

31 October 2011

SEPTEMBER 2011 QUARTERLY ACTIVITIES REPORT

HIGHLIGHTS

COAL PROJECTS – INDONESIA

- ✦ Plans for ramp-up of Mamahak operations being implemented, with key components including:
 - an ongoing *Contract Mining Tender process*, with the contract expected to be awarded in Q4 2011 and mobilization of main mining equipment to commence in 2012;
 - upgrade works being planned for the existing haul road and scheduled to commence in Q1 2012;
 - alignment of a planned new haul road identified down to a permanent barge loading facility on the Mahakam River which can provide year-round barging access – LIDAR topographic survey to be undertaken in Q4 2011;
 - tender for construction of new camp facilities underway, with award and commencement of construction expected to occur in Q4 2011; and
 - Stage one of an exploration drilling program has been planned with selection of a drilling contractor to mobilize to site currently in progress.
- ✦ Total receipts from coal sales of \$2,596,000 from Mamahak Coal Project for the September Quarter, with an additional 8,799 tonnes delivered to the port stockpile during the quarter.
- ✦ Pre-development activities continuing at the Pakar Thermal Coal Project, including the commencement of the design work for the material handling infrastructure; coal haul road and barge loading facilities with corresponding survey and geotechnical investigations underway.

CORPORATE

- ✦ Annual Report released to shareholders with the Company's Annual General Meeting to be held on 25th November 2011.

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EXECUTIVE SUMMARY

Pakar Thermal Coal Project

The September 2011 Quarter marked a consolidation period for Kangaroo Resources Limited (ASX: KRL – “KRL” or “the Company”) following its transformational transaction with the leading Indonesian coal producer PT Bayan Resources Tbk (“Bayan”) which was approved in June this year.

As part of this transaction, KRL will acquire a 99% interest in the Pakar Thermal Coal Project in East Kalimantan, Indonesia (“Pakar”).

The two companies are progressing toward achieving final government sign-off for the transfer of equity in the Pakar Project to KRL, enabling it to obtain direct foreign ownership of the nine concessions which make up the Pakar Project.

Bayan is continuing pre-development activities at Pakar in conjunction with its adjacent Tabang Project, with the aim of developing and preparing both projects for commencement of preliminary mining operations during 2012.

Mamahak Coking Coal Project

Small-scale coal mining operations continued during the Quarter at the Company's 100%-owned Mamahak Project, with Bayan assuming full operational responsibility for the Project.

Total receipts from coal sales of \$2,596,000 were recorded from Mamahak during the September Quarter. An additional 8,799 tonnes have been delivered to the port stockpile to date, with coal sale part-payments invoiced under the coal sales contract with Bayan.

Coal revenues were restricted during the Quarter due to the poor machinery availability of the rented equipment which further reduced its already low capacity, initial teething issues with the new management coupled with the low river levels during the current dry season, with barging suspended since late May.

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.

A key part of Bayan's management of the Mamahak Project includes overseeing the ramp-up of coal production, which had previously been delayed due to issues associated with lack of supplies, plant and equipment problems, and owner-mining complications.

Bayan has put in place an action plan to resolve these issues to improve operations and increase production rates.

During the Quarter, a contract mining tender process was ongoing and the Company expects to award a sizeable long-term mining contract to a local mining contractor during Q4 2011.

This contractor is expected to commence mobilization of main mining equipment to site and assume mining responsibilities during 2012.

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As part of the award of this contract, an upgrade of the existing haul road is planned with work scheduled to commence in Q1 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. A LIDAR topographic survey will be undertaken in Q4 2011 to complete the survey works required to then commence the tender process on constructing the new road.

A tender process was also undertaken for construction of the new camp facilities, with award and commencement of construction expected to occur in Q4 2011.

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 has been designed to increase the current Mamahak coal resource and provide the basis for the definition of a Coal Reserve.

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% of the shares in PT GPK directly to KRL.

Together with Bayan, KRL has commenced preparing a tender pack for the appointment of mining contractors at GPK. This work has been delayed due to a backlog of work being experienced by KRL's mining consultants, however the tender pack is expected to be completed during Q4 2011.

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 well to fast-track this current GPK tender process.

CORPORATE

The Company released its Annual Report to shareholders and provided notice of its Annual General Meeting, which will be held in Perth on 25th November 2011.

Cash at bank at the end of the September Quarter was ~\$1.7 million, with US\$15 million due to be received, once the project equity component of the Pakar transaction has been finalised.

KEY OBJECTIVES FOR DECEMBER 2011 QUARTER

- ✦ Completing the regulatory process and obtaining government sign-off for the Pakar Project equity to be transferred to KRL's Indonesian PMA company (a foreign investment company), enabling KRL to acquire direct foreign ownership of the asset.
- ✦ Award the Mamahak long-term mining contract and associated construction sub-contracts.

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- Commence the evaluation of GPK contract mining tender and 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 eight 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 build production in the short term from up to three existing projects.

ABOUT BAYAN RESOURCES

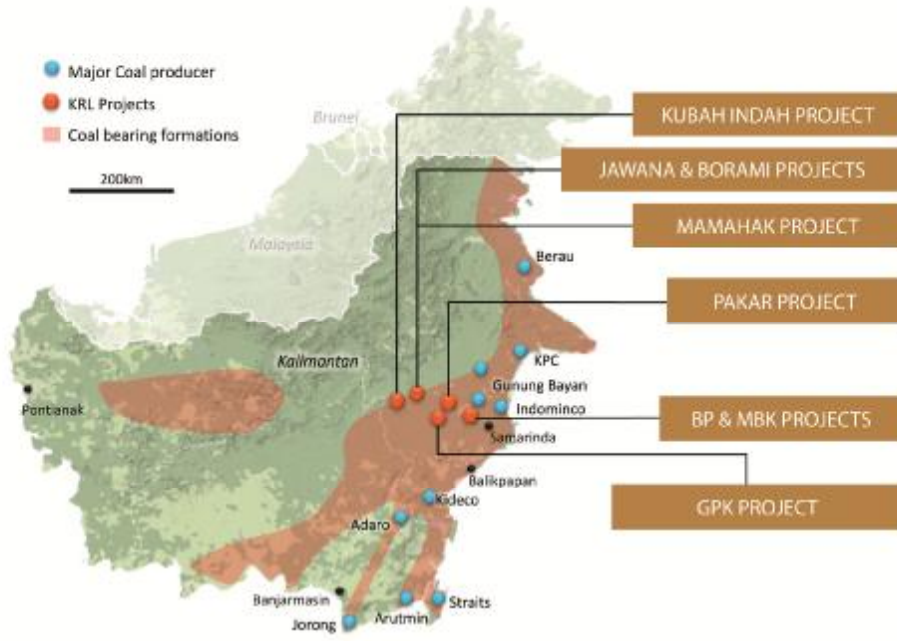
PT. Bayan Resources Tbk is a leading Indonesian-focused coal producer which is listed on the Indonesian Stock Exchange. Bayan produced approximately 11.9 million tonnes of coal in 2010 from six projects, making it one of Indonesia's largest coal producers. In addition, Bayan owns the Balikpapan Coal Terminal, one of Indonesia's largest coal terminals, as well as an innovative floating transfer station. Bayan is also the joint venture partner with White Energy in a coal beneficiation plant in East Kalimantan.

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.

Both Kangaroo and Bayan see many synergies in their two operating coal businesses in Indonesia and are seeking to take advantage of these as well as realise all available economies of scale.



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



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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")

30 September 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	2,596	2,596
1.2 Payments for		
(a) exploration and evaluation	(67)	(67)
(b) development	-	-
(c) production	(2,704)	(2,074)
(d) administration	(1,031)	(1,031)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	9	9
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	(1,197)	(1,197)
Cash flows related to investing activities		
1.8 Payment for purchases of:		
(a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	(415)	(415)
1.9 Proceeds from sale of:		
(a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	-	-
1.10 Loans to other entities	(246)	(246)
1.11 Loans repaid by other entities	1,136	1,136
1.12 Other (provide details if material)	-	-
Net investing cash flows	475	475
1.13 Total operating and investing cash flows (carried forward)	(722)	(722)

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Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(722)	(722)
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	-	-
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Other (provide details if material)	-	-
Net financing cash flows		-	-
Net increase (decrease) in cash held		(722)	(722)
1.20	Cash at beginning of quarter/year to date	2,369	2,369
1.21	Exchange rate adjustments to item 1.20	43	43
1.22	Cash at end of quarter	1,690	1,690

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	114
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	1,690	2,369
5.2 Deposits at call		
5.3 Bank overdraft		
5.4 Other (provide details)		
Total: cash at end of quarter (item 1.22)	1,690	2,369

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			

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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

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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 October 2011

(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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