

31 January 2018

DECEMBER 2017 QUARTERLY ACTIVITIES REPORT

HIGHLIGHTS

- Graha Panca Karsa ("GPK") drilling results announced during the quarter confirming previous drilling and the continuity of the two main target seams.
- Bathymetric survey of portion of Mahakam River for the GPK project completed confirming the potential to undertake barging
- Negotiations with a selected drilling contractor ongoing with an expectation to commence drilling on the PAKAR North concessions in Q1 2018
- Land compensation has commenced on the Tiwa Abadi concession as a prelude to drilling activities and ultimately the commencement of production
- 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.

GRAHA PANCA KARSA COAL PROJECT (GPK)

Drilling Program

During the Quarter, the Company announced the results of its 2017 GPK drilling program.

Key takeaways from the drilling program are as follows:

- A total of 543 drill holes for a total of 12,529 metres have now been drilled on the GPK concession;
- Two main seam groups have been identified in the deposit namely Graha and Tukul seams which have an average vertical thickness of 4.4m and 1.3m respectively;
- The results from the 2017 exploration program (42 drill holes totaling 1,858 metres) inside the Pinjam Pakai area confirm the results of the previous exploration in that the seams are continuous and retain similar coal quality characteristics;
- Seven minor seams with average vertical thickness ranging from 0.3m to 1.2m are also present above and below the Graha and Tukul seams

The Company is currently evaluating the results to determine whether it intends to apply for an exploration Pinjam Pakai to continue a drilling program into these areas or to prepare a JORC 2012 Reserve and Resource report based on the data that it currently has.

Bathymetric Survey

During the Quarter, the Company received the final bathymetric report from PT. Seascope Surveys Indonesia (a part of the Mermaid Subsea Services Group) covering approximately 78 kilometres of the upper reaches of the Mahakam River. Key conclusions of the report include:

- 82% of the time the river will be navigable utilising 4.5m loaded draft with 0.6m under-keel clearance;



- This decreases to 78% of the time if the under-keel clearance is increased to 1.0m;
- 6 critical locations were identified that will limit navigability of the river during periods of low river water levels (2.1 – 2.6m river depth at these points)

The Company believes these results are better than expected and will allow the utilization of barges up to 300' (approx. 7,500t payload) for the majority of the year. The Company will investigate the possibility of dredging the critical locations to improve the reliability of the barging operations.

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

Tiwa Abadi (TA) and Tanur Jaya (TJ) Pinjam Pakai

The Company had previously applied to the regional government for exploration borrow-use (pinjam pakai) permits for the TA and TJ concessions. However, the regional government subsequently issued a moratorium on granting of new pinjam pakai permits. The moratorium ended on 30 April 2017 after which the Company recommenced its efforts to obtain these permits.

During the Quarter, the Company received approval for its exploration pinjam pakai's from the Department of Minerals and Coal (Minerba). These were submitted to the Ministry of Forestry via the Foreign Investment Coordinating Board / *Badan Koordinasi Penanaman Modal (BKPM)* in accordance with procedure. Assuming no further issues with the documentation, the Company expects to receive the exploration pinjam pakai's for both concessions in Q1 2018.

Granting of these permits will allow the Company to undertake exploration works in those parts of the concessions currently covered by forestry area. For TA this is 1,517 Hectares or approximately 30% of the total concession area and for TJ this is 5,000 Hectares or 100% of the total concession area.

Tiwa Abadi (TA) and Tanur Jaya (TJ) Drilling Program

The Company is currently finalizing negotiations with a selected drilling contractor from the tender process conducted in late 2017 and expects to sign an agreement with this contractor in Q1 2018 to commence drilling towards the end of that quarter. The drilling program will initially concentrate on the non-pinjam pakai area of TA and then subsequently move into the pinjam pakai areas of TA and TJ once the respective permits have been received.

During the Quarter, as a prelude to the drilling program and ultimately bringing the concession into production, the Company commenced land compensation on the Tiwa Abadi concession. A total of 303.45 hectares representing 6% of the total concession area of 4,996 Hectares was compensated during this period with further land compensation activities continuing into 2018.

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. Senyur 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 to the Jakarta Administrative High Court.
- In August 2017, the Jakarta Administrative High Court overturned the decision of the Samarinda Court and found that SSP was time barred from filing the lawsuit in the first place. The effect of this judgment is that the instruction issued by the East Kalimantan government requiring SSP to relinquish certain overlapping areas remains valid and proper.
- In September 2017, SSP appealed the Jakarta Administrative High Court's judgment to the Supreme Court of Indonesia. It is currently expected that the Supreme Court of Indonesia will render its judgment in Q1 2018.

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 Senyur 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 will continue into 2018.

BAYAN currently has barge loading capacity at Senyur rated at 8,000 tph (approx. 24 Million metric tonnes per year). During the quarter BAYAN achieved approximately 1.1 – 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 September quarter, the Company had 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 the Company responded to during the December Quarter. The provincial government



approved this application in October 2017. The process now moves to the central government for PMA approval through BKPM.

- 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 relation to this process:
 - In July 2017, TA received approval from the government regarding its Feasibility Study;
 - During the Quarter, a revised Environmental Impact Study (AMDAL) was submitted to the government;
 - the Company is currently expecting the government to schedule a visit to the site in Q1 2018 as a prelude to approval of the AMDAL; and
 - The Company expects approval will be obtained in Q1 2018 which will allow the Company to apply for the upgrade to production status (IUP OP).

Once this process has been completed, the steps 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 pages). 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)
- AMDAL – Analisis Dampak Lingkungan / Environmental Impact Study
- BAYAN – PT Bayan Resources Tbk
- BCT – Balikpapan Coal Terminal
- BKPM - *Badan Koordinasi Penanaman Modal* / Foreign Investment Coordinating Board – Indonesian central government department tasked with assessing and approving the establishment of or conversion to PMA status for a company
- BIS – PT BIS Industries (current coal haulage contractor for TABANG)
- BT – PT Bara Tabang (one of the 3 BAYAN owned existing coal-mines at TABANG)
- CnC – Clear & Clean Status (granted by Department of Mines)
- DPP – PT Dermaga Perkasapratama – (operators of BCT and owned by BAYAN)
- GOI – Government of Indonesia
- IP – PT Indonesia Pratama (services company owned by BAYAN)
- IPPKH – Izin Pinjam Pakai Kawasan Hutan – Forestry Area Borrow-Use Permit – required to be issued by the Indonesian central government's Department of Forestry for those parts of a mining concession (and other types of concessions) that overlap with areas designated as forestry-use
- IUP – *Izin Usaha Pertambangan* – Mining Concession in Indonesia
- Mtpa – Million tonnes per annum
- PMA – *Penanaman Modal Asing* / Foreign Investment Status – companies are required to have this status in Indonesia where they have one or more foreign shareholders
- PTP – PT Petrosea Tbk (current mining contractor at TABANG)
- SPA – Sale & Purchase Agreement
- TABANG – 3 BAYAN concessions on the northern and western boundary of PAKAR North

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 – BAYAN's existing port location on Kedang Kepala River for TABANG and PAKAR projects
- Gunung Sari – BAYAN's existing Port location on Belayan River for TABANG and PAKAR projects

GRAHA PANCA

- GPK – PT Graha Panca Karsa

OTHER

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The information in this report that relates to results from drilling at GPK 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 19 December 2017.

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 19 December 2017.

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.