

31 January 2011

DECEMBER 2011 QUARTERLY ACTIVITIES REPORT

HIGHLIGHTS

COAL PROJECTS – INDONESIA

- ✦ US\$270M, 5-year mining contract signed with PT Putra Perkasa Abadi for the Mamahak Coking Coal Project to underpin ramp-up of production to full commercial levels.
- ✦ New contract is to mine up to 4.5 million metric tonnes of coking coal at Mamahak, establishing coal production targets of up to 1 million tonnes per annum.
- ✦ Planning completed for Stage One of an exploration drilling program at Mamahak designed to increase the current coal resource and provide the basis for definition of a Coal Reserve. Drilling will commence and continue throughout 2012.
- ✦ Total receipts from coal sales of ~\$588,000 from Mamahak Coal Project for the December Quarter.
- ✦ Deed of Transfer signed for KRL to officially acquire 99% direct ownership of five key concessions and one asset holding-company controlling various assets within the Pakar Thermal Coal Project.
- ✦ This further enhances KRL's ownership of the Pakar Project, clearing the way for commercial development of this cornerstone asset to proceed.

CORPORATE

- ✦ The Company held its Annual General Meeting on 25th November 2011.



EXECUTIVE SUMMARY

During the December 2011 Quarter, Kangaroo Resources Limited (ASX: KRL – “KRL” or “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”) completed earlier in the year.

Key developments during the Quarter 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.

Mamahak Coking Coal Project

During the Quarter, KRL’s 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 (www.ppacoal.com) 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.

Kangaroo’s major shareholder and strategic partner, Bayan Resources, assisted in the negotiation of the Mamahak mining contract utilising its extensive expertise and knowledge of coal mining in Indonesia.

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.

The contractor commenced mobilisation of key equipment, including overburden removal and coal mining equipment in December, with mobilisation expected to continue throughout the year and the majority of equipment due on site by Q3 2012.

The contract incorporates a scope of works for the mining contractor including project management, mine planning, surveying, supervision, site security, materials, equipment, equipment maintenance, labour, transportation, medical services, consumables and site infrastructure to carry out the works.

As part of the award of this contract, an upgrade of the existing haul road is planned with work scheduled to commence in Q2 2012 and to be completed by end of 2012.

The Company has also identified a new haul road alignment to a permanent barge loading facility on the Mahakam River that will significantly improve year-round barging access at Mamahak.

A LIDAR topographic survey is expected to be undertaken to complete the survey works required to commence the tender process for constructing the new road.



A tender is also in process for the construction of the new camp and support facilities, with award and commencement of construction expected to occur during 2012 and the first phase targeted for completion by the end of 2012.

Stage one of an exploration drilling program has been planned and the Company is currently in the process of selecting a drilling contractor to mobilize to site.

This exploration program, which will continue throughout 2012, has been designed to increase the current Mamahak coal resource and provide the basis for the definition of a Coal Reserve.

Small-scale coal mining operations continued at the Mamahak Project during the Quarter. Total receipts from coal sales of ~\$588,000 were recorded for the December Quarter.

Coal revenues were restricted during the Quarter due to the transition to the new mining contractor commencing in January 2012 and the phased return of the rented equipment previously utilised.

Mamahak coal is sold at a market price FOB Mamahak jetty, with Bayan pre-funding most of the coal on arrival at Mamahak port stockpile and the balance upon completion of loading onto barges for shipment.

Pakar Thermal Coal Project

During the Quarter, 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.

Bayan is continuing pre-development activities at Pakar in conjunction with its adjacent Tabang Project, with the aim of developing centralised material handling infrastructure and barge loading facilities for both projects.

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. This work has been delayed due to commitments at Mamahak and Pakar and a back-log of work being experienced by KRL's mining consultants. However, the tender pack is expected to be completed during Q1 2012.

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.

CORPORATE

The Company held its Annual General Meeting in Perth on 25th November 2011.

Cash at bank at the end of the December Quarter was ~\$4.7 million, with a total of US\$15 million due to be received once the complete project equity component of the Pakar transaction has been finalised.

Change of Financial Year End Date to 31 December

The Company has advised ASIC that we will be changing the 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. The next financial year for the Company will be a transitional one from 1 July 2011 to 31 December 2011 (i.e. six months). Thereafter, the Company will report to ASIC and the ASX as normal with respect to a 31 December financial year end.

KEY OBJECTIVES FOR MARCH 2012 QUARTER

- ✦ Completing the regulatory process and obtaining Government sign-off for the outstanding Pakar Project equity to be transferred to KRL.
- ✦ Continuing mobilisation and operations under the terms of the Mamahak mining contract and associated construction sub-contracts.
- ✦ Continue the evaluation of GPK contract mining tender and commence negotiations with mining contractors.

ENDS

Further information:

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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.

ABOUT KANGAROO RESOURCES

Kangaroo Resources Limited (ASX: KRL) is an emerging international mining Company with three coal projects and options over a number of others 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 majority shareholder to fast track development and production.

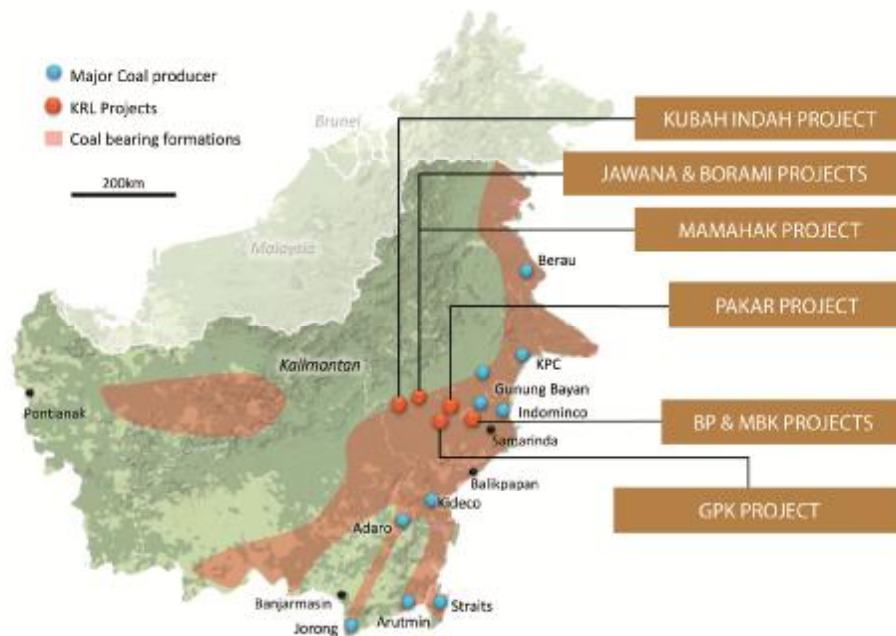
The Company's medium term strategy entails vending in valuable new coal projects, while at the same time continuing to build production in the short term from its three existing projects.

ABOUT BAYAN RESOURCES

PT. Bayan Resources Tbk is a leading Indonesian-focused coal producer which is listed on the Indonesian Stock Exchange. Bayan produced approximately 15.6 million tonnes of coal in 2011 from seven projects, making it one of Indonesia's largest coal producers. In addition, Bayan owns the Balikpapan Coal Terminal, one of Indonesia's largest coal terminals, as well as an innovative floating transfer station.

Bayan is committed to expanding its overall coal production and its association with Kangaroo as major shareholder, operating and off-take partner will assist in this regard. Bayan has the necessary resources, experience and expertise to help Kangaroo drive forward its Indonesian coal strategy.

Appendix 1: KRL 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

ABN

38 120 284 040

Quarter ended ("current quarter")

31 December 2011

Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date \$A'000
1.1 Receipts from product sales and related debtors	588	3,184
1.2 Payments for		
(a) exploration and evaluation	(3)	(70)
(b) development	-	-
(c) production	(2,690)	(5,394)
(d) administration	(1,002)	(2,033)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	6	15
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other (provide details if material)	-	-
Net Operating Cash Flows	(3,101)	(4,298)
Cash flows related to investing activities		
1.8 Payment for purchases of:		
(a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	(83)	(498)
1.9 Proceeds from sale of:		
(a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	-	-
1.10 Loans to other entities	-	(246)
1.11 Loans repaid by other entities	-	1,136
1.12 Other (cash acquired on acquisition of Pakar entities)	3,748	3,748
Net investing cash flows	3,665	4,140
1.13 Total operating and investing cash flows (carried forward)	564	(158)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	564	(158)
Cash flows related to financing activities			
1.14	Proceeds from issues of shares, options, etc.	-	-
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	2,443	2,443
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Other (provide details if material)	-	-
Net financing cash flows		2,443	2,443
Net increase (decrease) in cash held		3,007	2,285
1.20	Cash at beginning of quarter/year to date	1,690	2,369
1.21	Exchange rate adjustments to item 1.20	(19)	24
1.22	Cash at end of quarter	4,678	4,678

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	83
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

Directors' fees.

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	-
4.3 Production	3,000
4.4 Administration	1,000
Total	4,250

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	4,678	1,690
5.2 Deposits at call		
5.3 Bank overdraft		
5.4 Other (provide details)		
Total: cash at end of quarter (item 1.22)	4,678	1,690

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 Preference +securities <i>(description)</i>				
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3 +Ordinary securities	3,434,430,012	3,434,430,012		
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs				
7.5 +Convertible debt securities Convertible notes				
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted, repaid	- -	- -		
7.7 Options <i>(description and conversion factor)</i>	5,000,000 5,000,000 2,500,000 1,000,000 2,500,000 2,500,000	- - - - - -	<i>Exercise price</i> \$0.05 \$0.10 \$0.25 \$0.25 \$0.35 \$0.50	<i>Expiry date</i> 30 September 2012 30 September 2012 2 September 2012 15 September 2012 2 September 2012 2 September 2012
Warrants	128,103,448	-	\$0.133	29 June 2015

+ See chapter 19 for defined terms.

7.8	Issued during quarter				
7.9	Exercised during quarter – options				
7.10	Expired during quarter				
7.11	Debentures <i>(totals only)</i>				
7.12	Unsecured notes <i>(totals only)</i>				

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: 31 January 2012

(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.