

29 December 2010

KANGAROO UNVEILS \$277M TRANSACTION TO BECOME LEADING INDONESIAN COAL PRODUCER

**ACQUIRES WORLD-SCALE THERMAL COAL ASSET AND FORGES STRATEGIC
RELATIONSHIP WITH LEADING COAL CONGLOMERATE PT BAYAN RESOURCES**

Key Points:

- **KRL to acquire 99% of the large-scale Pakar Thermal Coal Project, a fully-developed, integrated thermal coal operation in East Kalimantan, from a leading Indonesian coal company PT Bayan Resources Tbk for \$277M in an all script deal**
- **Pakar hosts JORC total Coal Resources of 3.8 billion tonnes# [inclusive of total Coal Reserves of 116 million tonnes#]**
- **Bayan, a US\$4.5B Indonesian listed coal conglomerate, has signed a Memorandum of Understanding to immediately start managing all of KRL's Indonesian coal operations prior to the completion of the above transaction**
- **Bayan to become KRL's majority shareholder with an approximate 57% stake following completion of the transaction, which includes the injection of a further US\$18 million into KRL to further boost its working capital**
- **Pakar Coal Project ready for production in 2011**

International coal producer Kangaroo Resources Limited ("KRL" or the "Company") is pleased to announce that it has signed an agreement for a major coal acquisition that will see it establish a key strategic relationship with one of Indonesia's largest coal mining companies and ultimately join the ranks of the country's largest coal producers.

KRL has agreed to acquire the **world-scale Pakar Thermal Coal Project** ("Pakar" or the "Pakar Project") in East Kalimantan from **PT Bayan Resources Tbk** ("Bayan") for an equivalent total of **\$277 million**, all payable in KRL shares. As a result of the transaction, which is subject to due diligence, shareholder and regulatory approval, Bayan will emerge with an approximate 57% stake in KRL.

The Company has also signed a Memorandum of Understanding with Bayan to immediately take operational control of KRL's Indonesian projects prior to the completion of the above transaction.

With a market capitalisation of US\$4.5 billion, total coal resources of over 1 billion tonnes and total coal reserves of approximately 500 million tonnes spanning eight mining concessions in East and South Kalimantan, Bayan is one of the dominant companies in the Indonesian coal market.

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Bayan has a strong presence in both the coking and thermal coal markets and is aiming to expand this presence through its association with KRL. Bayan is currently targeting coal sales for 2010 of approximately 12 million tonnes for nearly US\$1 billion in revenues and approximately US\$150 million in EBITDA.

Pakar is a large-scale, substantially developed and integrated coal mining operation located in East Kalimantan, with **total Coal Resources of 3.8 billion tonnes[#]**, inclusive of **total Coal Reserves of 116 million tonnes[#]** (both estimated in accordance with the JORC Code [2004]).

Together with KRL's other Indonesian coal assets – including the 100%-owned Mamahak Coking Coal Project, which is currently producing, the Tanur Jaya Thermal Coal Project and the GPK Thermal Coal Project. This acquisition will reposition KRL as a world-scale Indonesian coal producer.

KRL has been earning a 49% interest in the Tanur Jaya concession (one of the nine concessions within the Pakar Project) over the past 12 months and this position will now be incorporated into the overall 99% interest that KRL is acquiring in the Pakar Project.

KRL also advises that it has **completed the commercial review of its GPK Thermal Coal Project** and, as a result of the association with Bayan, the Company intends to keep GPK within KRL and will look to resume coal operations at this project in 2011.

[#] The 3.8 billion tonne total Coal Resource is comprised of a 3.32 billion tonne total Coal Resource (including 2,171Mt Inferred Resources, 853.7Mt Indicated Resources, and 301.75Mt Measured Resources) with an average calorific value range of 4,599 – 5,443 kcal/kg (adb) at South Pakar¹; and a 484 million tonne total Coal Resource (including 172Mt Inferred Resources, 201Mt Indicated Resources, and 111Mt Measured Resources) with an average calorific value range of 5,160 – 5,255 kcal/kg (adb)/ 3,595 – 3,930kcal/kg (gar) [inclusive of total Coal Reserves of 116 million tonnes (including 15Mt Proved Reserves and 101Mt Probable Reserves) with an average calorific value of 3,786kcal/kg (gar)] at North Pakar².

¹ & ² Please refer to JORC Code Competent Persons statements.

Acquisition Terms

This agreement with Bayan is subject to due diligence, which will be carried out over the next 30 days, and KRL obtaining shareholder and regulatory approval.

As KRL will require shareholder approval for this transaction to take place, the Company has commissioned an Independent Expert to consider the valuation of the Pakar Project within KRL and prepare an Independent Expert's Report ("IER") for shareholders.

About Pakar

The Pakar Project is a large, low-rank thermal coal project located in East Kalimantan that has been developed over the past four years with initial exploration carried out, which delineated the resource and substantially constructed infrastructure to support the commencement of mining operations. This infrastructure includes roads, port facility, crushers, conveyors, mine camp and other key essentials required to move Pakar into production in the near term.



PROJECT	JORC RESOURCES & RESERVES				
	Inferred Resource	Indicated Resource	Measured Resource	Reserves	TOTAL
SOUTH PAKAR ¹	2,171Mt	853.7Mt	301.75Mt	-	3,326Mt
NORTH PAKAR ²	172Mt	201Mt	111Mt	116Mt*	484Mt
TOTAL	2,343Mt	1,054.7Mt	412.75Mt	116Mt*	3,810Mt

Table 1: Pakar Project JORC-compliant total Coal Resources and Reserves

* JORC Reserves are inclusive of JORC Resources; and comprise 15Mt of Proved Reserves and 101Mt of Probable Reserves
^{1 & 2} Please refer to JORC Code Competent Persons statements

PROJECT	AVERAGE COAL QUALITY - RESOURCES						
	TM% (ar)	IM% (adb)	Ash % (adb)	TS% (adb)	CV kcal/kg (adb) (gar)		RD (adb)
NORTH PAKAR	39.1 – 43.1	18.6	5.1 – 5.7	0.13 – 0.14	5,160 – 5,255	3,595 – 3,930	1.36
SOUTH PAKAR	45.5 – 54.3	12.6 – 14.4	4.0 – 14.5	0.17 – 0.28	4,599 – 5,443		1.39 – 1.48

Table 2: Pakar Project – JORC-compliant Resources Average Coal Quality

Work will commence immediately at Pakar to move the project into production during 2011.



Site infrastructure established at the Pakar Thermal Coal Project

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Site infrastructure established at the Pakar Thermal Coal Project

KRL will be drawing on the experience and the expertise of Bayan Resources, to assist in all aspects of moving Pakar into production in 2011.

About PT Bayan Resources Tbk



Bayan mining operations in East Kalimantan

Bayan is a significant Indonesian-listed coal mining and processing company with integrated operations covering the full spectrum from mining to processing, logistics and sales.

With a current market capitalization of approximately US\$4.5 billion, Bayan is one of the dominant companies in the Indonesian coal market. It has total coal resources of more than **1 billion tonnes** and total coal reserves of approximately **500 million tonnes**, spanning eight mining concessions in East Kalimantan and South Kalimantan.

Bayan has a strong presence in both the coking and thermal coal markets and is aiming to expand this presence through its association with KRL. Bayan is targeting coal sales of approximately 12 million tonnes coal sales for calendar 2010 for revenues of US\$1 billion and US\$150 million in EBITDA, ranking Bayan amongst the largest of Indonesian coal mining companies.

In addition to its mines, Bayan owns the Balikpapan Coal Terminal ("BCT") which is one of the largest coal terminals in Indonesia. BCT has a handling throughput capacity of 15Mtpa and a stockpiling capacity of approximately 1 million tonnes across 16 stockpiles.

Since commencing operations in 1995, BCT has handled more than 55 million tonnes of coal and loaded more than 1,000 vessels. Bayan also owns and operates the Floating Transfer Station which allows offshore loading onto Capesize vessels, the largest bulk vessels in the world to carry coal.

Bayan also has an interest in coal technology and beneficiation through the Binderless Coal Briquetting Company Pty Ltd, which upgrades low calorific value coals by

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reducing the moisture and compacting into dense, physically and chemically stable briquettes that can be handled, transported and utilized like normal coal.

As a result of this extensive mining, processing and logistical expertise, Bayan recognizes that it can add substantial value to KRL by realising synergies, economies of scale, technology, experience and expertise – all of which can rapidly escalate KRL's portfolio of Indonesian coal projects to their full capacity.



Bayan infrastructure established in East Kalimantan

KRL Structure

KRL currently has approximately 1,000 million shares on issue, with convertible notes and warrants amounting to a further 245 million shares fully diluted. In addition, KRL has approximately 30 million management incentive options at various exercise prices. The total fully diluted position is approximately 1,280 million shares.

Assuming this fully diluted position, the Company would benefit by a further ~\$17 million of cash for all warrants and options converted.

The Company recently announced a placement of 200 million shares for \$23.8 million on 17 December 2010 to strategic investors.

In addition to this, KRL will seek shareholder approval at a General Meeting for the issue of 2,305 million shares to the relevant parties as outlined above.

The ultimate capital structure of KRL, following receipt of all shareholder approvals and **assuming a fully diluted position** in relation to converted warrants and options will therefore be:

Stakeholder	Number of shares (fully diluted)	Cash into Company
Existing shareholders	805m 200m	~\$2.2m \$23.8m
Convertible notes Warrants and options	275m <small>(assumes full conversion of notes to shares)</small>	~\$17m <small>(assumes full conversion of options & warrants)</small>
New Shareholders from Pakar transaction	2,305m	\$18m + Pakar Project
	3,585m	Up to \$61m

KRL has recognized that in order to become a major Indonesian coal producer in the medium term it needed to achieve the following key objectives:

- to secure significant coal assets, with size and scale;
- to demonstrate suitable Balance Sheet strength and cash resources to underpin its growth;
- to develop a strategic partnership with a major coal company to assist with the execution of its growth strategy; and

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- ▶ to develop an operational management plan involving a credible party with the ability to assist in delivering on key production targets.

As a result of this transaction, the Company will have delivered on all of these key aspects, with Bayan now coming into KRL, 99% ownership of a world-scale asset complementing its existing Indonesian coal portfolio, the balance sheet strength and an operational management plan in place to execute its growth strategy.

KRL's Managing Director, Mr Mark O'Keeffe, said "This transaction represents a company-changing event and we are confident that this transaction represents the best strategy for unlocking the value of our existing assets and leveraging our strong position in Indonesia, which has been established over the past 18 months.

On completion of this transaction, KRL will have a world-scale base of thermal and high-quality coking coal, two existing production hubs with a major new project at Pakar targeted to come on stream next year and additional projects in the pipeline, and a partner and major shareholder in Bayan Resources – one of Indonesia's largest and most successful coal companies.

We believe that KRL is set for a very significant year in 2011, with the cash resources and assets in place to rapidly expand operations." he said.

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.

COMPETENT PERSON STATEMENTS:

¹ **Pakar (South) Project:** The estimates of Coal Resources for the Pakar (South) Coal Project (Pakar) presented in the report have been carried out in accordance with the Guidelines of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves", December 2004, prepared by the Joint Ore Reserves Committee of The Australasian Institute of Mining and Metallurgy, Australasian Institute of Geoscientists and Minerals Council of Australia. The information in the report to which this statement is attached, that relates to Pakar Coal Resources, is based on information reviewed by Mr Patrick Hanna, who is a Fellow of The Australasian Institute of Mining and Metallurgy and was a full time employee of Steffen, Robertson and Kirsten (Australasia) Pty Ltd trading as SRK Consulting (SRK) when preparing the Resources Statement. Mr Hanna 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 Exploration Results, Mineral Resources and Ore Reserves. Mr Hanna consents to the inclusion in the report of the matters based on this information in the form and context in which it appears.

² **Pakar (North) Project:** The Statement has been issued under the MMC name. MMC is an associated entity of PT Runge Indonesia. The MMC report should be read in its entirety. The resource was estimated in accordance with the guidelines of the Australasian Code for the Reporting of Exploration Results, Mineral Resources and Ore Reserves (JORC Code 2004). The Coal Resource estimates in the report were estimated by Mr. William Park, BSc (Geology), BEcon, MAIG who is a Member of the Australian Institute of Geoscientists. The estimates are based on information compiled and reviewed by Mr Park. He is a full time employee of MMC and has sufficient experience which is relevant to the style and type of deposit under consideration and to the activity undertaken to qualify him as a Competent Person as defined in the 2004 Edition of the JORC Code.



The Coal Reserve estimates in the report were estimated by Mr Michael Trainor BE (Mining), MAusIMM, a Member of the Australasian Institute of Mining and Metallurgy. The estimates are based on information compiled and reviewed by Mr Trainor. He is a full time employee of MMC and has sufficient experience which is relevant to the style and type of deposit under consideration and to the activity undertaken to qualify him as a Competent Person as defined in the 2004 Edition of the JORC Code.

ABOUT KANGAROO RESOURCES

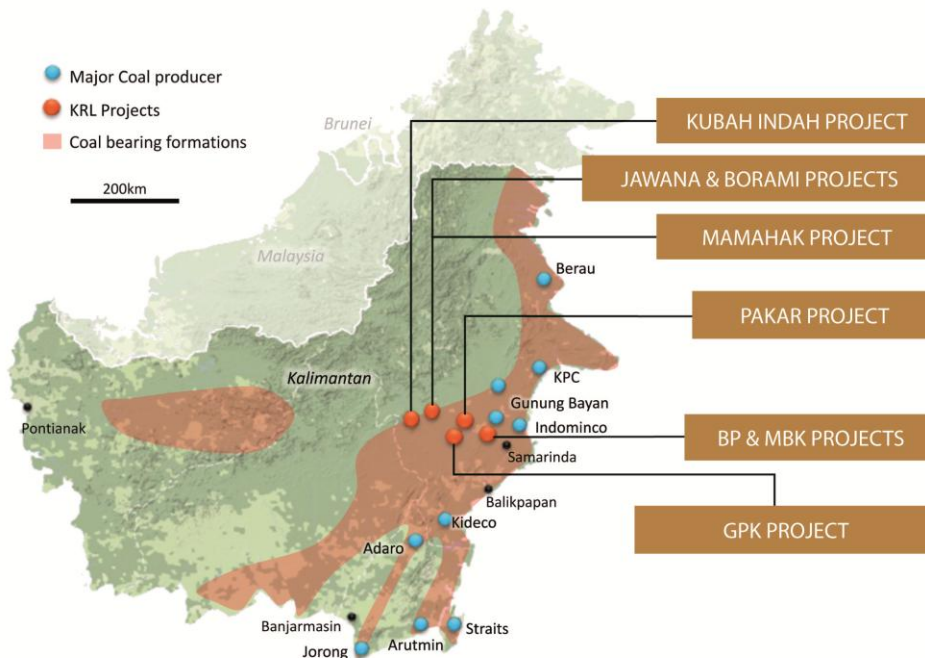
Kangaroo Resources Limited (ASX: KRL) is an emerging international mining Company with eight advanced coal projects in the East Kalimantan region of Indonesia.

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 build production in the short term from up to three existing projects.

Appendix 1: Project Location Map – East Kalimantan, Indonesia



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