

30 April 2010

## MARCH 2010 QUARTERLY ACTIVITIES REPORT

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### HIGHLIGHTS

#### COAL PROJECTS – INDONESIA

- Mining commenced at the Mamahak Coal Project.
- 50,000 tonnes of coal on Mamahak stockpile.
- Coal export sales contract signed with Chinese off-take partner.
- Further development of GPK Coal Project infrastructure.
- Approximately 30,000 tonnes of thermal coal shipped to domestic off-take partner.

#### CORPORATE

- Experienced international mining executive - Mr Peter Richards appointed as new Chairman.
- KRL completes 84.82% earn-in for GPK Project.
- KAL Energy deed of release on GPK Project secured under favourable terms

### OBJECTIVES FOR JUNE 2010 QUARTER

#### COAL PROJECTS – INDONESIA

- Conclude additional agreements with strategic off-take partners for coal sales.
- Continue production ramp-up at both Mamahak and GPK Coal Projects.
- Extend JORC resource at Mamahak Coal Project.
- Finalise due diligence for Tanur Jaya Coal Project.
- Finalise due diligence for Kubah Indah coking coal Project.

#### CORPORATE

- Complete due diligence on outstanding projects and complete acquisition payments to vendors following shareholder approval at EGM.
- Move to direct equity ownership of all Indonesian assets.
- Consider funding alternatives for next stage of KRL Project development.

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## **EXECUTIVE SUMMARY**

During the March 2010 Quarter, Kangaroo Resources Limited (ASX: **KRL**) ("KRL" or the "Company") made solid progress – both corporately and operationally – as it continued to make the transition from junior explorer to coal producer, with operations commencing at two projects – **GPK** and **Mamahak**.

This transition has involved a fundamental shift in the Company's entrepreneurial focus based on the acquisition of quality projects, to that of a production company, focused on operations capable of generating significant revenue and profits in the years to come. This has involved major changes in the systems, procedures, resources and management of the Company.

KRL commenced initial operations at its GPK Project in January with the sale of the first barge-load of coal, and to date, approximately 30,000 tonnes have been sold to PLN. While this tonnage does not reflect the ramp-up that KRL was originally targeting from GPK, the delay is a direct result of the introduction of KRL's second production project at Mamahak, which has taken significant time and resources to transform rapidly into a producing asset.

KRL tendered for the Mamahak semi-soft coking coal project in late 2009 and completed its acquisition in December 2009.

Mamahak was acquired with substantial infrastructure already in place, including roads, a loading facility and port, together with an existing pit and a stockpile of over 30,000 tonnes. The acquisition of Mamahak immediately transformed the Company's focus and enabled KRL to produce coking coal to complement its existing thermal coal production at GPK

KRL has since removed the overburden on the existing pit at Mamahak and exposed significantly more coal than originally expected. Further work is continuing in the surrounding region to build a platform for increased semi soft coking coal production. As Mamahak borders the Jawana and Borami coal concessions, operational synergies are expected to be realised in the future with all three projects having the ability to use the same infrastructure, equipment and other key resources.

While there is significant domestic and global demand for coal, and in particular coking coal, KRL is currently assessing a range of long-term off-take arrangements with a view to selecting the one that best suits the Company's overall strategy.

To this end, KRL has signed an initial coal sales contract with Guandong Yudean Farnon Investment Co. Ltd ("Yudean"), a significant Chinese power supplier. This contract is non-exclusive and therefore gives KRL the ability to consider other offtake partners going forward as may best suit the Company. It also allows KRL to begin to ramp-up production from existing levels towards more substantial levels on favourable prices and margins - the Company sees this as an important first step in its operational strategy.

KRL has continued to build its corporate presence and has been actively marketing the Company to a wider audience. As part of this process, KRL was able to secure the services during the Quarter of experienced international mining executive Mr Peter Richards as non-executive Chairman of the Company.

KRL will continue to add other Board members when considered necessary and appropriate.



## **OPERATIONS**

### Mamahak Project

The Mamahak Project was acquired from South Gobi Energy Resources in December 2009 and KRL immediately set about transforming it into a producing mine.

Existing infrastructure was recommissioned together with removal of overburden in the existing pit. All socialisation issues that had been prevalent during South Gobi's tenure of this project were addressed to clear the way for the immediate commencement of mining.

KRL commenced operations on site in February and further coal was exposed and moved onto the run-of-mine (ROM) stockpile in March. To date, a further 20,000 tonnes of coal have been placed on the ROM stockpile in addition to the 30,000 tonnes that KRL inherited.

KRL continues to work through the logistical and infrastructure issues relating to Mamahak to ensure the operation is capable of producing the required tonnages of coal going forward, as anticipated under an off-take agreement.

Indicative production costs are as budgeted around US\$55/tonne FOB barge and KRL believes these costs will decrease once more significant tonnages are delivered.

### GPK Project

Coal production at GPK commenced during the Quarter as planned, with an initial mining operation established with a view to progressively ramping up production.

GPK is the Company's first operational project and, with this in mind, KRL has had to establish systems, procedures and other requirements from the bottom up to ensure that it is able to efficiently achieve all of its planned production milestones.

Approximately 30,000 tonnes of coal was shipped to the PLN power station down the Mahakam River during the Quarter, with initial cash payments (60 day payment terms) commencing in mid-March.

KRL continues to focus on building the infrastructure necessary to develop the mine towards a more significant tonnage, including construction of a stockpile area, road access to new mining areas, port and loading facilities. In addition, through its Indonesian partners KRL purchased a 5,000-tonne barge to assist with logistics and the supply of coal.

Indicative GPK operating costs are currently around US\$25/tonne FOB barge, although KRL fully expects unit costs to decrease as production volumes increase.

The GPK ramp up was delayed in the last Quarter as a direct result of the acquisition of the Mamahak Project and KRL prioritising development of that Project. In the current June Quarter, KRL will focus on building GPK volumes and streamlining operations.

### Tanur Jaya (TJ) Project

KRL is currently continuing its due diligence exercise on the Tanur Jaya Project. Exploration work has continued to delineate a JORC compliant Reserve & Resource



Statement for this project and it is expected this will be completed during the June Quarter. Once this is finalised, due diligence will progress and project licensing will then be completed. At this stage, Tanur Jaya will be ready to move into production.

Tanur Jaya remains critical to the Company's strategy as a low cost, high tonnage production source, and KRL remains committed to secure this project and move it into production in 2010.

#### Kubah Indah (KI) Project

KRL is currently completing its due diligence exercise on the Kubah Indah (KI) Project, with the key outstanding item being the provision of an extension of the Exploration license.

While KRL and its Indonesian partners are confident this will be achieved in the short term, the issue of any consideration for this project can only proceed once due diligence is fully completed. All other legal and other due diligence have been completed.

#### MBK and BP Projects

During the Quarter, preliminary work was completed at MBK with regard to surveying and mapping coal outcrops. Drilling was planned for this project but rigs were diverted to Mamahak as part of the program to bring that project into production. As a result, exploration work on MBK and BP remains outstanding and will commence once other higher-priority targets are completed.

#### Jawana and Borami Projects

No work has been completed on these two projects during the Quarter. Work programmes are being considered in relation to fast-tracking these projects into a wider Mamahak regional production base, but exploration work will only be conducted subject to the completion of other higher-priority drilling.

### **CORPORATE**

KRL continues to progress on the corporate front, moving from a small entrepreneurial business in 2009 to an ASX-listed coal producer in 2010. The key corporate milestones achieved during the Quarter, and/or under consideration in the months ahead, are:

- Moving the status of existing projects within KRL from current contractual agreements (including fully securitised exchangeable bonds for all cash input into Indonesian projects to date) to full equity positions within the local PT Indonesian companies that own the assets. To this end, KRL has put together an experienced corporate advisory team to manage this process in Indonesia, which includes Ernst & Young, and will be seeking to move to a revised ownership structure for all of its Indonesian assets within the next 4-6 months;
- Continue building market relationships and support, including sustained coverage and support from Australian broking houses;
- Developing systems and procedures to develop strong internal controls within KRL;



- Completing due diligence on all outstanding projects and completing issue of new shares and other consideration to vendors. KRL is close to finalising the necessary due diligence on the Kubah Indah, Jawana and Borami projects, as well as MBK and BP. The Company will move to complete all share placements in the near future following an EGM;
- As part of this corporate development focus, the Company is looking to attract strong management and Board members to continue to develop the KRL strategy.

### Chairman Appointment

KRL appointed Peter Richards as non-executive Chairman in February 2010 as the first step to building a more experienced local board. Mr Richards has a strong corporate background as former CEO of Dyno-Nobel and is a non-executive Director of NSL Consolidated Limited and Bradken Limited.

His corporate experience is considered critical to assisting KRL's corporate development, both as Chairman and also as an Independent Director.

### Finance and Cash Flow

KRL has prudently managed the progress of all its projects in Indonesia, including both the GPK and Mamahak Projects, with the funds raised from placements in late 2009. This will ensure that as these projects move into production they are sufficiently capitalised to achieve their operational objectives (including necessary infrastructure).

KRL raised \$25 million in November 2009 and the table below compares the proposed use of these funds as detailed at the time, against their actual use:

### **Proposed Spend (Nov 2009)**

<b>PROJECT</b>	<b>SPEND *</b>		<b>DETAILS</b>
	<b>US\$</b>	<b>A\$ (AUD/USD 0.90)</b>	
GPK Project	2,000,000	2,222,222	Initial GPK acquisition cost
	8,000,000	8,888,889	Spend to earn into 84.82% - completed
Tanur Jaya Project	5,000,000	5,555,555	Initial deposit for 45% TJ Project
Mamahak Project			Did not exist
Kubah Indah			No funds considered in March quarter
Corporate	1,500,000	1,666,667	Securing funds plus corporate overhead
KAL Energy	5,000,000	5,555,556	To secure Deed of Release for GPK
Cash in bank	1,000,000	1,111,111	Approx cash in bank 31 March
<b>TOTAL</b>	<b>22,500,000</b>	<b>25,000,000</b>	



## Actual Spend (To Mar 2010)

PROJECT	SPEND *		DETAILS
	US\$	A\$ (AUD/USD 0.90)	
GPK Project	2,000,000	2,222,222	Initial GPK acquisition cost
	8,000,000	8,888,889	Spend to earn into 84.82% - completed
Tanur Jaya Project	3,300,000	3,666,667	Initial deposit for 45% TJ Project - paid
Mamahak Project	1,000,000	1,111,111	Initial Mamahak acquisition cost
	2,500,000	2,777,778	Approx capital spend YTD to develop Mamahak site into current production
Kubah Indah	1,200,000	1,333,333	Initial funds for licensing, permits, etc
Corporate	1,000,000	1,111,111	Securing funds plus corporate overhead
KAL Energy	1,000,000	1,111,111	To secure Deed of Release for GPK
Cash in bank	2,500,000	2,777,778	Approx cash in bank at 31 March
<b>TOTAL</b>	<b>22,500,000</b>	<b>25,000,000</b>	

\* Spend is approximate spend as rounded and attributed to various Projects within the Company.

As evidenced by these tables, KRL has spent most of the cash raised in November 2009 on acquiring and developing its projects to their current status of early production. This was in line with the Company's original objectives.

It is important to note however, that KRL has also managed to avoid or delay considerably higher budgeted payments, firstly to KAL Energy (for the deed of release on GPK Project) and secondly to PT IBU (for completion of the Tanur Jaya acquisition cost). This has enabled additional cash to be invested earlier than anticipated into other key areas, namely:

- **Mamahak Project** – Acquisition, development and early production from a second coal operation to supplement GPK; and
- **Kubah Indah** – Earlier than anticipated licensing and other payments which will provide substantial benefits in the drive to get Kubah Indah into production as soon as possible, following completion of due diligence and issue of shares to vendors.

Given its rapid development, KRL is aware that further funds will need to be made available for the expansion of mining activities, and in particular for additional equipment needed to produce higher tonnages.

Additional funding was always considered necessary in this respect during 2010 and KRL is considering various options to fund this requirement including:

- The sale of existing coal, including the Mamahak stockpile – this has now been achieved via the recent 150,000 tonne export sales agreement;
- Coal debt (up-front payments for coal sales); and
- Issue of a Convertible Note.

KRL has recently signed a Co-Operation Agreement with KAL Energy (replacing the Deed of Release as announced in the Prospectus dated 07 October 2009) with regard to the GPK Project.



Under the terms of this Co-operation Agreement, KRL paid US\$850,000 and allocated 8% of its project interest to KAL Energy in return for a complete deed of release from KAL Energy and associated companies for the GPK Project.

In addition, if the GPK Project is sold, KAL would receive 12% of the net consideration on its sale (project interest).

This closes any possible outstanding legal issues concerning KAL Energy and is considered a very good outcome as the two parties will now be working together to achieve the best possible commercial outcome for the project.

## **SUMMARY**

KRL Chairman Peter Richards said that while the March Quarter was one of tremendous change for KRL, it was an important consolidation period as the Company made the all-important transition into coal production:

“While the transition process has not been easy, it has enabled the Company to put in place the processes and structures required to build the foundations for a successful coal production business in Indonesia,” said Mr Richards.

“This required careful navigation of the necessary steps to ensure that the Company completed this transition successfully and has involved both KRL and its Indonesian partners and the building of a strong team to deliver on key milestones,” he said.

“Although we have accomplished a great deal in this period, we know we still have much to achieve to ensure that KRL finds its place amongst the top tier of coal producers in Indonesia.”

**ENDS**

### **Further information:**

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Managing Director

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**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 KRL. 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 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.*

*The information in this announcement that relates to Exploration Results, Mineral Resources or Ore Reserves is based on information compiled by Mr Jerko Zuvela, who is a Member of The Australasian Institute of Mining and Metallurgy. Mr Zuvela is an employee of the Company and has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking, to qualify as a Competent Person as defined in the 2004 Edition of the “Australasian Code for Reporting of Mineral Resources and Ore Reserves (the JORC Code).” Mr Zuvela consents to the inclusion in this report of the matters based on his information in the form and context in which it appears.*



## ABOUT KANGAROO RESOURCES

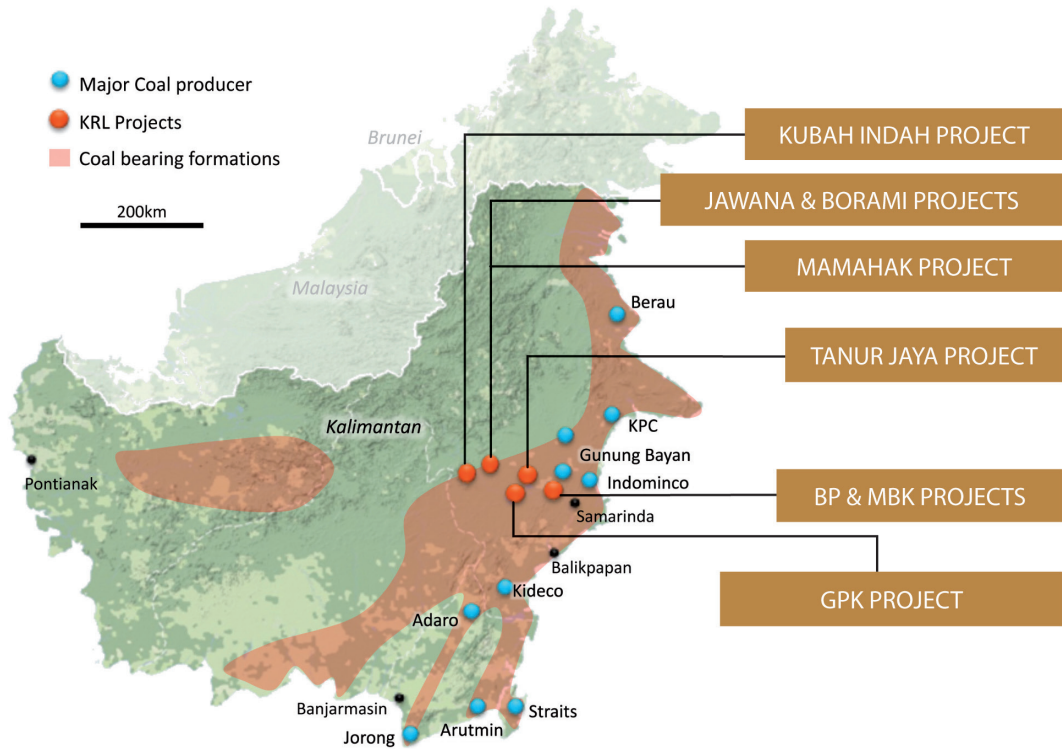
Kangaroo Resources Limited (ASX: KRL) is an emerging international mining Company with eight advanced coal projects in the East Kalimantan region of Indonesia.

The Company's projects host significant coking and thermal coal resources which will see KRL emerge as a significant Indonesian coal producer, with first production achieved in December 2009.

KRL is committed to building a sustainable mid-tier mining house, focusing on Indonesian coal and using the considerable experience and expertise of its exceptional in-country partners to fast track development and production.

The Company's medium term strategy entails vending in valuable new coal projects, while at the same time continuing to work towards production in the short term from at least three existing projects. The Company is targeting up to 1-2 million tonnes production in 2010, ramping up progressively thereafter to ultimately achieve up to +10 million tonnes coal per annum from operations within three years.

### Appendix 1: Project Location Map – East Kalimantan, Indonesia





# Appendix 5B

## Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001.

Name of entity

Kangaroo Resources Limited
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ABN

38 120 284 040
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Quarter ended ("current quarter")

31 March 2010
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### Consolidated statement of cash flows

	Current quarter \$A'000	Year to date (9 months) \$A'000
<b>Cash flows related to operating activities</b>		
1.1 Receipts from product sales and related debtors	265	265
1.2 Payments for		
(a) exploration and evaluation	(193)	(193)
(b) development	-	-
(c) production	(1,739)	(1,739)
(d) administration	(949)	(1,911)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	27	52
1.5 Interest and other costs of finance paid	(1)	(5)
1.6 Income taxes paid	-	-
1.7 Other (provide details if material)	-	-
<b>Net Operating Cash Flows</b>	<b>(2,590)</b>	<b>(3,531)</b>
<b>Cash flows related to investing activities</b>		
1.8 Payment for purchases of:		
(a)prospects	-	(15,283)
(b)equity investments	-	(972)
(c) other fixed assets	(9)	(16)
1.9 Proceeds from sale of:		
(a)prospects	-	-
(b)equity investments	-	-
(c)other fixed assets	-	206
1.10 Loans to other entities	(6,855)	(6,855)
1.11 Loans repaid by other entities	-	-
1.12 Other (provide details if material)	-	-
<b>Net investing cash flows</b>	<b>(6,864)</b>	<b>(22,920)</b>
1.13 Total operating and investing cash flows (carried forward)	<b>(9,454)</b>	<b>(26,451)</b>

+ See chapter 19 for defined terms.

**Appendix 5B**  
**Mining exploration entity quarterly report**

1.13	Total operating and investing cash flows (brought forward)	(9,454)	(26,451)
<b>Cash flows related to financing activities</b>			
1.14	Proceeds from issues of shares, options, etc.	1,007	28,067
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	(20)	(60)
1.18	Dividends paid	-	-
1.19	Other (provide details if material)	-	-
<b>Net financing cash flows</b>		987	28,007
<b>Net increase (decrease) in cash held</b>		(8,467)	1,556
1.20	Cash at beginning of quarter/year to date	11,160	1,137
1.21	Exchange rate adjustments to item 1.20	4	4
1.22	<b>Cash at end of quarter</b>	2,697	2,697

**Payments to directors of the entity and associates of the directors**

**Payments to related entities of the entity and associates of the related entities**

		Current quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	76
1.24	Aggregate amount of loans to the parties included in item 1.10	Nil

1.25 Explanation necessary for an understanding of the transactions

**Non-cash financing and investing activities**

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

N/A

2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

N/A

+ See chapter 19 for defined terms.

### Financing facilities available

Add notes as necessary for an understanding of the position.

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities	-	-
3.2 Credit standby arrangements	-	-

### Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	250
4.2 Development	
<b>Total</b>	<b>250</b>

### Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.

	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	2,697	10,989
5.2 Deposits at call		
5.3 Bank overdraft		
5.4 Other (provide details)		
<b>Total: cash at end of quarter</b> (item 1.22)	<b>2,697</b>	<b>10,989</b>

### Changes in interests in mining tenements

	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1	Interests in mining tenements relinquished, reduced or lapsed			
6.2	Interests in mining tenements acquired or increased			

+ See chapter 19 for defined terms.

**Appendix 5B**  
**Mining exploration entity quarterly report**

**Issued and quoted securities at end of current quarter**


*Description includes rate of interest and any redemption or conversion rights together with prices and dates.*

	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1	<b>Preference securities</b> <i>(description)</i>			
7.2	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions			
7.3	<b>+Ordinary securities</b>	746,976,265	746,976,265	
7.4	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	800,000	800,000	\$0.25
7.5	<b>+Convertible debt securities</b> <i>(description)</i>			
7.6	Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted			
7.7	<b>Options</b> <i>(description and conversion factor)</i>	10,000,000 10,000,000 375,000 30,000,000	- - - -	<i>Exercise price</i> \$0.05 \$0.10 \$0.40 \$0.01  <i>Expiry date</i> 30 September 2012 30 September 2012 27 November 2010 31 January 2013
7.8	Issued during quarter			
7.9	Exercised during quarter			
7.10	Expired during quarter			
7.11	<b>Debentures</b> <i>(totals only)</i>			
7.12	<b>Unsecured notes</b> <i>(totals only)</i>			

+ See chapter 19 for defined terms.

## Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 4).
- 2 This statement does give a true and fair view of the matters disclosed.



Sign here: ..... Date: 30 April 2010  
(Company secretary)

Print name: Sean Henbury

## Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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+ See chapter 19 for defined terms.