the Coal Resources and Coal Reserves was last reported by the Company in compliance with the 2012 Edition of the JORC Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves in a market release dated 12 September 2017, "Updated Coal Resources and Coal Reserves for Pakar North and South Thermal Coal Projects, Indonesia".

The Company confirms that it is not aware of any new information or data that materially affects the information included in the market announcement dated 12 September 2017 and that all material assumptions and technical parameters underpinning the Coal Resources and Coal Reserves estimates for Pakar North and South coal projects continue to apply and have not materially changed.

**DISCLAIMER:** *The information concerning production targets in this announcement are not intended to be forecasts. They are internally generated goals set by the board of directors of Kangaroo Resources Limited. The ability of the company to achieve these targets will be largely determined by the company's ability to secure adequate funding, implement mining plans, resolve logistical & permitting issues associated with mining and enter into off take arrangements with reputable third parties.*

*It is common practice for a company to comment on and discuss its exploration in terms of target size and type. The information above relating to the exploration target should not be misunderstood or misconstrued as an estimate of Mineral Resources or Ore Reserves. Hence the terms Resource(s) or Reserve(s) have not been used in this context. The potential quantity and grade is conceptual in nature, since there has been insufficient exploration to define a Mineral Resource. It is uncertain if further exploration will result in the determination of a Mineral Resource.*