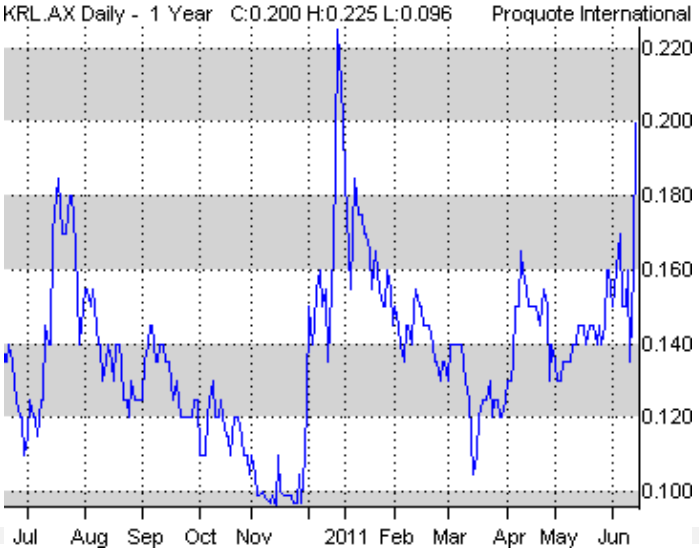
KANGAROO RESOURCES LTD 20¢

Year of the Kangaroo 15 June 2011



Recommendation:	**BUY**
Sector:	Mining
Target Price:	25¢
Exchange & Ticker:	ASX: KRL
Shares in issue:	3,434m
Fully diluted shares:	3,581m
Market cap:	A$ 687m

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Kangaroo Resources Ltd ("KRL") is an Indonesian coal producer listed on the Australian Stock Exchange (ASX: KRL). KRL has just completed a transformational transaction with Indonesian conglomerate; Bayan Resources, where KRL has acquired the Pakar thermal coal project. The alliance with Bayan will also leverage KRL's portfolio of coking and thermal coal assets and clear a path to becoming a major producer.

- **Pakar acquisition steps up the game.** Kangaroo has closed a landmark deal with Bayan Resources resulting in KRL acquiring the large Pakar thermal coal project. Pakar has significant infrastructure in place and KRL plans first production by the end of 2011. Our analysis indicates that the acquisition is value accretive and Pakar forms the backbone of KRL's value going forward.
- **Strategic Alliance.** KRL has established an alliance with Bayan Resources, a $7bn Indonesian integrated coal conglomerate. Bayan produced 12 Mt of coal in 2010 and owns a 15 Mtpa coal terminal and other infrastructure providing a key strategic advantage to KRL along with important off-take opportunities.
- **Exposure to thermal and coking coal.** KRL exposes investors to the potential upside from robust long term demand for coal, primarily from Asia. With both coking coal and thermal coal projects, KRL taps into strong forecast demand growth from the global steel and power generation industries respectively.
- **Strong organic growth.** With the Bayan transaction concluded, KRL has an exceptionally strong organic growth profile and plans to be producing coal from three separate production hubs by the end of 2011. We believe that growth into a mid-tier and major producer in the Indonesian coal sector is achievable.
- **Key catalysts** include: leveraging the Bayan transaction, bringing Pakar into production, ramping up coal sales at Mamahak, and development news or a resource update at Kubah Indah.

We are initiating coverage on Kangaroo Resources with a BUY rating and a short-term price target of A$0.25/sh (fully diluted). This represents a 25% premium to the current share price and a 56% premium over the 5 day average price. We have been conservative in our valuation and we are confident that there will be significant upside as the company de-risks following completion of the Bayan transaction and meets its aggressive production targets. We anticipate a re-rating once the company enters full-scale production.

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Executive summary

Indonesian coal producer. Kangaroo Resources Ltd ("KRL") is an Indonesian coal producer listed on the Australian Stock Exchange (ASX:KRL). The company has recently completed a transformational transaction with Indonesian conglomerate, Bayan Resources, where KRL has acquired the Pakar thermal coal project. The alliance with Bayan will also leverage KRL's portfolio of coking and thermal coal assets and clear a path to becoming a major producer.

Strong organic growth potential. With the Bayan transaction concluded, KRL has an exceptionally strong organic growth profile and plans to be producing coal from three separate production hubs by the end of 2011. We believe growth into a mid-tier and major producer in the Indonesian coal sector can be achieved without additional acquisitions at the current time.

A major coal producer. Once Mamahak, Pakar and GPK are in production following an aggressive ramp up, KRL is targeting production of 15 Mtpa coal within the next five years.

Production hubs leverage value. KRL initially plans to develop three production hubs. Putting infrastructure and logistics in place, and obtaining permits are the major challenges facing new coal projects around the world. Once these factors are put in place to exploit current assets, KRL can then look to acquire or develop new satellite operations to piggyback off this infrastructure

Competitive freight advantage. The location of KRL's mines in East Kalimantan provides an important freight advantage for coal delivery into Asia (the biggest importer), vs. other exporters in Australia or South Africa. KRL, through Bayan, will use its own coal terminals allowing rapid delivery to customers. Even if KRL sells all its coal at mine gate, the competitive freight differential available to end customers should translate to firm prices for KRL regardless of point of sale.

World-class resource base. With a JORC coal resource of 3.15 billion tonnes and reserves of 442 Mt, KRL is well positioned to develop robust long-life, low cost mining operations.

Bayan Resources deal de-risks… Kangaroo has closed a landmark transaction with Bayan Resources which results in KRL acquiring the large Pakar thermal coal project. Pakar is close to production and already has significant infrastructure in place. KRL plans to put Pakar into production by the end of 2011. Our analysis indicates that the acquisition is value accretive to KRL.

…but KRL will become subsidiary of Bayan. This presents a potential control risk for KRL minority shareholders and in many ways the acquisition is actually a way of listing of Bayan on the ASX.

Strategic Alliance. KRL has established an alliance with Bayan Resources, a $7bn Indonesian integrated coal conglomerate. Bayan produced 12 Mt of coal in 2010 and owns a 15 Mtpa coal terminal and other infrastructure providing a key strategic advantage to KRL.

Strong acquisition track record. KRL has a good track record of acquisitions and obtaining quality resources cheaply, according to our analysis.

Exposure to thermal and coking coal. KRL exposes investors to upside robust long term demand for coal, primarily from Asia. With both coking coal and thermal coal projects KRL taps into strong demand growth from the global steel and power generation industries respectively.

Funding Track Record. The company has successfully raised over A$60m over the last 18 months for acquisitions and project development as part of an aggressive growth strategy.

Valuation. We value Kangaroo Resources at A$856m, or A$0.24 per share (fully diluted) to derive our short-term target price of A$0.25, a 25% premium to the current share price and a 56% premium over the 5 day average price. We rate the stock as a BUY. Given KRL's position on the value curve we believe the stock represents a cheap entry point into strong growth story, and is due for a re-rating as KRL leverages the Bayan deal and meets mine development targets. Our conservative valuation approach suggests that there is material upside if KRL meets its production targets and timelines, and develops its project pipeline. We expect a re-rating once the company enters full-scale production.

Valuation summary

We initiate coverage on Kangaroo Resources with a target price of A$0.25 per share (fully diluted) and a BUY recommendation. This represents a 25% premium to the current price and a 56% premium to the 5 day average price, implying significant upside. Our conservative valuation approach suggests that there is material upside if KRL meets its production targets and timelines, and develops its project pipeline. Long range upside is available if KRL develops the Kubah Indah deposit which we currently exclude from our base case valuation. We believe the stock currently provides a cheap entry point into strong growth story. If we used management production forecasts, our valuation would increase to approximately A$0.30/sh but we retain a conservative view for now.

The ratio between risk and reward is fairly high as the Bayan alliance is in its infancy with numerous hurdles for Bayan and KRL to tackle. However, we believe that this represents a good entry point, whilst the stock is relatively cheap, as we think the stock will gain real traction once KRL starts to reap the benefits of the Bayan transaction and leverage Bayan's operating experience.

Our valuation of A$856m, or A$0.24 per share is based on an NAV multiple derived from a sum of the parts DCF analysis using our conservative base case scenario. In calculating our target price we believe 1x NAV is appropriate at this stage and with rounding up, we set our short term target price at A$0.25 per share, fully diluted. This includes the recent issue of 2,305m shares for the Bayan deal. Our DCF valuation employs a 12% discount rate at Mamahak as the project is in production and a 15% discount rate for advanced projects Pakar and GPK to reflect development and start up risk.

Net Asset Valuation

NET ASSET VALUATION						Fully diluted
Coal Projects	**Type**	**Discount rate**	**Interest**	**% NAV**	**A$m**	**A$/sh**
Mamahak	Coking Coal	12%	100%	15%	133	0.04
Pakar	Thermal Coal	15%	99%	72%	625	0.17
GPK	Thermal Coal	15%	85%	12%	104	0.03
Kubah Indah	Coking Coal	20%	100%	0%	0	0.00
MBK/BP	Thermal Coal	-	100%	-	0	0.00
Other Projects	-	-	-	-	0	0.00
Net Operating Assets				**100%**	**A$862**	**A$0.24**
Working Capital					32	0.01
LT Debt					0	0.00
Corporate G&A					(38)	(0.01)
Net Asset Value					**A$856**	**A$0.24**
Target Price					**-**	**A$0.25**

Source: Company reports, Old Park Lane Capital estimates

Base case

We take a conservative approach to our valuation and our modeling assumptions and in particular we have pushed back the start-up of Pakar and GPK, and taken a cautious approach to production ramp ups at all operations. Our base case valuation is A$0.24 which drives our target of A$0.25 per share.

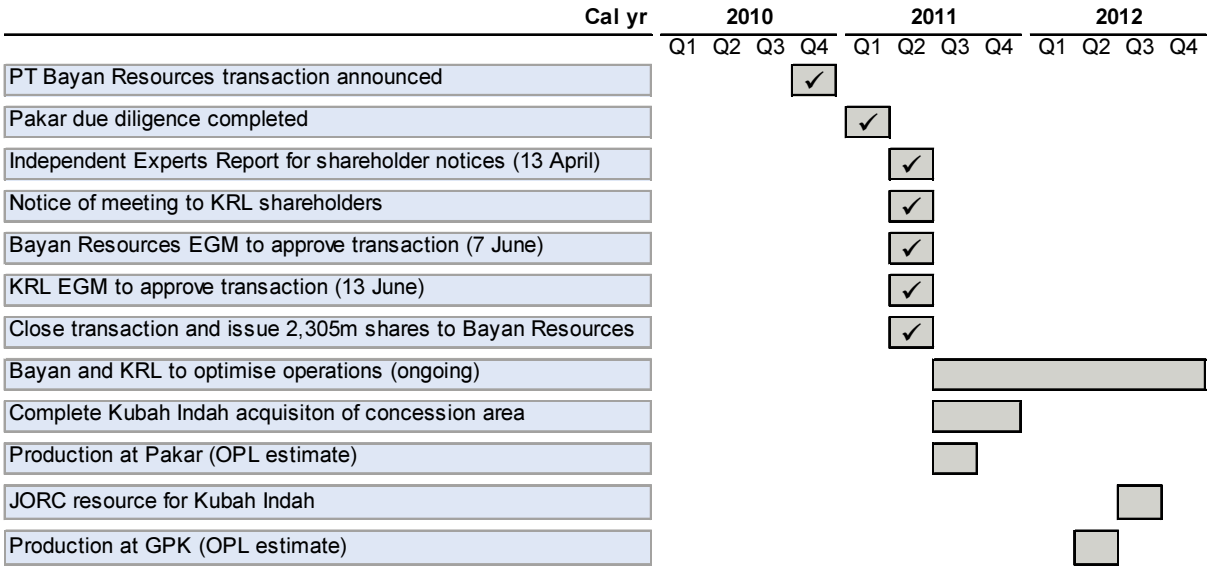
We currently assign no value to Kubah Indah, or KRL's other projects such as MBK, Jawani and Borami given their early stage nature. We will revisit these projects if KRL reports a resource or clearer development plan. In the meantime we recognize that they provide blue sky upside as part of the company's project pipeline. Kubah Indah in particular has potential to add significant value.

Upside case

If we use the same assumptions as our base case but with management estimates for project start-ups and ramp ups, our NAV, and thus our target price at 1x NAV would increase to A$0.30 per share on a fully diluted basis. This would be our upside valuation and represents an upside to the current share price of approximately 50%. We note that this still excludes the Kubah Indah project.

Key catalysts

We believe that a number of events with the next 2 years could act as catalysts for a potential re-rating of the stock:



Source: Old Park Lane Capital estimates

Significant news flow over the next two years

The next two years will be particularly busy for news flow for the company as the Kangaroo management team focus on optimising Mamahak, and bringing GPK and Pakar into production. If the company meets its challenging development timeline then it should have three mines in production by the end of 2011. We expect news flow in Q2 and Q3 2011 to be dominated by the landmark transaction with PT Bayan Resources, and the associated development of the company's Indonesian coal assets. The critical path for KRL is in meeting operational targets and developing the company's production hub concept.

In particular we believe the following are key share price drivers:

1.) Value and revenue generation will be realised if management meets aggressive build out target.

2.) Completion and optimisation of the Bayan transaction from mid-June 2011.

3.) Ramping up production at the Mamahak coking coal mine to 50,000 tpm by the end of 2011.

4.) Moving the large-scale Pakar thermal coal project into production, expected in late 2011.

5.) Off-take agreements for contracted sales from Mamahak or Pakar.

6.) JORC resource and development plan for Kubah Indah, and finalisation of concession acquisition.

Valuation base case

We initiate coverage on Kangaroo Resources Ltd with a target price of A$0.25/share and BUY recommendation based on a 1x NAV multiple using our conservative base case valuation scenario.

Our DCF valuation employs a 12% discount rate at Mamahak as the project is in production and a 15% discount rate for advanced projects Pakar and GPK to reflect development and start up risk.

Although we have modelled a number of different scenarios, our share price target is derived from our base case valuation on a fully diluted basis (3,581m shares) incorporating the successful completion of the Bayan transaction and subsequent issue of 2,305m shares.

Old Park Lane base case

Our base case represents our most conservative view on the development of the company, the basis of which drives our share price target of A$0.25 per share. Our base case NAV is A$856m or A$0.24/share on fully diluted basis.

For this scenario we assume:

- A slow ramp up to 1.2 Mpta at Mamahak by 2017.
- Pakar start up early Q2 2012 Vs guidance of July 2011.
- Mining of low moisture coal only at Pakar Vs guidance of low and high moisture from start-up.
- GPK start up in Q2 2012 Vs. guidance of Oct 2011.
- We exclude Kubah Indah from our valuation Vs. management guidance of 2013 start up.
- Flat coal prices in line with expectations of KRL's independent consultant.
- Opex (unit costs per tonne) and capex at high end of management guidance.
- Corporate tax at 20%.
- A flat A$:US$ exchange rate of 1.00.

OPL base case production forecast ('000 tonnes coal)

Fiscal year ending June	2011E	2012E	2013E	2014E	2015E	2016E	2017E
Project							
Mamahak	115	400	600	960	960	1,080	1,200
GPK	0	407	848	848	1,696	2,121	3,308
Pakar	0	594	4,455	5,940	7,425	9,900	9,900
Kubah Indah*	0	0	0	0	400	1,500	1,500
Total Coal ('000 tonnes)	115	1,401	5,903	7,748	10,481	14,601	15,908

*OPL forecast of Kubah Indah production shown but project NPV excluded from base case valuation

Our conservative production forecast for our base case valuation is shown above on a fiscal year basis. Note that although we have modelled production from the Kubah Indah project starting in 2015 (later than management estimates of 2013) we currently exclude the project NPV from our valuation due to a lack of resource estimate and uncertainty surrounding the development of the project. Our base case assumes a conservative ramp up and we expect to see a significant value uplift if KRL meets its internal production targets.

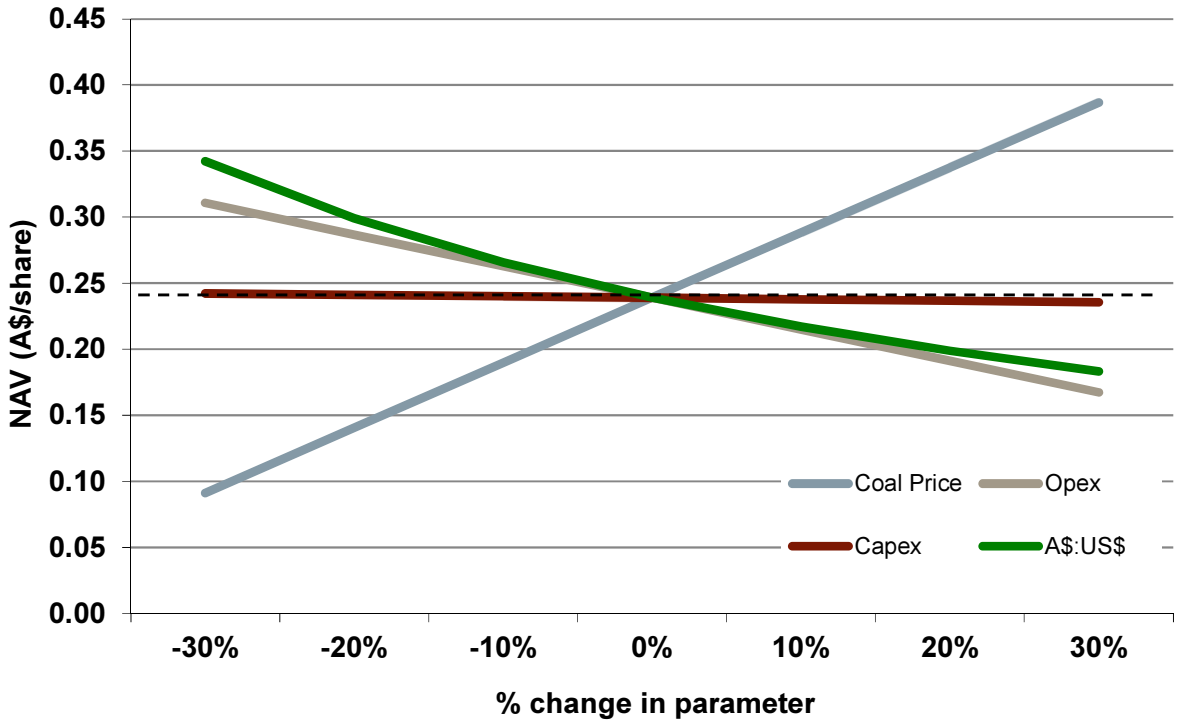
Sensitivity analysis

Sensitivity Chart

Our base case NAV estimate is most sensitive to fluctuations in coal prices. For a 10% increase or decrease in coal prices, our NAV increases or decreases by 20%.

Our base case NAV is also sensitive to changes in operating cost (opex). For a 10% increase or decrease in opex, our NAV increases or decreases by approximately 10%.

Our base case NAV is also sensitive to changes in the A$:US$ exchange rate as our DCF valuation is calculated in US dollars and our target price is presented in Australian dollars.



Source: Old Park Lane Capital estimates

NAV sensitivity to discount rate and coal price assumptions

The table below indicates the sensitivity of our base case NAV estimate to different discount rates and coal price assumptions. In order to calculate the matrix the same discount rate was applied to all projects. Our analysis suggests that KRL is robust under a number of different scenarios.

Discount rate	% change in coal price assumption				
	-20%	-10%	0%	10%	20%
5.0%	0.30	0.40	0.50	0.60	0.70
7.5%	0.24	0.32	0.41	0.49	0.57
10.0%	0.20	0.27	0.33	0.40	0.47
12.5%	0.17	0.22	0.28	0.33	0.39
15.0%	0.14	0.19	0.23	0.28	0.33
17.5%	0.12	0.16	0.20	0.24	0.28
20.0%	0.10	0.13	0.17	0.20	0.24

Source: Old Park Lane Capital estimates

Other valuation scenarios

Upside valuation

If we use the same assumptions as our base case but with management estimates for project start-ups and production ramp ups, our NAV, and thus our target price at 1x **NAV would increase to approximately A$0.30 per share** on a fully diluted basis. This would be our upside valuation and represents a premium to the current share price of approximately 50% and 100% to the 5-day average. It is important to note that in this upside scenario we still do not attribute any value to the Kubah Indah project which we anticipate would add significant value to KRL, if developed.

Kubah Indah has potential to provide further upside

At this present time we do not ascribe any value to the Kubah Indah project due to uncertainty surrounding the development timeline for a potential mining operation. We prefer to err on the side of conservatism and wait until KRL resolves licence issues, reports a resource in accordance with JORC guidelines and reports a development plan for the project. As such we expect any news on Kubah Indah to impact our valuation positively as the likelihood of development increases.

Independent expert's valuation

In April 2011, BDO Corporate Finance, independent experts engaged by Kangaroo Resources to provide an independent report on the Bayan proposal reported a range of valuations for KRL's assets.

On a fully diluted basis, this translates to values for KRL ranging between A$0.10 and A$0.29 per share, assuming the completion of the Bayan transaction. We view the low valuation case of A$0.10 per share as a realistic floor price and KRL should remain well supported above this level.

For Pakar, BDO report a range of values from $320m to $961m with a preferred value of $641m. This compares to our base case valuation of $625m for Pakar.

We note that the BDO valuation only applies detailed DCF analysis to the Pakar project. Mamahak was valued using a resource multiple whilst GPK was assessed by taking the value of $11.5m when the asset was previously held for sale. As such we believe these techniques undervalue GPK and in particular Mamahak which is already in production.

Independent expert's valuation of KRL

	Valuation Low	Valuation Preferred	Valuation High
Asset	A$m	A$m	A$m
Mamahak	15	29	44
Pakar	320	641	961
GPK	12	12	12
Other	19	19	19
Total Assets	**365**	**701**	**1,036**
Liabilities	6	6	6
Net Asset Value	360	695	1,030
NAV per KRL share (basic)	A$0.11	A$0.20	A$0.30
NAV per KRL share (diluted)	A$0.10	A$0.19	A$0.29
Basic shares in issue (m)	3,424	3,424	3,424
Diluted shares in issue (m)	3,581	3,581	3,581

Source: BDO Corporate Finance, Kangaroo Resources

Key risk factors

In our view, the key risks to Kangaroo Resources and our valuation are:

- **Control Risk.** With Bayan Resources transaction completed successfully, Kangaroo will issue 2,305m new shares to Bayan. This results in Bayan emerging with an approximate 56% stake in KRL. This introduces a control risk as Bayan is the dominant partner, and thus able to exert significant control over the operation and direction of the company. The composition and nature of the Board will change significantly as Bayan becomes a major shareholder and appoints representatives to the Board. Bayan is entitled to appoint five new directors to the board of the company (four appointed so far). With a 56% stake in KRL, Bayan will be able to pass general resolutions to approve a matter (requiring 50% of shares to be voted in favour) but not special resolutions (which require 75% of shares to be voted in favour). In many ways the Pakar acquisition is actually a way of listing Bayan on the ASX. The deal means that the effective free float of the company is limited.

- **Currency risk.** The main currency exposure is to US Dollars and Indonesian Rupiah. KRL's primary assets are located in Indonesia and as such the majority of operating and capital costs are denominated in Indonesian Rupiah (IDR). The company gains a significant portion of revenue from the sale of thermal and coking coal denominated in US dollars (US$). The group is exposed to currency risk on receivables, payables and borrowing that are denominated in a currency other than Australian dollars (the functional currency of the group).

- **Political / sovereign risk**. Indonesia's mining legislation has undergone a number of changes in recent years and we would not rule out a further amendment to the current mineral law. We view the primary risk as uncertainty surrounding the percentage of divestment in an IUP that a foreign company must make after 5 years. Additional risks include amendments to royalty rates / taxes, nationalisation and permitting delays.

- **Coal price volatility.** Kangaroo Resources is exposed to fluctuations in both thermal and coking coal prices. Whilst we are bullish on coal, any volatility in the coal price may have a significant impact on margins and profitability. Coking coal in particular may display higher volatility than thermal coal, being linked to global steel demand.

- **Infrastructure / logistics.** KRL's East Kalimantan mining operations are in relatively undeveloped regions. Although infrastructure is in place at many operations, the company remains vulnerable to delays in barging coal by river during the dry season. This may adversely affect the timing of sales revenue and production forecasts. The issue is largely mitigated for operations under an off-take agreement where sales are made at the mine gate.

- **Regulation of exports of low CV coal from Indonesia.** Due to a relative shortage of domestic coal supplies for power generation, the Indonesian government has in the past, and may again the future regulate or seek to ban exports of lower CV coal from the country.

- **Marketing and contract sales risk.** Like all resource companies KRL is dependent on spot and/or off-take contracts for product sales and demand for coal of the specification produced at KRL's mines. In particular we note that the market for high moisture coal (Pakar South) is uncertain at present. This may have a material effect on future revenue streams.

- **Development risk.** Some of KRL's projects are in the development phase and as such may be liable to start up delays, changes to capital or operating costs, or setbacks. These may materially affect the timing of future cash flows.

Coal investment summary

Asian demand drives growth

Over the last two years there has been a quantum shift in demand for thermal and coking coal from the traditional markets in Europe, to Asia. This demand is largely driven by new markets in China and India and is having a significant impact on the supply-demand balance of the seaborne market.

Thermal Coal: China in particular is likely to remain a net importer of coal over the foreseeable future. The ability of Chinese domestic production to respond to any projected supply gap is unknown but we retain the view that the demand for coal imports will remain robust. In India, domestic coal supplies and infrastructure are struggling to keep pace with surging power demand. Imports are currently filling this gap and the new generation of large power stations in the country are largely focused on imported low CV coal, a good match for KRL's future production from Pakar.

Coking Coal: Steel demand is driven by population, economic growth and development. China, India, and other emerging nations look set to drive steel consumption growth, and thus growth in demand for coking coal. China's steel production has increased by close to 20% per year over the past ten years driven by industrialization and urbanization. The Chinese steel industry is growing and consolidating, leading to the dominance of large steel producers, who require large secure supplies of coking coal. Although India has domestic resources of coking coal, the quality is poor in comparison with foreign sourced coals. The EIA estimates that India's long term plans include an expansion of its steel industry to between 165Mt and 198Mt of raw steel output by 2020, up from 62 Mt in 2008.

Supply-side disruptions – infrastructure and weather

We remain bullish on the outlook for coal prices given the on-going risk of infrastructure bottlenecks and potential for further supply-side shocks.

Coal exports in late 2010 and early 2011 from Indonesia and Australia were been tempered by an extension to the normal wet season in Indonesia and monsoonal rains in Queensland and NSW in Australia. The rain severely hampered operations prompting the majors to declare force majeure on coal sales contracts from its mines. Australia also has a number of rail and port constraints.

This is coupled with limited supply from Richard's Bay in South Africa which has been struggling for years to raise exports beyond 65 Mtpa due to infrastructure bottlenecks and the poor performance by the Transnet rail network which links the coal mines to the Richard's Bay Coal Terminal.

Thermal coal - backbone of global power generation

GDP growth is a principal driver of growth in demand for energy, and according to the IEA World Energy Outlook, coal is set to increase its share of primary energy demand, when compared to other sources such as gas, oil and nuclear energy. Couple India's shortfall in domestic coal production with the high forecast GDP growth for the country and India then emerges as a key driver of export demand for thermal coal. As such, Indian companies have been active in not only in Southern Africa but also other countries such as Indonesia in order to secure long term supplies of thermal coal.

Coking coal – backbone of global steel demand

We believe the outlook for coking coal prices remains strong as demand for coking coal is inextricably linked to global steel production. Steel demand is driven by population, economic growth and development. Coupled with this, substitution remains limited with steel producers likely to continue to relying BOF (blast oxygen furnace) technologies. In addition the recent shift towards shorter term contract pricing is likely to be positive for coking coal prices.

Company profile

ASX-listed Kangaroo Resources Ltd (ASX:KRL) is a rapidly growing coal producer focused on the development of thermal coal and coking coal assets in Indonesia. Kangaroo has recently completed a transformational transaction to acquire the world-class Pakar thermal coal project in Kalimantan through strategic alliance with the $7bn market cap PT Bayan Resources, an integrated coal miner and processor, and a dominant player in the Indonesian coal industry.

Having completed the Bayan transaction, Kangaroo has a substantial 3.15 billion tonne coal resource and reserve inventory, including 442 Mt of reserves. The majority of this inventory is composed of the 3.01 billion tonne low rank thermal coal resource at Pakar.

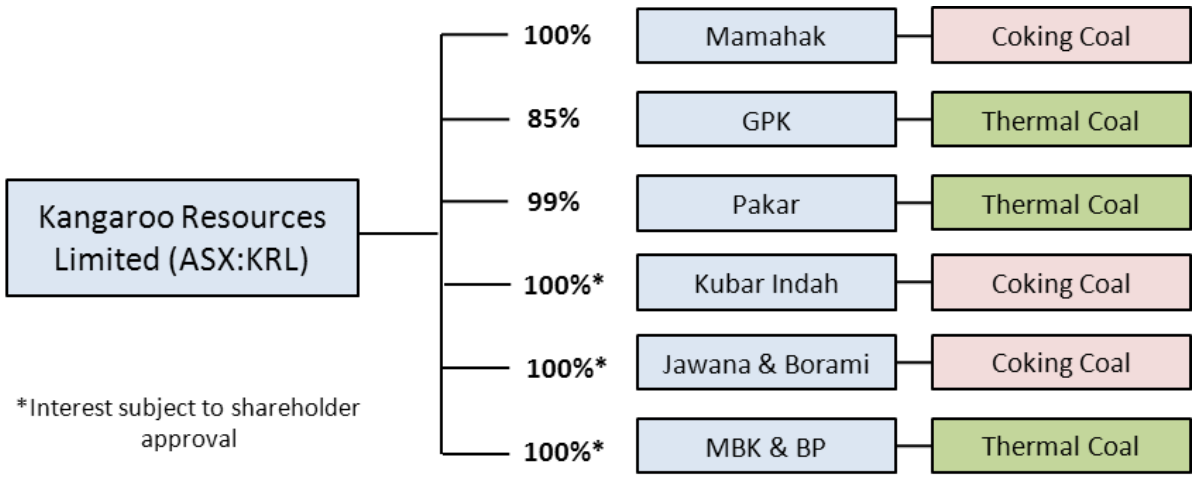
KRL commenced production from GPK, its first thermal coal operation in December 2009, quickly followed by Mamahak, its first coking coal operation in February 2010. The company has an extensive project pipeline of eight coal projects but with KRL's strategy to become a major Indonesian coal producer, the current focus is on developing four major coal production hubs:

- **Mamahak** Coking coal Production since Feb 2010
- **GPK** Thermal coal Production to recommence late 2011
- **Pakar** Thermal coal Production targeted mid-2011
- **Kubah Indah** Coking coal Production targeted 2012 / 2013

The company also has the Mt Ruby iron ore project in Australia which we consider as non-core given the company's primary focus on Indonesian coal.

Company structure

Kangaroo Resources Limited has a fairly simple corporate structure. Post the successful completion of the PT Bayan Resources transaction, Kangaroo Resources will hold a range of virtually 100% owned coking and thermal coal assets in Kalimantan, Indonesia. At the project level, the assets are generally held via a number of Indonesian or Singaporean incorporated vehicles with Kangaroo's interest as indicated in the organogram below. Kangaroo's projects have the advantage of generally being wholly owned. The main exception is the GPK project where Kangaroo has an 84.82% interest with the balance held by PT Graha Panca Karsa, the original Indonesian concession owner.



Source: Kangaroo Resources, Old Park Lane Capital

Project location

Kangaroo's key assets are located in Kalimantan, the Indonesian portion of the island of Borneo. All of the company's projects are located in the world renowned coal-bearing formations on the eastern portion of the island, to the northwest of Samarinda, the capital of East Kalimantan.

Kangaroo's projects are ideally positioned to supply not only the domestic market in Indonesia but also the export market primarily focused on Asia. In particular, the proximity to India and China is a key strategic advantage for the company as these countries are rapidly expanding their power generation capacity and actively looking to secure long term supplies of thermal coal. Asia also forms the driver for coking coal, with Asian-based steel mills sourcing coal from further a field as the global coking coal market remains tight.

The company's assets are well located in areas of existing infrastructure including haul roads, barging facilities, ports, and power plants.

Project location map

Source: Kangaroo Resources, OPLC

Bayan transaction changes everything

The significance of the Bayan Resources transaction cannot be understated. We believe the deal will transform Kangaroo into a leading player in the Indonesian coal sector. In order to be a successful player in the Indonesian coal industry, Kangaroo realized that it needed to align itself with a significant organization. In our view, the critical factors of the deal are as follows:

World-class scale, near-production coal asset

The combination with Bayan delivers access to Pakar, one of the largest thermal coal projects in Indonesia, which will dovetail into KRL's existing portfolio of coal projects in Kalimantan. The project has JORC compliant resources of 3,000 Mt of low-rank thermal coal, and reserves of over 400 Mt.

Pakar is a near-production asset and if the company's development plan runs on schedule, the project should contribute to Kangaroo production profile before the end of 2011. Kangaroo is planning to ramp up production to 10 to 15 Mtpa within the next five years. Clearly, this is a step change for Kangaroo and lifts the company into the ranks of a major coal producer. With the major producers struggling to increase output, production from the large players in the industry has been on a flat or declining trend. This represents an opportunity for companies like Kangaroo to gain a foothold in the industry.

Strategic partner de-risks development

Bayan Resources is not only a major shareholder but a key strategic partner. Given the challenges any emerging producer faces in the current climate we believe that an association with a large financially stable, integrated producer is a key advantage as Kangaroo leverages off Bayan's expertise, resources and infrastructure.

However, the positives of having Bayan as a strategic partner must be tempered against the effective loss of control as Bayan emerges with a controlling 56% stake in the new Kangaroo Resources. Whilst we do not believe this is a significant issue because the fortunes and focus of the two companies are now aligned, we would caution that KRL will effectively become a subsidiary of Bayan. In some senses the transaction is a route for Bayan to list on the ASX.

The knock-on effect for other projects

We believe that another investment positive of the association with Bayan is the knock-on effect to the other projects in Kangaroo's portfolio and in particular the development of the production hub strategy. This has already been evidenced by decision to keep and put back into production, the GPK project. This was previously held for sale in 2010 as Kangaroo needed the funds to develop and ramp up its other projects. This has now been overturned in light of the Bayan transaction and the partnership with a strong financial and technical partner.

Infrastructure in place

The Pakar project comes with significant infrastructure already developed to support the commencement of mining. Infrastructure development and logistics are among the most important of the critical success factors for the development of coal resources, in our view.

This infrastructure includes roads, port facilities, crushers, conveyors and a mine camp. The expense of developing this infrastructure is now a sunk cost, leaving only modest capital requirements to move Pakar into production. Bayan also owns the Balikpapan Coal Terminal, one of the largest coal terminals in Kalimantan and associated floating transfer stations allowing the loading and unloading of coal from barges directly to Capesize or Panamax vessels. (Infrastructure photos next page)

Pakar Infrastructure photos

As mentioned Pakar has significant infrastructure already in place. This reduces the capital expenditure required to move the project into production. The low capex is critical in our view, given the lower rank nature of coal at the project.

Aerial view of Pakar coal project showing crushers, conveyors and other infrastructure

Source: Kangaroo Resources

Port, loading and stockpile facilities at Pakar

Source: Kangaroo Resources

Cheap entry into world-class Indonesian coal play

Based on our base case valuation of Pakar and analysis of recent M&A transactions in the global coal space we believe that the acquisition of the Pakar project represents a good value opportunity and is likely to be value accretive for the company going forward. This is further supported by the valuation calculated by AM&A and BDO, KRL's independent consultants, which indicates the Pakar acquisition is deeply discounted relative to its potential value.

We calculate that the effective acquisition cost for KRL to acquire Pakar is approximately US$280m based on 2,305m shares to be issued and KRL's share price prior to the deal announcement. This equates to an acquisition cost of $0.09 per total resource tonne based on the 99% stake in Pakar to be acquired. This compares to an average of $1.06 / tonne calculated from a suite of recent global thermal coal M&A deals. This basic calculation of course, makes no allowance for variances in coal quality or rank but at least provides some context to acquisition value.

Recent global thermal coal M&A transactions – Pakar acquisition stacks up

Date	Target	Interest	Acquirer	Location	Coal type	Effective acquisition cost (US$m)	Attrib. resource (Mt)	Cost per resc tonne (US$/t)	Production (Mt)	Cost per prod tonne (US$/t)
Sep-07	Anvil Hill	100%	Xstrata	Australia	Thermal	361	500	$0.72	10.5	34
Oct-09	Tapan & Jambi	100%	Adavale Resources	Indonesia	Thermal	5	35	$0.14	-	-
Feb-10	Vickery	100%	Whitehaven	Australia	Thermal / SSC	27	294	$0.09	-	-
Mar-10	Prodeco	100%	Glencore	Colombia	Thermal	2250	352	$6.39	10	225
Jul-10	Centennial Coal	100%	Banpu Minerals	Australia	Thermal	2300	2441	$0.94	14	164
Aug-10	Mashala Resources	100%	Continental Coal	South Africa	Thermal	60	414	$0.14	0.6	100
Nov-10	Bumi Res & Berau	25% & 75%	Vallar plc	Indonesia	Thermal	3,000	3481	$0.86	61	49
Weighted average								**$1.06**		**$94.45**
Dec-10	**Pakar***	**99%**	**Kangaroo**	**Indonesia**	**Thermal**	**277**	**2,989**	**$0.09**	**-**	**-**

* Pakar acquisition cost based on issue of 2.305 shares at A$0.125 (KRL share price prior to announcment of deal)

Source: Company reports, OPL estimates

The discount to our global M&A benchmark in part reflects the stage of development, with most assets used in the calculation being in production. Given the importance of infrastructure and logistics in coal operations, and long lead times for feasibility and permitting, producing assets rightly command a premium over and above any extra premium paid to effective control the assets being acquired.

By any frame of reference, the Pakar acquisition appears to be cheap on paper even before consideration of other more intangible benefits that will accrue to the Kangaroo as a result of having a strategic partner on board and new access to infrastructure. KRL estimates that the installed infrastructure at Pakar South to have cost in the vicinity of $100m.

Indeed, our internal valuation for the Pakar project is US$625m, indicating that acquisition represents a 51% discount to our base case valuation. In order to realize this value, KRL needs to meet its development timelines. Our valuation is also extremely sensitive to coal price assumptions.

The value of Pakar is further confirmed by BDO and AM&A, KRL's independent consultants, who in April 2011 considered the market value of KRL's interest in Pakar to be US$640m in a range of $320m to $961m.

AM&A's range of valuations for Pakar

Asset	Low Value US$m	Preferred Value US$m	High Value US$m
Pakar	$320.5	$681.9	$1,017.1

Source: Al Maynard & Associates, Independent Valuation of the Pakar thermal coal project

Bayan Resources deal – the details

Transaction transforms Kangaroo into major player in Indonesian coal sector

In December 2010 Kangaroo Resources announced a landmark deal to acquire 99% of the Pakar project from leading Indonesian coal conglomerate, PT Bayan Resources in an all-scrip offer for A$277m. Pakar is a large 3 billion tonne low-rank thermal coal project in east Kalimantan, Indonesia with extensive existing infrastructure to support the commencement of mining operations during 2011. In our view, the successful completion of the transaction will catapult the company onto a new trajectory as Kangaroo becomes a major player in the Indonesian coal sector.

In addition to acquiring one the largest thermal coal projects in Indonesia, the transaction also brings on board a very strong strategic partner in Bayan Resources, which will hold a 56% stake in KRL on completion of the transaction.

Bayan Resources – a strong partner

PT Bayan Resources Tbk ("Bayan") is a major Indonesian coal producer listed on the Jakarta stock exchange with a market capitalisation of approximately $7bn. Bayan is a fully integrated producer and owns its own coal loading infrastructure. In 2010 Bayan produced 12 Mt of coal from eight coal projects located in Kalimantan. Bayan has a strong presence in both the thermal and coking coal markets and is looking to expand this through its association with Kangaroo Resources.

Of key importance is that Bayan owns the Balikpapan Coal Terminal, one of the largest coal terminals in Kalimantan with an annual throughput capacity of 15 Mt. Bayan is currently investigating the expansion of this terminal to meet increasing export demand for coal in the region.

Rationale

The rationale for Kangaroo's association with Bayan Resources is clear:

- Acquisition of one of the largest near-production thermal coal projects in Indonesia.
- A strong, technically capable and financially secure strategic partner. Bayan has a strong balance sheet with US$100m in cash and strong revenues of US$ 1 billion and EBITDA of US$150m.
- A strategic partner to assist KRL in project execution and future growth, by providing logistical support, operational experience and marketing expertise.
- Access to Bayan's operations team with local Indonesian technical and financial expertise.
- Kangaroo will maintain its position as a separate ASX-listed entity.
- Bayan will take operational control prior to completion of the transaction.
- Bayan owns the Balikpapan Coal Terminal, one of the largest coal terminals in Indonesia.
- Bayan owns a floating transfer station allowing offshore loading of coal onto Cape-size and Panamax vessels.
- Bayan is an off-take partner and has already signed a sales contract for Mamahak coal.
- Bayan is able to help KRL overcome logistic and operation issues with coal transport.
- Bayan has an interest in the beneficiation and upgrading of low-calorific coals.

Bayan will be operator

The company has signed a Memorandum of Understanding with Bayan, whereby Bayan will immediately take operational control of KRL's Indonesian projects prior to the completion of the transaction.

We view this as positive as Bayan will be able to apply its operational and technical knowledge to KRL's projects. Bayan should be able to help KRL overcome some of the logistical issues faced last year, in particular the barging and transport of coal from mine sites.

Acquisition Requirements

As the both Kangaroo and Bayan are listed entities, considerable due diligence was required on both sides including the production of Independent Expert's reports on Pakar, but also Kangaroo's other coal assets in Indonesia. The transaction also required audited accounts for 2010 and shareholder approval.

The deal was approved at an EGM held by KRL to approve the transaction and the issue of shares on 13th June 2011 and also by an earlier EGM held by Bayan on 7th June.

The due diligence process was particularly lengthy in order to ensure the transfer Pakar concessions held by local Indonesian companies to entities that can be foreign controlled.

Timetable for transaction

Key transaction milestones	Date
Complete Independent Expert's Report and notice of meeting. Lodge with ASX for approval	Friday 8 April
Approvals granted, notice of meeting sent to KRL shareholders	Friday 22 April
Transaction approved at PT Bayan Resources EGM	Tuesday 7 June
Transaction and issue of shares approved at KRL EGM	Monday 13 June
Issue of shares to Bayan and completion of transaction	June 2011

Key acquisition terms:

Kangaroo's Indonesian partners are also major shareholders in Pakar which they have been developing within a private company for several years. The opportunity has arisen for Bayan to buy 100% equity ownership of Pakar and subsequently vend the project into Kangaroo in an all share deal for approximately 56% of Kangaroo's issued shares (on a fully diluted basis). This essentially means that Kangaroo will ultimately become consolidated into Bayan as a subsidiary.

KRL sought shareholder approval at an EGM on 13th June to issue 2,305 m shares in relation to the transaction. The transaction was approved at this EGM.

Capital Structure post transaction

In order to complete the transaction, Kangaroo obtained shareholder approval to issue a total of 2,305 million shares to Bayan Resources and Jedi Resources (for facilitating the deal). This leaves Kangaroo with approximately 3,581 shares in issue on a fully diluted basis.

PRE-transaction	Shares
Existing shareholders	1,129,430,012
Basic shares outstanding	**1,129,430,012**
Convertible notes, warrants & options	146,603,448
Total Fully Diluted shares	**1,276,033,460**

POST-transaction	Shares
Existing shareholders	1,129,430,012
New shares for Pakar (Bayan Resources)	1,925,000,000
New shares for Pakar (Jedi Resources)	380,000,000
Total new shares issued	2,305,000,000
Basic shares outstanding	**3,434,430,012**
Convertible notes, warrants & options	146,603,448
Total Fully Diluted shares	**3,581,033,460**

Source: Kangaroo Resources, OPL estimates

Kangaroo had a market capitalisation of A$165m (prior to issue of new shares). Post transaction at the same price, and not factoring in any dilution effect, the company's market capitalisation should theoretically be exceed the A$500m mark. Even factoring a price adjustment due to dilution, any further traction in the share price as the company grows should push Kangaroo closer towards a spot in the ASX-300, and more desirable stock for inclusion in investor portfolios. This should raise KRL's profile and potentially increase liquidity in the stock.

Another Australian resource company; Metminco joined the ASX300 in March 2011 with a market cap of A$450m.

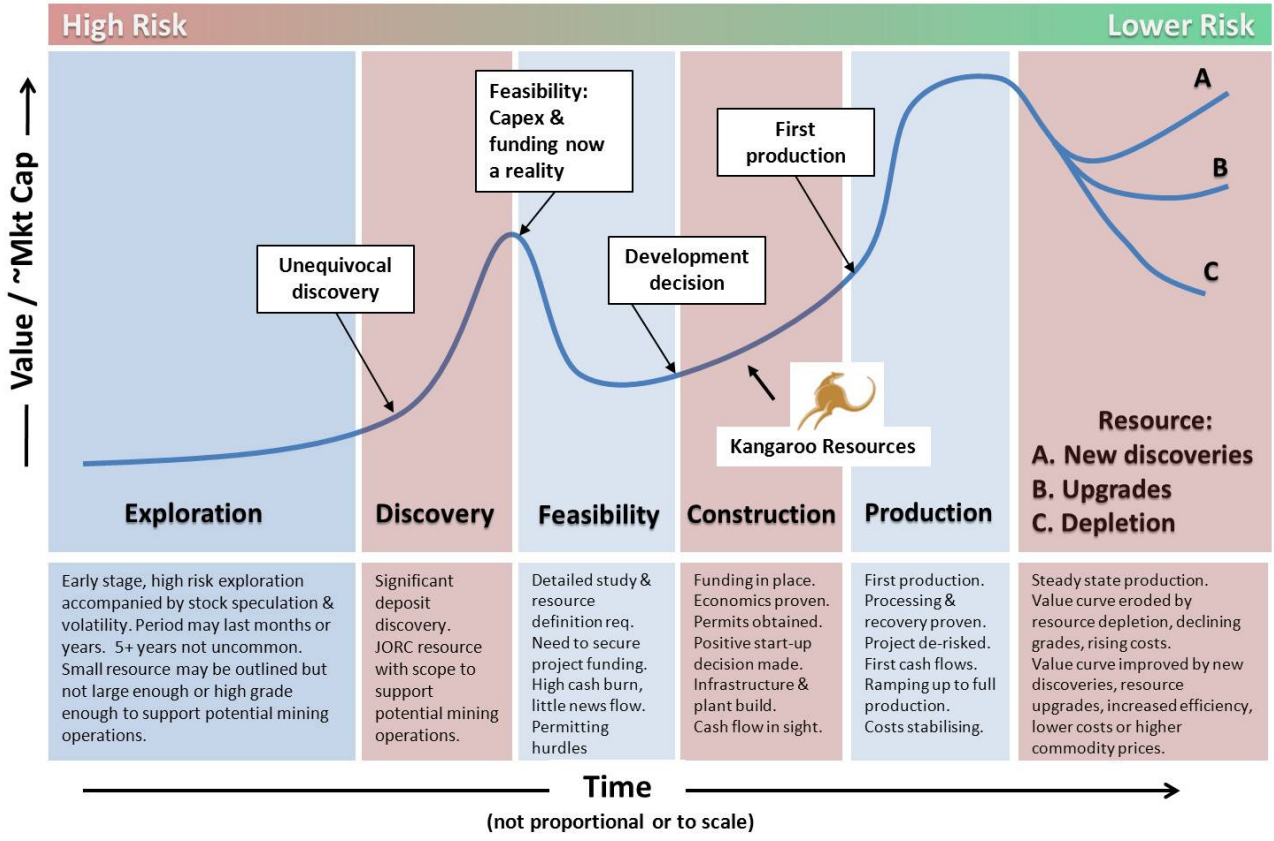
Kangaroo set to re-rate on the curve

Considering the development stage of the company's projects, we believe that Kangaroo Resources is well positioned to re-rate on the value curve as it approaches production at its core projects. With KRL's Pakar and GPK projects due to commence production in 2011 we would expect a significant re-rating coupled with the de-risking as the Bayan transaction is crystallized. With the current share price, we view this as a good entry point into a fast-growing company. With reference to KRL's position on the chart below (OPL's interpretation of Lassonde's classic life-cycle curve) we also note that many of the downside risks are largely behind the company on its flagship projects.

Our thesis is that exploration / mining companies typically follow a similar path with the share price or market cap linked to the stage of development albeit with numerous possible variations depending on project mix, commodity prices and external market / political factors. The share price should react to certain developmental milestones, with discovery, feasibility, and first production particularly important. For a real world example, reference Centamin Egypt's (LSE:CEY) share price progression.

Whilst share price appreciation on the back of a major discovery or on attaining first production are fairly straightforward, the share price retreat often displayed in feasibility phase is more difficult to predict. Share prices often dip as feasibility commences due to the cost of resource definition and detailed studies, uncertainty surrounding opex and capex, permitting hurdles, and the need to secure project finance through debt and/or equity. Thus, this is the phase when the first estimate of project value is eventually released to the market. Lassonde labels the dip at the commencement of feasibility as "reality sets in". Firm share price appreciation in some cases may only be seen again once a positive development decision has been made. Of course, every stock is unique.

Old Park Lane's take on the life cycle of a mining stock – note the position of Kangaroo



Source: Old Park Lane Capital - Adapted and expanded from a concept in The Gold Book (Lassonde, 1990)

Company strategy

KRL's corporate strategy is in many respects exceptionally straight forward – to become a major Indonesian coal producer. The company believes that the key to achieving this goal is to:

- Secure significant coal assets with size and scale ✓
- Forge an alliance with a major Indonesian coal producer ✓
- Develop coal major production hubs in East Kalimantan in progress…

The first two parts of this equation are essentially in place with the sealed Bayan Resources transaction, a partnership that will help KRL fast track and ramp up production at operations, and provide critical access to infrastructure.

The last part, the development of hubs is, in our opinion where KRL can leverage value from its assets. Putting infrastructure and logistics in place, and obtaining permits are the major challenges facing new coal projects around the world, especially in Indonesia. Once these factors are put in place to exploit current projects, KRL can then look to acquire or develop new assets to piggyback off this infrastructure. We note that KRL's contacts and local Indonesian partners provide excellent access to new development opportunities.

Acquisition track record

KRL has traveled a long distance in a short period of time considering that the company in its current incarnation was only created in mid-2009.

In 2008, Kangaroo Resources, then trading as Kangaroo Metals Limited went into administration due to cash flow difficulties as a result of the global economic crisis. In early 2009, KRL was recapitalized with a new Board of Directors who have developed strong relationships with Indonesian partners to secure a portfolio of significant coal assets in Indonesia and non-core assets in Australia. Among the first projects to be acquired was an 84% interest in the GPK thermal coal project for A$2m and expenditure commitments of A$8m.

In August 2009, the company was renamed Kangaroo Resources, and shortly after in December acquired all the Indonesian coal assets of South Gobi Energy Resources Ltd including the Mamahak coking coal project. In December 2009, the company raised A$30m to acquire a 100% interest in the Kubah Indah, Jawana and Borami coking coal projects and a 45% interest in the Tanur Jaya project, the latter of which is part of the Pakar project.

In December 2010 Kangaroo unveiled plans to acquire the Pakar thermal coal project from major Indonesian mining conglomerate, PT Bayan Resources. The deal was completed in June 2011.

Kangaroo acquisition track record

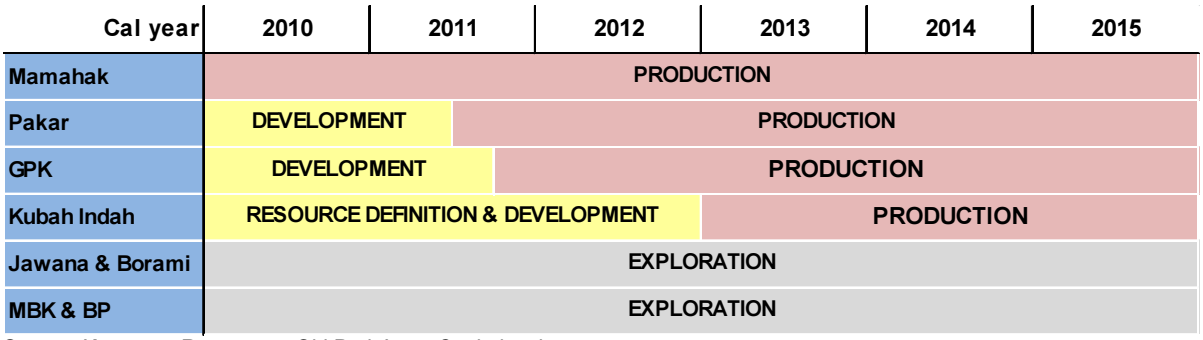
Date	Project	Interest	Vendor	Consideration	Location	Coal Resource type	Effective acquisition cost (US$m)	Attrib. resource (Mt)	Acquisition cost per resource tonne
Sep-09	GPK	84.82%	PT Graha Panca Karsa	US$2m & US$8m expenditure	Indonesia	Thermal	10	210	$0.05
Nov-09	Kubah Indah	100%	Indonesian JV partner	US$15m & 185m KRL shares	Indonesia	Coking	57	None	n/a
	Tanur Jaya	45%	Indonesian JV partner		Indonesia	Thermal			
	Jawana	100%	Indonesian JV partner		Indonesia	Coking			
	Borami	100%	Indonesian JV partner		Indonesia	Coking			
Dec-09	Mamahak	85%	SouthGobi Energy Resources	US$1m cash & 50m KRL shares	Indonesia	Coking	11	10.2	$1.12
Jun-11	Pakar	99%	PT Bayan Resources	2,305 m KRL shares	Indonesia	Thermal	277	2,989	$0.09

Source: Kangaroo Resources press releases, OPL estimates

Project timeline

KRL already has one project in production; Mamahak, where the company is focusing on ramping up production to 50,000 tpm, or 600 ktpa. The critical path for success for KRL will be bringing the other projects in its portfolio into production, on time and within budget. Our analysis shows that KRL's value is particularly sensitive to Pakar making it into production given the size of the project. Management estimates that Pakar has a potential capacity of 10 to 15 Mtpa coal production.

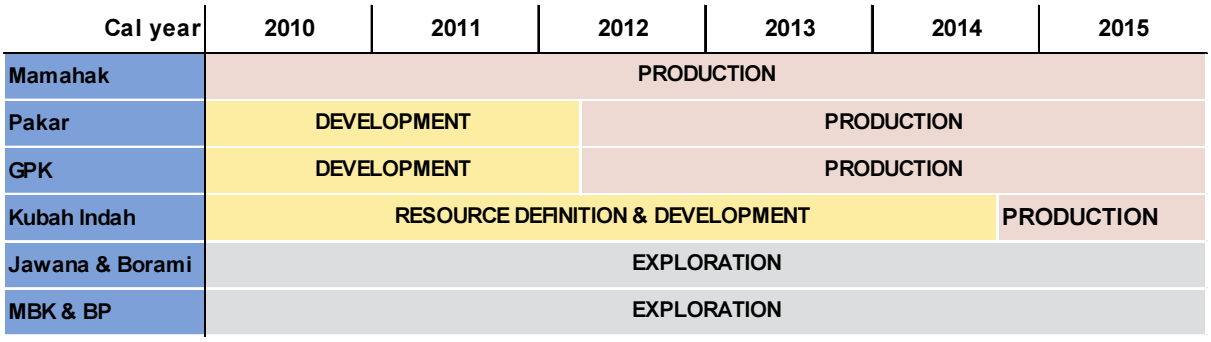
Project Timeline based on company guidance



Source: Kangaroo Resources, Old Park Lane Capital estimates

The timeline below indicates the start-up of KRL's projects according to our own estimates and represents a more conservative case than management forecasts. This is our base case forecast and the basis for our DCF modelling and valuation, although we do not currently include Kubah Indah in our sum of parts valuation. We have been particularly conservative with regards to first production and ramp up at Pakar. We note that if management are successful in meeting their production targets, this would cause a significant uplift to our valuation and target price.

Project Timeline based on OPL estimates



Source: Old Park Lane Capital estimates

Our project start-up timeline differs from management guidance as follows:

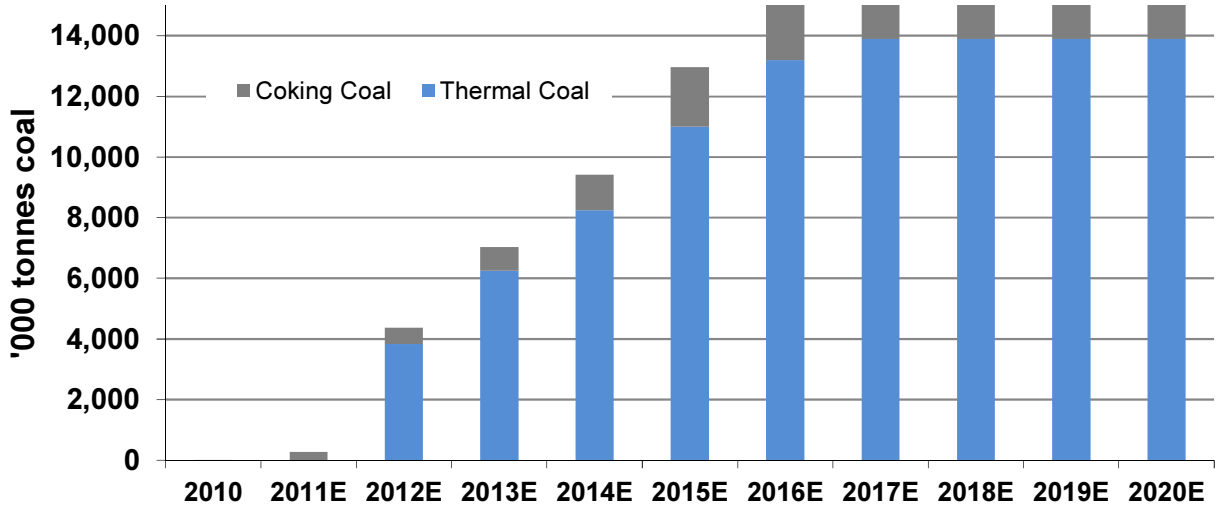
- Pakar - management guidance July 2011 Vs. OPL estimate – end Q1 2011 / early Q2 2011
- GPK - management guidance Oct 2011 Vs. OPL estimate – Q2 2012
- Kubah Indah - management guidance 2013 Vs. OPL estimate – late 2014 / early 2015

Production profile

KRL plans to be producing coal from three separate production hubs by the end of 2011; Mamahak, Pakar and GPK with the target of producing 15 Mtpa within the next five years. In order to reach this ambitious production target management will need to bring Pakar into production as the project represents the bulk of this target. Pakar alone has a 15 Mtpa capacity according to company estimates. The five charts below are based on our forecasts which are significantly more conservative than company estimates.

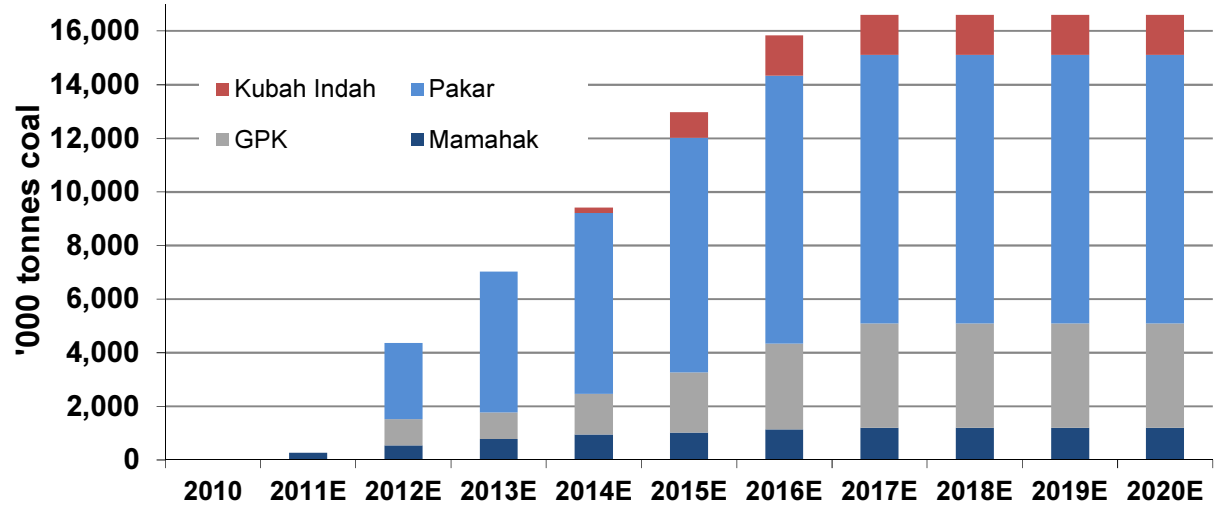
Kangaroo Resources production profile based on OPL forecasts

Total coal production - thermal and coking (calendar year basis)



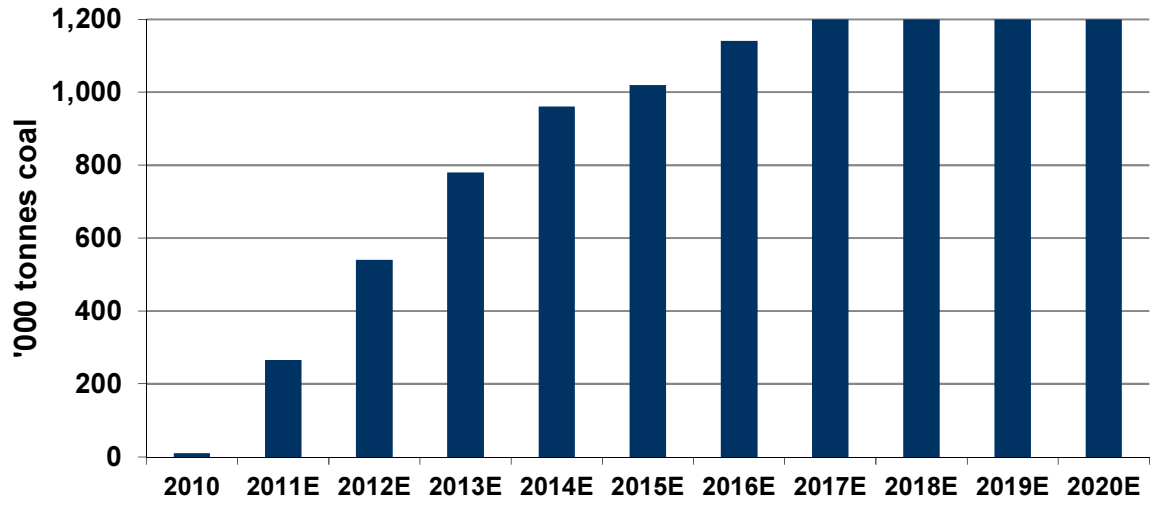
Source: OPL estimates

Total coal production – by project (calendar year basis)

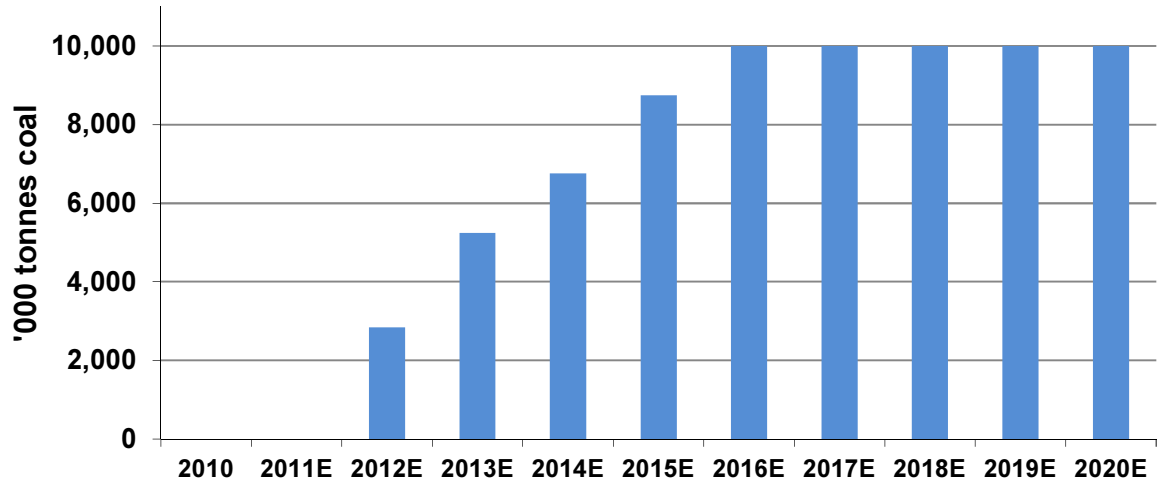


Source: OPL estimates. NB/ Kubah Indah proposed production shown but not included in OPL valuation

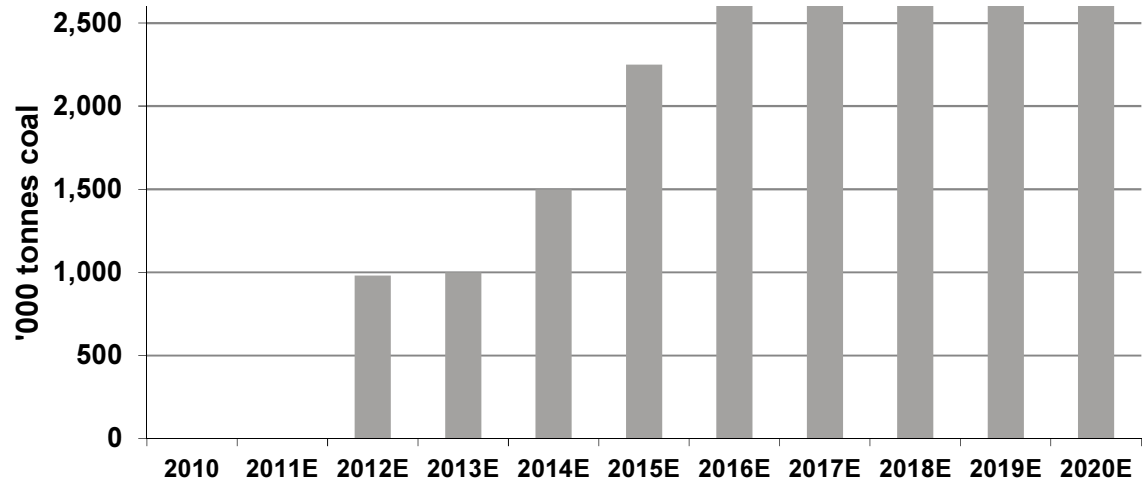
Mamahak production forecast (calendar year basis)



Pakar production forecast (calendar year basis)



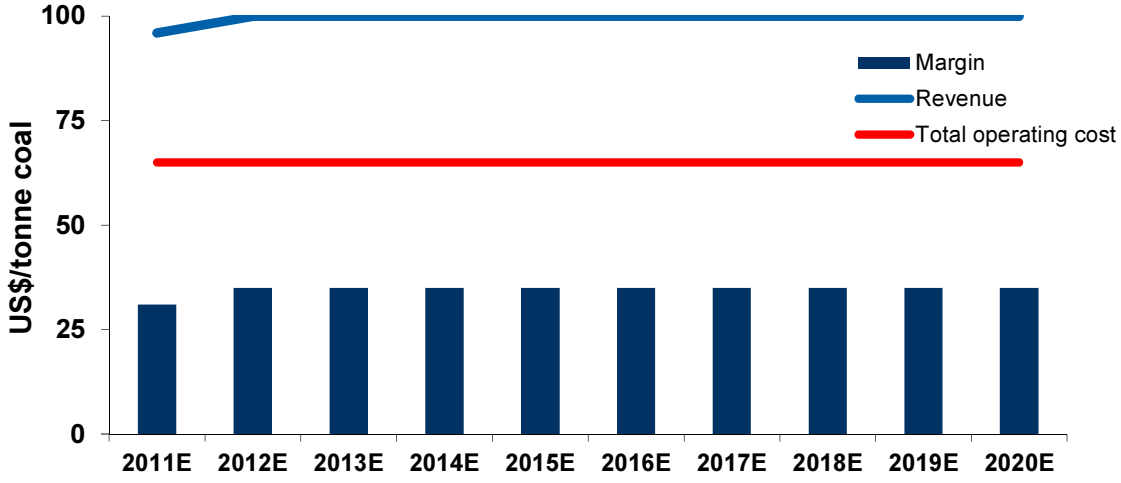
GPK production forecast (calendar year basis)



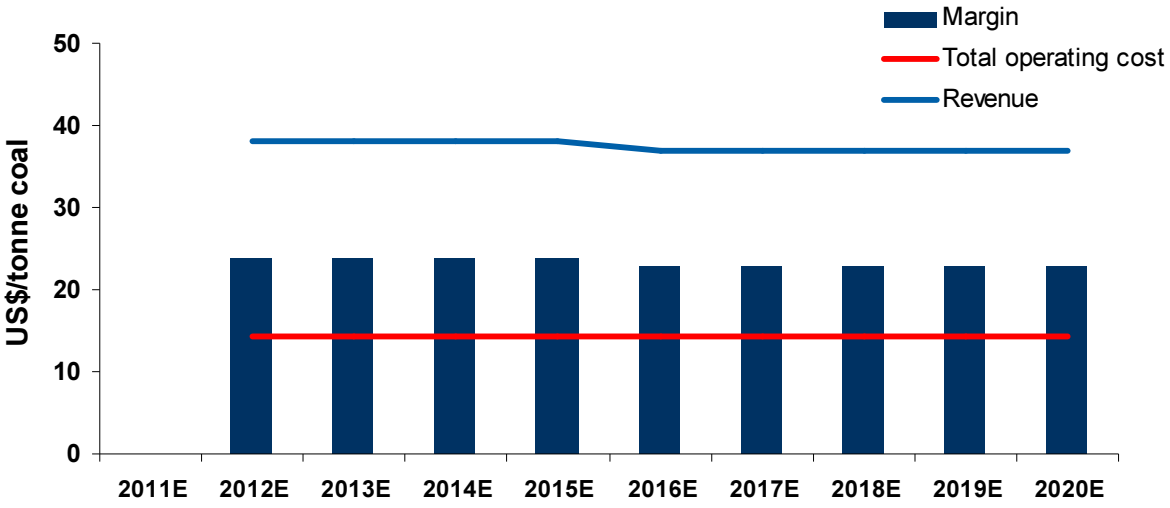
Source: OPL estimates

Margin analysis

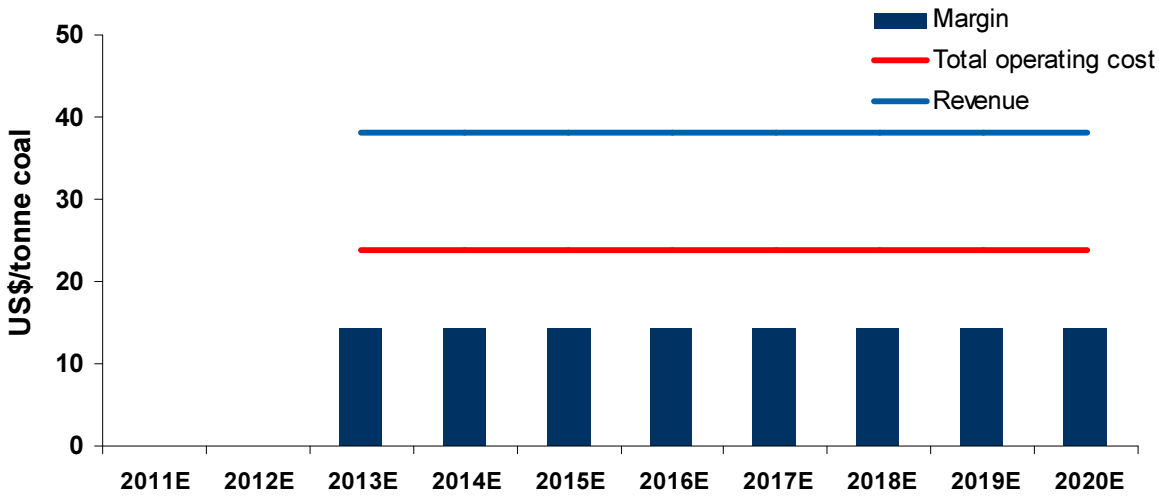
Mamahak operating margin



Pakar operating margin



GPK operating margin



Reserves and resources

Kangaroo Resources has a substantial coal resource inventory of 3.15 billion tonnes, ranging from low-rank thermal coal to semi-hard coking coal. As of April 2011, the company also has 442 Mt of reserves at Pakar, an increase of 326 Mt from the last reserve update.

Kangaroo updated its resource and reserve statements in April 2011 as part of the regulatory and due diligence requirements for the company's transaction with Bayan Resources.

The bulk of resources are dominated by Pakar which has a large 3.01 billion tonne resource of low-rank thermal coal. Pakar is currently the largest project by resource endowment and forms a key part of the company's growth profile and transition to a mid-tier producer assuming the successful completion of the Bayan transaction.

Total resources of coking coal amount to 10 Mt at the Mamahak project only, although Kangaroo is working on resource definition at Kubah Indah, where the company aims to develop a large-scale coking coal operation.

Further exploration likely to increase resource base

We expect Kangaroo to continue upgrading resources into the measured and indicated categories and converted resources into reserves as the company fast tracks exploration programmes at Pakar, Mamahak and GPK during 2011.

At Mamahak, Kangaroo and Bayan will commence the design of an exploration programme to increase the coal resource and provide the basis for the definition of reserves to support the company's target of up to 1 Mtpa coking coal production over the next 2-3 years.

At GPK, Kangaroo reduced the current resource to 112 Mt from 248 Mt as a result of partial licence relinquishment required by legislation in Indonesia. We view this reduction as positive as whilst the previous resource contained more resources over a larger area, less than 60% of the resource occurred at depths less than 60m. Now, over 95% of the current resource lies at depths of less than 60m and indicates a more realistic and economic approach to coal extraction at the project. Kangaroo plans to conduct a drilling programme in 2011 to target specific areas of the resource to prepare a JORC-compliant reserve statement to support the recommencement of mining operations.

Resource Statement

JORC RESOURCES

Project	Interest	Product	Quality	Origin	JORC Resource (Mt)				
			kcal/kg		Inferred	Indicated	Measured	Total M&I	Total
Mamahak	100%	Coking Coal	~ 7,500	KRL	1	3	7	10	10
Kubah Indah	100%	Coking Coal	~ 7,500 - 8,500	KRL	-	-	-	-	-
GPK	85%	Thermal Coal	~ 7,245	KRL	59	58	0	58	117
Pakar	99%	Thermal Coal	~ 4,600 - 5,400	PT Bayan	1,816	1,092	111	1,203	3,019
MBK/BP	100%	Thermal Coal	~ 6,800 - 7,200	KRL	-	-	-	-	-
Total					**1,876**	**1,153**	**118**	**1,271**	**3,146**

JORC RESERVES

Project	Interest	Product	Origin	JORC Reserves (Mt)*		
				Probable	Proved	Total
Pakar	99%	Thermal Coal	KRL	426	16	426
Total				**426**	**16**	**426**

* Reserves and inclusive of resources. Resource and reserves as of April 2011.

Source: Kangaroo Resources.

Coal quality

Kangaroo's resource inventory ranges from low-rank thermal coal to high quality coking coal. As such the coal resource at each project varies considerably. The table below indicates the main properties of each project's coal resource with reference to internationally recognised coal quality assay results.

Coal quality and desirability analysis (Old Park Lane Capital's view)

Coal Quality

Project	Total Moisture %	Inherent Moisture %	Ash %	Total Sulphur %	Energy Content (CV) kcal/kg (adb)	Energy Content (CV) kcal/kg (gar)	Relative density
Pakar	41.1 - 48.6	12.6 - 18.6	5.5 - 5.7	0.13 - 0.20	5,215 - 5,230	3,100 - 3,775	1.36 - 1.48
Mamahak	2.2 - 4.1	1.5 - 2.0	6.0 - 14.9	0.49 - 3.85	6,991 - 7,793		1.28 - 1.37
GPK	40.0	16.8 - 21.2	3.3	0.12		3,854	1.24

Coal Quality - Desirability Analysis

Project	Total Moisture %	Inherent Moisture %	Ash %	Total Sulphur %	Energy Content (CV) kcal/kg	Energy Content (CV) kcal/kg (gar)	Relative density
Pakar	41.1 - 48.6	12.6 - 18.6	5.5 - 5.7	0.13 - 0.20	5,215 - 5,230	3,100 - 3,775	1.36 - 1.48
Mamahak	2.2 - 4.1	1.5 - 2.0	6.0 - 14.9	0.49 - 3.85	6,991 - 7,793		1.28 - 1.37
GPK	40.0	16.8 - 21.2	3.3	0.12	3,854	3,854	1.24

Key: Good | Moderate / poor

gar= gross as received, adb= air dried basis

Source: Kangaroo Resources, Desirability according to Old Park Lane Capital estimates

Mamahak

The coal resource at Mamahak can generally be described as high quality with low moisture, low ash, moderate to high sulphur, and high energy. As such, KRL and their independent experts Al Maynard & Associates believe that the coal ranks favourably in the established coal market. Marketing information indicates that there is a current demand for coal of similar rank. In particular the Mamahak coal has a very low moisture content of between 2% and 4% and a high CV of over 7,000 kcal/kg.

Pakar

The coal resource at Pakar sits in the low-rank thermal coal category and is at the lower end of thermal coal quality in the world market, being a sub-bituminous lignite coal. However, this is in line with sub-bituminous export thermal coals in Indonesia – see appendix III. The coal at Pakar has a high moisture content of 40% to 48% and a moderate CV of 5,200 kcal/kg. However, Kangaroo will investigate multiple development options to produce a range of coal products, with particular focus on Pakar North to produce a higher quality product. In particular we note that the market for high moisture coal (Pakar South) is uncertain at present. Total moisture contents at Pakar South average 47% vs 40% at Pakar North. This may have a material effect on future revenue streams although we note that there is enough coal at Pakar North for a LOM in excess of 25 years at 10-15 Mtpa rate.

As such KRL's independent experts consider the coal to be part of an emerging market rather than an established market. However, marketing information suggests that there is current demand for a coal of similar rank to Pakar with the caveat that this coal may need to be blended with compatible higher rank coals in order to produce a product suitable for power generation. Pakar does have the advantage over other low-rank coal producers because networks are already in place for take-up by the Indonesian power generating sector through Indonesia's state power generator, PT Perusahaan Listrik Negara. The coal at Pakar can be barged directly to power stations as per supplier contracts.

GPK

The coal at GPK is sub-bituminous in rank, with low ash and sulphur contents but with a high moisture content of averaging 40%. The calorific value is fairly low averaging around 4,000 kcal/kg.

Thermal coal outlook

The price index for coal exported from Newcastle in Australia hit a recent peak of over US$140/tonne (FOB) in mid-January. Since then, coal prices have moderated from their peak as drier weather has returned to north eastern Australia.

The strength in thermal coal export prices throughout late 2010 and into the beginning of 2011 was fuelled by monsoonal conditions in Australia and Indonesia. The adverse impacts of flooding included disruption to road access, production and rail transportation.

Many of the big players including Anglo American, Xstrata and Rio Tinto were forced to declare force majeure on output from coal mines, largely in Queensland. The region mainly produces coking coal but thermal coal producing mines were also affected. Industry sources estimate that by the end of 2010 approximately 30% of Australia's annual coal exports were under force majeure. In recent months, drier conditions in Australia have prevailed and exports have resumed with force majeure lifted at many operations signalling a return to contracted export shipments.

We remain bullish on the outlook for thermal coal prices given the on-going risk of infrastructure bottlenecks and potential for further supply-side shocks. This is coupled with our belief that demand for thermal coal will grow for use in power generation in Asia, primarily India. India is currently the fastest growing coal importer as domestic production struggles to keep pace with surging power demand.

As a result of the potential growth in Asian demand, infrastructure bottlenecks and the potential for more supply-side shocks we believe that the thermal coal prices remain well supported above the $100/tonne level.

Supply Issues

On the supply side, exports from Indonesia and Australia have been tempered by an extension to the normal wet season in Indonesia and severe monsoonal rains in Queensland and NSW in Australia. The rain has severely hampered operations in Queensland, even prompting Rio Tinto to declare force majeure on coal sales contracts from its mines in the region. In addition, Australia has a number of rail and port constraints.

This is coupled with limited supply from Richard's Bay in South Africa which has been struggling for years to raise exports beyond 65 Mtpa due to infrastructure bottlenecks and the poor performance by the Transnet rail network which links the coal mines to the Richard's Bay Coal Terminal.

Demand Shift to Asia

Over the last two years there has been a quantum shift in demand for thermal coal from the traditional markets in Europe, to Asia. This demand is largely driven by new markets in China and India and is having a significant impact on the supply-demand balance of the seaborne market. According to the latest World Energy Outlook there will be a 56% increase in global energy demand by 2035 with coal representing 25% of this. Of the total increase in thermal coal demand around 72% is attributed to growth in Asia (China and India) whilst OECD coal demand grows modestly or remains flat.

We believe that China in particular is likely to remain a net importer of coal over the foreseeable future. The ability of Chinese domestic production to respond to any projected supply gap is unknown but we retain the view that the demand for coal imports will remain robust over the mid to long term.

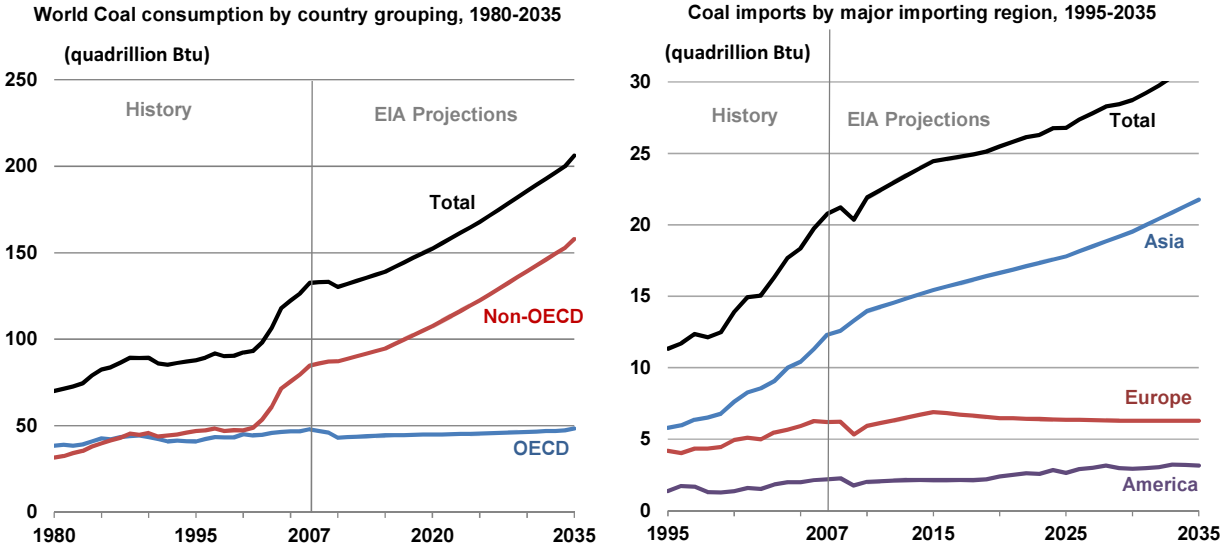
In India, domestic coal supplies and infrastructure are struggling to keep pace with surging power demand. Imports are currently filling this gap and the new generation of large power stations in the country are largely focused on imported coal. As such Indian companies have been active in Southern Africa and other coal exporting regions to secure long term supplies of thermal coal. A lower quality thermal coal product called RB3 (5,600 kcal/kg) has been developed largely for Indian markets.

Forecast growth in world coal consumption

We remain bullish on thermal coal. Whilst the threat of further supply-side shocks and infrastructure bottlenecks certainly has the potential to support prices over the near term, we believe that the long term outlook for global energy demand and coal consumption should act as the main investment driver.

The latest statistics from the EIA (US Energy Information Administration) suggests that the growth rate of world coal consumption will increase by 56% from 132 quadrillion Btu in 2007 to over 206 quadrillion Btu by 2035. The majority of this increase is forecast to be driven by demand in Asia, especially India.

EIA forecast of growth in world coal consumption and imports



Source: EIA, International Energy Statistics database (as of November 2009), SSY's Coal Trade Forecast, Vol. 17, No. 4.

The EIA expects China to remain a net importer through to 2035, but even with a substantial increase in imports, a large share of the coal consumed in China will continue to be supplied by its own coal mines. Nevertheless, coal remains the leading source of energy for China's growing industrial sector.

Even more intriguing is India, where the EIA expects 56% of the growth in coal consumption to be in the power sector and the remainder in the industrial sector. As a result, the EIA estimates that India's coal-fired generating capacity must increase from 84 gigawatts in 2007 to 135 gigawatts in 2035. The EIA estimates that India's coal imports will be four times the 2008 level by 2035, spurred by rising imports of both coking and steam coal.

Due to lack of investment and on-going infrastructure issues, India is faced with domestic coal supply and quality issues. Indian domestic coal is relatively poor quality in comparison to foreign sourced coal. The country is building new supply with new power stations under construction but construction delays are commonplace in India and demand for imports continues to grow. According to the EIA, planned infrastructure improvements include coastal port expansions at Goa and Paradip in order to overcome port bottlenecks.

The global reliance on coal and the forecast demand growth represents an opportunity for Kangaroo Resources as the company continues on its strong growth curve and increases export coal production.

Coal is forecast to increase share of power generation

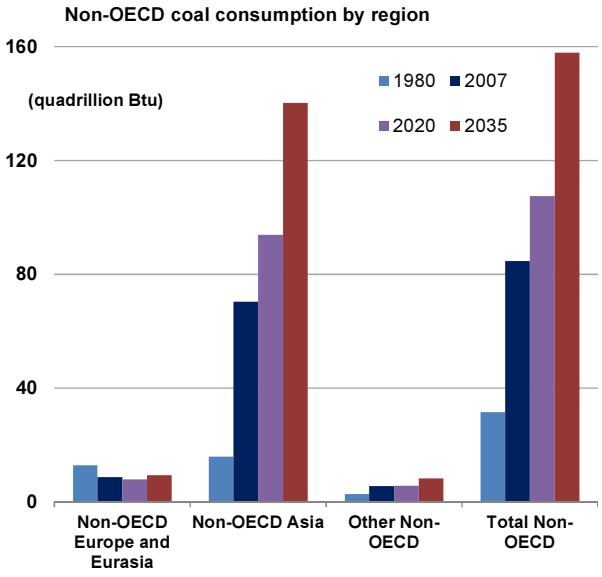
GDP growth is a principal driver of growth in demand for energy, and according to the IEA World Energy Outlook, coal is set to increase its share of primary energy demand, when compared to other sources such as gas, oil and nuclear energy. See chart below.

Couple India's shortfall in domestic coal production with the high forecast GDP growth for the country and India then emerges as a key driver of export demand for thermal coal.

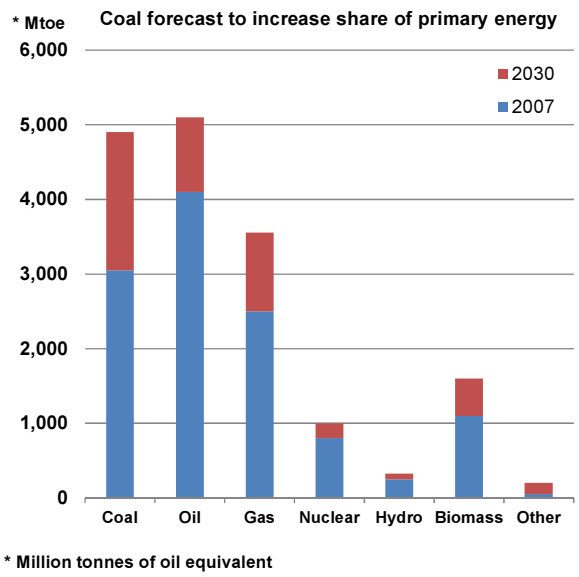
According to Richard's Bay Coal Terminal data, the percentage of coal being exported to India from Richard's Bay has increased to 30% in 2010, from 5% in 2008. The implication is that coal that would have previously been supplied to Eskom, South Africa's state power generator is now being shipped to India because producers can secure higher prices.

As such, Indian companies have been active in not only in Southern Africa but also other countries such as Indonesia in order to secure long term supplies of thermal coal. All this bodes well for Kangaroo Resources which is ideally placed to serve the Asian markets through the development of its coal production hubs in Indonesia.

Coal consumption growth driven by Asia



Coal to increase share of generation



* Million tonnes of oil equivalent

Source: EIA, International Energy Statistics database (as of November 2009), IEA World Energy Outlook 2009.

Coking coal outlook

We believe the outlook for coking coal prices remains strong as demand for coking coal is inextricably linked to global steel production. Coking coals are used to make coke which is used to reduce iron in the steel making process. The coking coal market represents approximately 30% of coal traded internationally.

Demand growth driven by urbanization and industrialization

Steel demand is driven by population, economic growth and development, which drives expansion in construction, civil and mechanical engineering, and the automotive sectors. China, India, and other emerging nations look set to drive steel consumption growth, and thus demand for coking coal.

China's steel production has increased by close to 20% per year over the past ten years according to CoalTrans driven by industrialization and urbanization. The Chinese steel industry is growing and consolidating, leading to the dominance of large steel producers, who require large secure supplies of coking coal.

Although India has domestic resources of coking coal, the quality is poor in comparison with foreign sourced coals. The EIA estimates that India's long term plans include an expansion of its steel industry to between 165Mt and 198Mt of raw steel output by 2020, up from 62 Mt in 2008. India will look to coal imports to satisfy some of this predicted demand. India is a net importer of coking coal, importing 23Mt in 2010 to meet its current requirement of 40 Mt, according to Ernst & Young.

Supply is unlikely to keep pace with rapid demand growth

A number of supply-side issues are likely to constrain growth in coking coal production. From a base of limited reserves, new projects are slow to come on stream due to the long lead time for project construction, high capital requirements and permitting delays. In addition supply disruptions are likely to keep existing production constrained due to infrastructure bottlenecks (port and rail) and adverse weather conditions. We expect Chinese imports of coking coal to increase as the country presses ahead with plans to close more than 4,000 small mines to improve safety and drive consolidation.

Lack of effective substitution likely to support prices

Around 70% of crude steel is produced in Blast Oxygen Furnaces (BOF) compared to 30% in Electric Arc Furnaces (EAF) which do not use coal as a raw material. Alternative and economically viable substitutes have yet to emerge with steel producers likely to depend heavily on BOF steel technology going forwards. BOF is at present the lowest cost steelmaking route. Further to this, we believe that rising FOB costs will help underpin long term coking coal prices, as fuel, electricity, labour and consumable costs continue to rise.

Pricing structure changing

We believe that a change to a monthly pricing structure may result in higher coking coal prices. Traditionally, the smaller (than thermal coal) coking coal market pricing mechanism has been based on annually negotiated contracts, with only minor activity in the spot market. However, 2011 has seen a shift to shorter term pricing mechanisms as a result of the emergence of India and China.

With coking coal prices exceeding $330/tonne in early 2011, many leading miners have been backing out of contracts priced at levels around $220/tonne. According to industry sources, the major miners are forcing steel mills to move to quarterly or monthly pricing to dampen the recent price volatility and achieve floating and transparent market pricing. The theory is that the change to shorter contracts will lead to higher speculation and help boost prices, as the longer the contract period, the lesser the price volatility.

Asset snapshot

The company currently has one producing asset; Mamahak, a coking coal operation which commenced production in February 2010. Kangaroo also has a well-populated pipeline of projects ranging from advanced near-term production assets to exploration licences.

The primary focus of the company is on developing three major coal production hubs:

1.	**Mamahak**	Coking coal	Production since Feb 2010
2.	**GPK**	Thermal coal	Production to recommence late 2011
3.	**Pakar**	Thermal coal	Production targeted mid-2011

The real company-maker asset in our opinion is the Pakar project, a world-class thermal coal project that Kangaroo acquired from PT Bayan Resources. Kangaroo aims to bring Pakar into production during 2011 in order to propel the company towards its goal of being a mid-tier coal producer.

Pakar will be a large long-life open pit operation with the potential to produce up to 12 Mtpa coal. The project benefits from a low strip ratio of 1:1 which should help to keep operating costs constrained. Pakar also has the key benefit of having $100m infrastructure in place, according to KRL estimates and is essentially ready for production, with minimal capex spend required to develop the mine.

All KRL's operations are straight forward, uncomplicated open pit operations. The clustered location of the company's primary projects in East Kalimantan means that KRL will try and recognise infrastructure synergies between projects, and with strategic partner Bayan Resources. The assets also lend themselves to development as part of a hub strategy with central infrastructure drawing in resources from multiple mines.

Asset summary

Primary Projects	Mamahak	Pakar	GPK	Kubah Indah
Location	Indonesia	Indonesia	Indonesia	Indonesia
Interest*	100%	99%	85%	100%
Commodity	Coking coal	Thermal coal	Thermal coal	Coking coal
Resources (M&I&I)	10 Mt	3,019 Mt	117 Mt	
Reserves	-	426 Mt	-	-
Stage	Production	Development	Redevelopment	Resource definition
Mine life (years)	12	25 +	25 +	25 +
Mining method	Open pit	Open pit	Open pit	Open pit
Strip ratio (max)	16:1	1:1	4:1	15:1
Production Potential	600 ktpa +	12 Mtpa	3.9 Mtpa	1.3 Mtpa
Operating cost	$65/t	$15/t	$24/t	$90/t
Start-up capex	In production	$5m to 2Mtpa	$10m	est. $100m

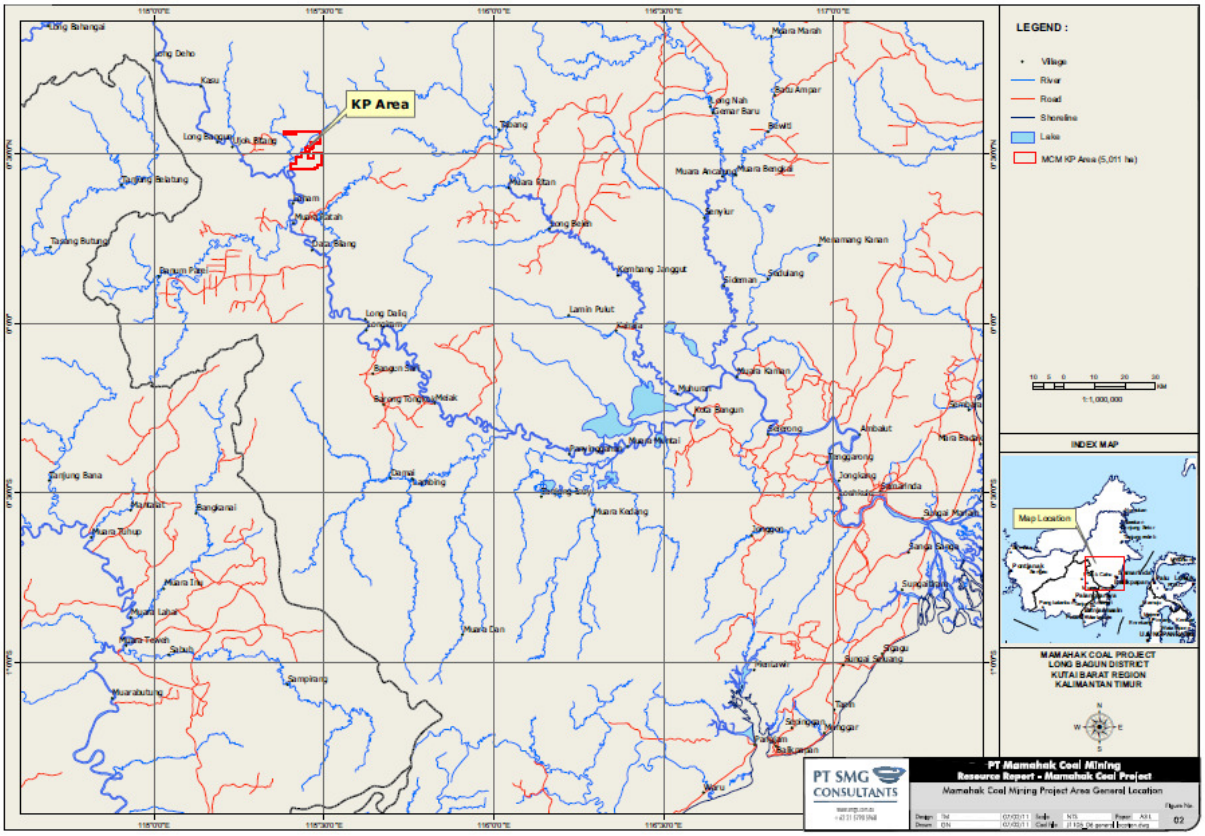
Pipeline Projects	Jawana	Borami	Mt Ruby
Location	Indonesia	Indonesia	Australia
Interest*	100%	100%	100%
Commodity	Coking & thermal	Coking & thermal	Magnetite / hematite
Resources (M&I&I)	-	-	-
Reserves	-	-	-
Stage	Exploration	Exploration	Exploration
Mine life (years)	-	-	-
Mining method	-	-	-
Strip ratio (max)		-	-
Production Potential	-	-	-
Operating cost	-	-	-
Start-up capex	-	-	-

Source: Kangaroo Resources, Old Park Lane Capital estimates

Mamahak – **High margin coking coal**

KRL holds a 100% interest in the Mamahak project, a high margin coking coal mine located in East Kalimantan, Indonesia, 200km northwest of Samarinda, the regional capital. Mamahak commenced production in February 2010 and is KRL's only producing asset. KRL acquired an initial 85% interest in Mamahak from TSX-listed South Gobi Energy Resources in December 2009 for 50 m KRL shares plus US$1m, valuing the deal at approximately US$11m. KRL subsequently acquired the remaining 15% in December 2010 from a local Indonesian company for a nominal US$1.00.

Location map of Mamahak permits (KPs) in Kalimantan



Source: PT SMG Consultants, Kangaroo Resources

Resource

The Mamahak project is spread over four concessions with a 22,000 Ha landholding. In April 2011 KRL updated the JORC resource to a total of 10.5 Mt of coal, comprising 6.85 Mt of Measured Resources, 3.1 Mt of Indicated Resources, and 0.5 Mt of Inferred Resources. Whilst this is sufficient to support initial mining operations, KRL and Bayan have commenced the design of an exploration programme targeting an expansion of the current resource and for the definition of reserves.

Geological setting

The coal bearing formations at Mamahak are situated within the sedimentary sequences of East Kalimantan, formed by subduction of the Lempeng Indo-Australian plate beneath the Lempeng Pacific Barat plate, east of Sulawesi and north of Papua New Guinea. Coal formations were predominantly formed in the East Kutai Basin, a back-arc basin formed as a result of the aforementioned subduction. Mamahak sits on the northern limb of a steeply dipping synclinal structure with coal seam thicknesses on the concession of up to 1.6m but average approximately 0.57m. The coal is black, semi bright to dull, with a high vitrinite content. Over 75% of the concession area remains unexplored.

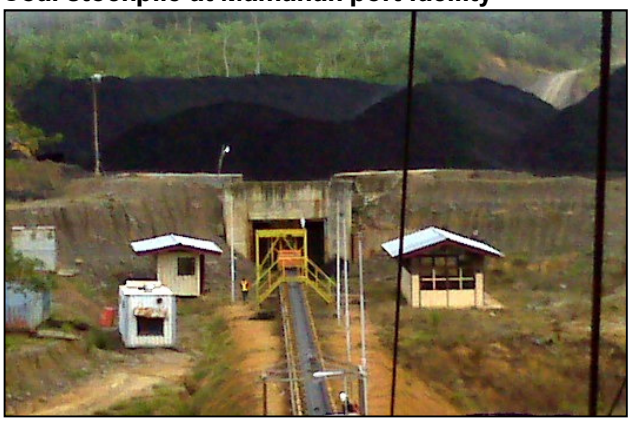
Mining and production

Mining at Mamahak is by conventional open pit. Strip ratios, however are on the high side at 16:1. The key challenge of the project surrounds the issue of barging coal down a local river to a port facility, although this risk has now been mitigated through the involvement of Bayan Resources.

After acquiring the project in late 2009, KRL worked quickly to bring the project into production by February 2011. The company terms the current status as preliminary production as KRL ramps up planned production to 50,000 tpm. Coal sales for the most recent quarter (ending March 2011) were 34,946 tonnes, with just short of another 10,000 tonnes delivered to the stock pile. KRL expects to ramp up to 50,000 tpm by early 2012.

Mamahak coal hauling truck fleet

Coal stockpile at Mamahak port facility



Source: Kangaroo resources

Processing

Processing is relatively simple as the Mamahak coal qualities exceed the “Direct Ship” product coal specification. Thus crushing on site and limited seam blending is all that is required before transport.

Costs and capital requirements

KRL estimates that total operating costs (FOB) amount to approximately US$65/t, including all contract mining costs to mine and deliver coal to the port site. Capex for the mine is already a sunk cost with the project now subject to sustaining capital only.

Infrastructure

Mamahak already has significant site infrastructure including crushing facilities, a river terminal and loading facilities. The challenge with the project is to successfully transport the coal downstream on barges via the Mahakam River to port loading facilities. After being crushed and blended (if required), the coal is loaded onto trucks and transported along a 40km haul road to the Mamahak port loading facility. The coal is then loaded onto barges and transported along the Mahakam River to be stockpiled and made available for sale to customers.

In mid-2010, production from Mamahak was hampered by low water levels in the Upper Mahakam River, resulting in delays in moving significant tonnages of coal downstream for sale. The low water levels were a result of the dry season (May – September) which hampers barging operations. KRL used this period of suspension of barging activities to review and optimise the operation including mine planning and the installation of a new crusher.

These operational and logistical issues have now largely been overcome through the involvement of Bayan Resources and the associated off-take contract. Bayan is also investigating building a road from the project to 50km downstream where the barges can be loaded all year round.

Conveyor loading coal at Mamahak port facility

Source: Kangaroo Resources

Off-take agreement

In March KRL announced an off-take agreement with its strategic alliance partner, PT Bayan Resources, reflecting the benefits of the alliance beyond the Pakar transaction.

The key points of the off-take agreement are:

- Coal sales of up to 300,000 tonnes of coking coal over the course of 2011 at a market price FOB jetty.
- Bayan to collect all coal from the Mamahak port site.
- Bayan to pre-fund a majority of the sales price when the coal is delivered to the Mamahak port stockpile, with the balance payable on completion of loading the barges for shipment.
- Bayan supporting operational management.

The key advantages of the off-take agreement are:

1. Contracted sales at market prices, providing degree of certainty for revenue and cash flow.
2. Bayan collecting coal from the port site removes logistical challenges and costs facing KRL in barging coal downstream and selling into contracts.
3. Cash payment for majority of coal delivered to the port stockpile which means that KRL can continue to produce coal at Mamahak throughout the year, including during the dry season when barging coal is more difficult.
4. Bayan's expertise will help KRL ramp up to full production at the mine with Bayan managing all production from Mamahak going forwards.

Marketing

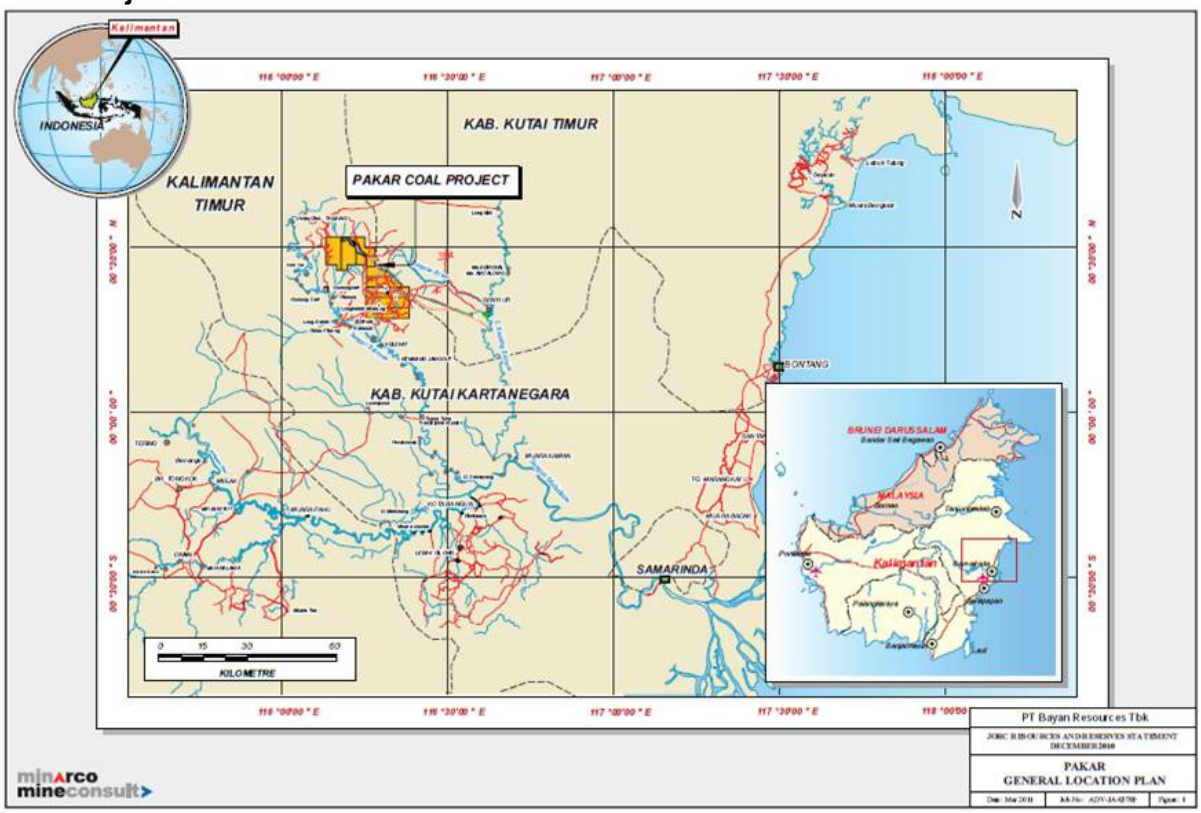
Given the coal specification at Mamahak, the company believes that the coal will meet or exceed "Direct Ship " product coal specification with limited seam blending required at all mine sites. The company's independent consultants have assumed an average benchmark price of $95/t to $125/t for high CV coal representative of Mamahak output, i.e., 7,500 kcal/kg, with low ash and relatively high sulphur.

Mamahak coal is highly reactive and expected to enhance or extend the value of selected Indonesian and Australian product coals currently being sold in coking coal blends on the world seaborne trade market.

Pakar – world class low rank thermal coal

Having completed the transaction with PT Bayan Resources, KRL holds a 99% interest in Pakar, a large-scale, low-rank thermal coal project located in East Kalimantan. Pakar is a fully developed and integrated operation, with significant infrastructure in place including port facilities developed over the last four years. The advanced stage of the project means that a large capital expenditure to take the project into production is not required. The scale of Pakar means that the operation is likely to become KRL's flagship project.

Pakar Project Location



Source: Minarco Mine Consultants

Licences

The project consists of nine adjoining mining concessions, sub-divided into Pakar North and Pakar South. The concessions are currently KPs (Kuasa Pertambangan) but under new Indonesian mining legislation dated 1st January 2010, the concessions will be converted to IUP (Izun Pertambangan Usaha). The new IUPs or Mining Business Licences are to be divided into two groups – Exploration (coal), valid for 7 years and Production Operation Licences, valid for 20 years. Currently three of the Pakar concessions have exploitation licences with the remaining concessions in the exploration category.

Resource

In April 2011, KRL updated the JORC resource at Pakar. The project has a very large total coal resource of 3,019 Mt, comprising 111Mt of Measured Resources, 1,092 Mt of Indicated Resources, and 1,816 Mt of Inferred Resources. Total reserves stand at 442 Mt of which 16 Mt are in the Proved category and 426 Mt in the Probable category. The large reserve provides multiple development options for KRL at the project. The resource base is clearly capable of supporting a long mine life in well in excess of 25 years.

Geological setting

Pakar is located within the Kutai Basin, the easternmost sedimentary basin developed along the eastern coast of Kalimantan during the Tertiary period. The Pakar area is a down-dropped block of Miocene age rocks which is bounded in the south, west and north by faults. Pakar occurs in the Pakar Syncline, which is a large syncline structure with an axis that is oriented northwest – southeast. The Pakar thermal coal deposit is geologically relatively simple being a large multiple-seam deposit overlying the northern and eastern axis of a broad synclinal structure plunging to the southeast.

Mining

Kangaroo and Bayan Resources propose that mining at Pakar will be by conventional open pit exploiting multiple seams in a generally shallow mining operation. The most likely method used will be strip mining with back fill with mining initiated through a series of initial box-cut operations. The back fill part of the operation means that the waste will be hauled back to the adjacent mined out areas. Mining will use conventional hydraulic excavators and trucks.

Processing

The run of mine (ROM) ore from Pakar does not require washing or beneficiation. The ROM coal will simply be crushed onsite to produce a final product suitable for the domestic and export thermal market. Trial mining from one of the seams in 2008 yielded approximately 300,000 tonnes of coal.

Infrastructure

Pakar has considerable infrastructure already, largely put in place over the last four years. A 37 km haul road has been constructed to a temporary barge loading facility capable of loading barges of up to 5,000 tonne capacity. However, the future of the project depends on the construction of major coal handling facilities. In this regards, a barge loading port capable of handling up to 5 Mtpa is partially constructed at Pakar South. Coal mining and infrastructure construction are currently suspended pending the completion of the transaction with KRL. Bayan also owns the Balikpapan Coal Terminal, one of the largest coal terminals in Kalimantan allowing the loading of coal from barges directly to Capesize or Panamax vessels.

KRL Kalimantan infrastructure at Pakar

Source: Kangaroo Resources

Operating and capital costs

KRL estimates that total operating costs (FOB) amount to approximately US$15/t, including all contract mining costs to mine and deliver coal to the port site. KRL estimates that another a capex spend of approximately $5m ramp up to 2 Mtpa, $10m-$15m to ramp up to 5 Mtpa, and a further $20m-$30m to ramp up to full 10 Mtpa capacity. It is important to note that these capex figures are preliminary estimates and will be investigated further as KRL and Bayan optimise the project.

The remaining capex will largely be spent on infrastructure build, mainly roads and bridges initially, followed by expansion of the crushing facility, camp, and port loading facilities. The project is essentially in production already, albeit in a limited capacity. Work will now focus on ramping up production from 2 Mtpa to 10 Mtpa coal.

Marketing & sales

The coal resource at Pakar contains a range of coal products that can be exploited and sold into the export coal market, predominantly into the Indian and Chinese power generation industries. Kangaroo will investigate multiple development options to produce a range of coal products, with particular focus on Pakar North to produce a higher quality product.

The coal resource at Pakar sits in the low-rank thermal coal category and is at the lower end of thermal coal quality in the world market, being a sub-bituminous lignite coal. However, this is in line with sub-bituminous export thermal coals in Indonesia. As such Kangaroo's independent experts consider the coal to be part of an emerging market rather than an established market.

Marketing information from KRL's independent consultant suggests that there is current demand for a coal of similar rank to Pakar with the caveat that this coal would probably need to be blended with compatible higher rank coals in order to produce a product suitable for power generation. The consultants identified 3,800 kcal/kg (gar) as a psychological energy floor in the current market, with a maximum moisture content of 40%.

KRL assumes a sales price of US$38/tonne and US$28/tonne for low and high moisture coal respectively. This is confirmed by AM&A consultants who use a benchmark price of $95/tonne for 6,322 CV (energy content) coal, adjusted for the lower CV and higher moisture content at Pakar.

Indonesia is currently the world's largest exporter of thermal coal. Indian companies are increasingly making upstream investments in mines in Indonesia and elsewhere in order to secure coal requirements to bridge the gap between demand and domestic coal supply.

Pakar North is the main focus

We believe that the value of Pakar is underpinned by the low moisture coal of Pakar North with a resource of 200 Mt, representing at least a 20-40 LOM at a production rate of 5-10 Mtpa. The opportunity to leverage further value from the project is by unlocking the potential of the high moisture coal in at Pakar South.

With rising coal prices, high moisture coal is becoming more commercial viable and the value of the high moisture, low rank coal at Pakar South is likely to rise. However, in order to see a step-change in value we believe it would require the depletion of higher quality coals and more Indian power stations coming on line to utilize this coal.

Instead, nearer term value is likely to be recognized by other measures such as blending to form a DSO product, or beneficiation to upgrade coal. One possible value chain for Pakar South high-moisture coal is use in a coal upgrading plant such as White Energy and Bayan's JV in Kalimantan where initial test-work shows it is possible to upgrade coal to from 4,400 to 6,100 kcal/kg.

GPK – long life thermal coal

GPK is located in East Kalimantan, Indonesia, approximately 300km from Samarinda, the regional capital. KRL holds an 84.82% interest in the project, which has the potential to be a long life thermal coal mining operation.

KRL plans to bring GPK into production as its third coal production hub. The project was originally considered for sale in 2010 as KRL required additional cash to ramp up its projects. This strategy has now been overturned in light of the Bayan transaction, and with Bayan's support GPK is now planned to enter production by the end of 2011.

Licence

GPK has an Exploitation Licence (Izin Usaha Pertambangan Operasi Produksi), issued under Indonesia's new mining legislation. The licence provides the regulatory approval required to commence construction of mine and associated infrastructure and processing facilities.

Resource

GPK has total coal resources of 117 Mt, comprising 58 Mt of Indicated Resources and 59 Mt of Inferred Resources. Over 90% of the current resource lies at depths of less than 60m, rendering the deposit amenable to conventional open pit mining.

Geological setting

The GPK coal deposit occurs in the Kampung Buru Formation from the Tertiary period in East Kalimantan. The formation is dominated by pale friable sandstone interbedded with thin claystone and siltstone bands. The licence area is located in a shallow northwest-southeast trending syncline. The seam dips are generally shallow, in the order of 5 to 15 degrees. Eight coal seams are identified on the GPK licence area, the thickest of which is the Graha seam which attains a maximum thickness of 8.8m, but averages 5m across the licence. Only the Graha seam currently has sufficient data to support a JORC resource statement.

Mining and Processing

Mining at GPK will be by conventional open pit and truck and shovel methods. The ROM coal from GPK will be crushed and most likely sold as a stand-alone DSO product, but Bayan may choose to blend the coal as per requirements.

Operating and Capital cost

KRL estimates that total operating costs (FOB) amount to approximately US$24/t, including all contract mining costs to mine and deliver coal to the port site. KRL estimates that another $10m in capital expenditure is required in order to complete mine and infrastructure design, for ongoing resource drilling and for construction of the project.

Infrastructure

The GPK mine site is located 15km from the Mahakam river. KRL plans to barge coal downstream on the river which is standard practice in Indonesia, where almost all coal in East Kalimantan is barged down the Mahakam River. GPK is further downstream than Mamahak and on a wider section of the river; consequently KRL does not expect the operation to be impacted by dry season issues such as at Mamahak. In any case, KRL will sell the coal to Bayan at the mine gate, so the logistics of transporting the coal down the river is not KRL's responsibility.

Marketing & sales

The coal at GPK is sub-bituminous in rank, with low ash and sulphur contents but with a high moisture content of averaging 40%. The calorific value is relatively low averaging around 4,000 kcal/kg but ideal for export to Indian power stations. KRL expects to achieve a sales price FOB at the mine / port gate of approximately US$38/tonne.

Work Plan

KRL and Bayan are currently working on the initial design for the required infrastructure, recommencing the exploration programme, and completing the mine plan to allow a mining subcontractor to be appointed. KRL anticipates that construction of infrastructure will commence within the third quarter of 2011. We note that this timeline is provisional given that Bayan have only recently been involved with the project and the strategic review is still on-going.

KRL plans to conduct a limited drilling programme at GPK targeting specific areas of the project concession with the aim of increasing the level of confidence in the geological model used for the current JORC resource. The new drilling will also be used to prepare a JORC reserve statement to support the planned resumption of mining operations.

Kubah Indah – coking coal development

KRL is earning into a 100% interest in the Kubah Indah hard coking coal project. The licence area is located in East Kalimantan along with KRL's other projects, but slightly further away (100km) from the Mahakam River in an area of relatively poor infrastructure.

Seven coal main coal seams have been identified by historical drilling and KRL is now at the stage of resource development. Before KRL can move ahead with planning mine development the company plans to prove up JORC compliant resource and reserves. Although KRL plans to bring Kubah Indah into production in 2013, we believe that this may be optimistic given the current focus on the three core production hubs of Mamahak, GPK and Pakar. Bayan would likely be involved in the project.

Kubah Indah, if developed, also has the most onerous capital requirements of all KRL's projects with an estimated $100m required to get the project into production. We currently exclude Kubah Indah from our analysis and valuation until KRL has obtained shareholder approval, defined a resource on the project and put a development plan in place.

Other projects

KRL has a number of projects in the portfolio which are currently considered non-core and we understand that the company has put them on the backburner until a future juncture.

- **Jawana and Borami** – KRL is earning into a 100% interest in both coal concessions which have potential to develop both coking and thermal coal deposits. The projects have operational synergies, being contiguous with the Mamahak Project and associated infrastructure.

- **MBK and BP** - KRL is earning into a 100% interest in both coal concessions. MBK is located 20km from the Mahakam River and again provides a niche production opportunity, requiring little infrastructure development.

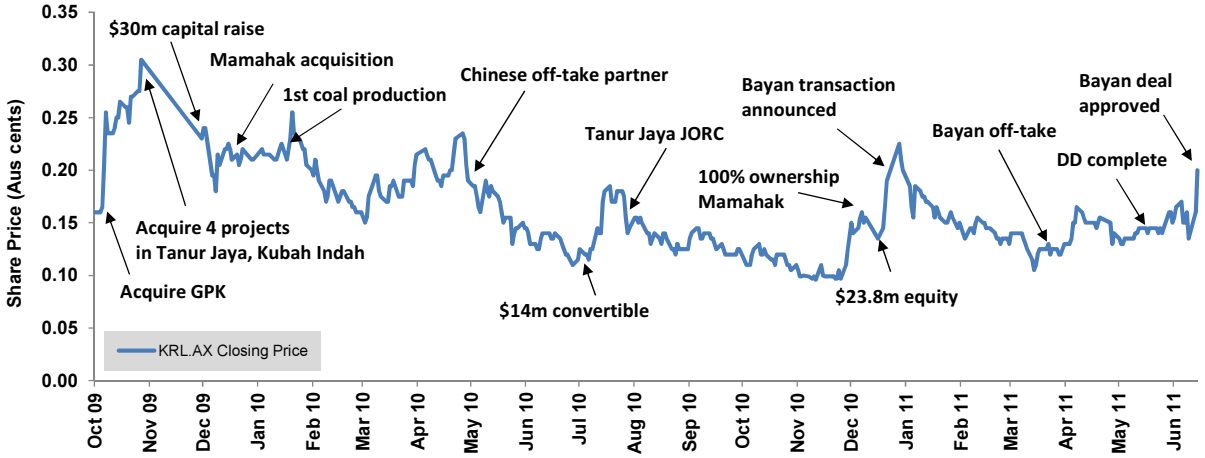
Mt Ruby - The Mt Ruby Project in Australia comprises one tenement and contains a high grade (+60% Fe) DSO (Direct Shipping Ore) magnetite/hematite resource with good access to infrastructure. The project is 120km from the Mourilyan Harbour bulk loading facility near Innisfail. KRL plans to commence an exploration programme in order to establish a JORC resource prior to initiating a scoping study to determine the economics of the project.

Share information

Kangaroo Resources trades on the Australian Stock Exchange (ASX) under the ticker KRL. There are currently 3,434m ordinary shares on issue following the issue of 2,305m shares to the vendors of the Pakar acquisition, and including convertible notes and options, the fully diluted share position will be approximately 3,581m. The average daily trading volume in 2011 so far is 3.5m shares.

History – Share price and key events

The chart below indicates key events since October 2009 plotted against the company's share price.



Source: Proquote, OPLC

Capital Structure

The table below outlines the major shareholders of KRL as of 31st march 2011. It should be noted the share register will change significantly and materially as a result of the recently completed deal as Bayan Resources now holds 56% of KRL's share capital. As a result the previous shareholders of KRL have had their interest reduced to approximately 31% post-transaction, on a fully diluted basis.

Capital structure – 31st March 2011

	Substantial Shareholders as at 31 Mar 2011	No. of Shares Held	% Held
1.	HSBC Custody nominees	132,541,859	11.74%
2.	JP Morgan Nominees Australia Limited	77,362,229	6.85%
3.	National Nominees Limited	74,557,186	6.60%
4.	Nannook Holdings Pty Ltd	52,448,276	4.64%
5.	Happy Lucky Golden Dragon	50,370,000	4.46%
	Top 5	387,279,550	34.29%
	Top 20	772,029,421	68.36%
	Total Ordinary shares on issue	1,129,430,012	100.00%

Capital structure pre and post Bayan Resources transaction

Total basic shares (undiluted)	Pre-transation	%	Post-transaction	%
Current shareholders	1,129,430,012	100%	1,129,430,012	33%
Bayan Resources	-	-	1,925,000,000	56%
Jedi Resources	-	-	380,000,000	11%
Total shares (undiluted)	**1,129,430,012**	**100%**	**3,434,430,012**	**100%**

Source: Kangaroo Resources, BDO, Old Park Lane Capital estimates

Financial position

As of the end of March 2011, Kangaroo Resources had a cash balance of A$8m. Kangaroo has made a series of fund raisings over the last 18 months as the company shifted its focus to coal projects in Indonesia. Including all fund raisings and issue of shares for acquisitions, 851m ordinary shares have been issued since July 2009 plus 2,305m shares to satisfy the Bayan transaction.

Kangaroo fund raising record*

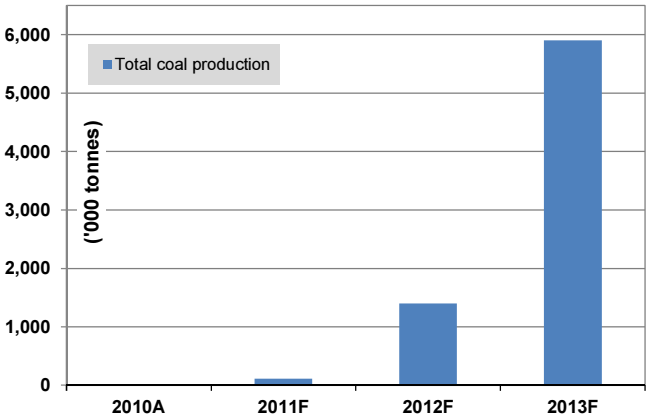
Date	Type	Amount	Units	Price	Use of Proceeds
Sep 2009	Equity	A$22m	88m	A$0.25	Purchase Kuhab Indah, Tanur Jaya, Jawana, Borami
Sep 2010	Convertible note	A$17m	120m	A$0.133	Ramp up at Mamahak, acquisition of 49% of Tanur Jaya. 24m maturity, converts at A$0.133/share
Dec 2010	Equity	A$23.8m	200m	A$0.119	Ramp up at Mamahak and exploration

Source: Kangaroo Resources. * excludes share purchase plans

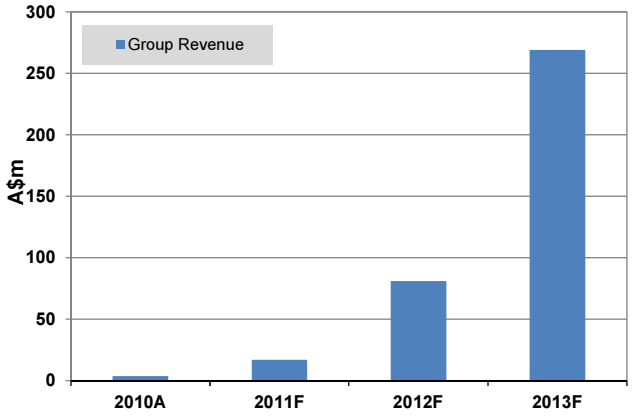
We estimate KRL's cash balance at the end of June 2011 should increase to approximately A$25m as a result of the Bayan transaction, including cash into the company from convertible notes and warrants, and new shareholders from Pakar (A$18m). We estimate that this should be sufficient to carry the company through to the ramp up at Mamahak, and moving into production at Pakar. We note that the plan of directing internally generated cash to new capex expenditure is heavily dependent on Mamahak coal sales. Our model indicates that KRL produces significant free cash flow from fiscal 2013 onwards.

Financial summary (OPL estimates)

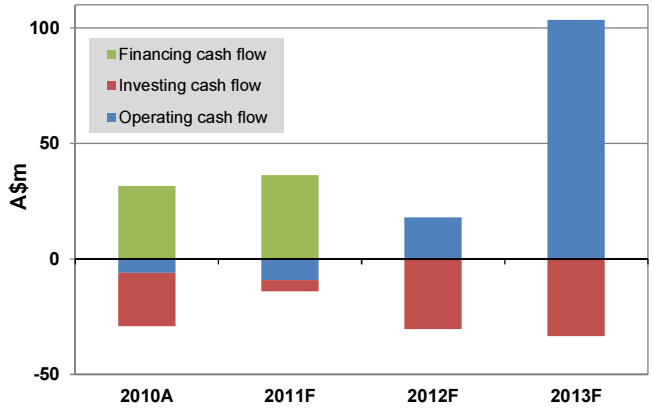
Total coal sales



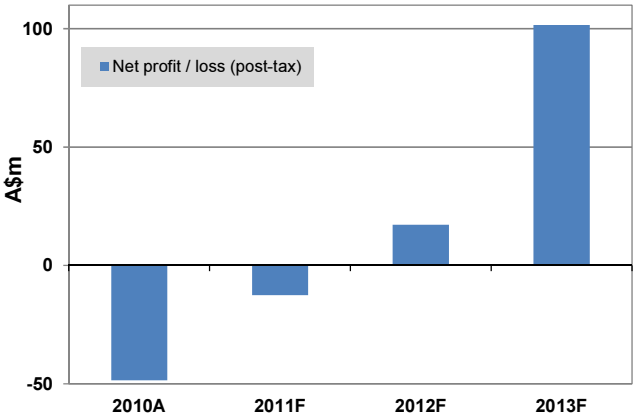
Revenue profile



Cash Flow profile



Profit (post tax) profile



Source: Old Park Lane Capital estimates

Director biographies

Mr Peter Richards – Non-Executive Chairman

Mr Richards has a proven track record in the mining industry. His roles have included more than 30 years' experience with companies such as British Petroleum (including its mining arm Seltrust Holdings), Wesfarmers, and Dyno Nobel. Mr Richards was most recently CEO of the ASX-listed Dyno Nobel Limited for 2.5 years. Prior to this he was based in the USA, where he was the President of Dyno Nobel North America. He is also a Non-Executive Director of NSL Consolidated Limited.

Mr Mark O'Keeffe – Managing Director

Mark has been a successful businessman in the Perth community for the past 18 years and in recent years has become actively involved in the minerals industry. He has provided his services in various corporate capacities, including his direct involvement in a number of private and public company capital raisings. Mark's previous business interests have encompassed several established enterprises in the retail and service industries, as well as a range of real estate investments.

Mr Trevor Butcher – Non-Executive Director

Trevor is an Indonesian-based professional who has spent more than five years working in the Indonesian mining industry. He has significant Indonesian business networks and strong relationships with local partners. Trevor worked in both the food industry and the electrical manufacturing industry in New South Wales.

Mr Darcy Wentworth – Non-Executive Director (Bayan Resources nominee)

Mr Wentworth is an experienced Australian-based mining executive with over 40 years of international experience managing various coal operations around the world, with specific focus and expertise in coal mining and Indonesia. Mr Wentworth was previously the Operations Manager for Bayan's large Gunungbayan coal operation in East Kalimantan for over 10 years until 2009.

Mr Alastair McLeod CA - Non-Executive Director (Bayan Resources nominee)

Mr McLeod is an Indonesian-based mining executive with over 20 years' experience in senior finance, accounting and management roles and over 10 years directly relating to the Indonesian resource market. Mr McLeod is currently Chief Financial Officer and a Director of Bayan Resources.

Mr Russell Neil FCPA CFA - Non-Executive Director (Bayan Resources nominee)

Mr Russell is an Indonesian-based mining executive with approximately twenty years of corporate experience in accounting, finance and management roles within the mining industries of Australia and Indonesia. He is currently Chief Development Officer and a Director of Bayan Resources.

Mr David Low Yi Ngo - Non-Executive Director (Bayan Resources nominee)

Mr Low is presently acting Marketing Director for Bayan Resources. Mr Low has held various senior management roles within Indonesia and Asia over the past five years.

Mr Galih Kartasasmita - Director

Mr Kartasasmita is an Indonesian national with extensive experience in the country's resources market and a strong contact network in business and political circles. Previous experience with PT Freeport Indonesia and PT Bakrie and Brothers.

Senior management biographies

Mr Mike Ralston – Chief Financial Officer

Mr Ralston has joined KRL as the Company's CFO in October 2009. He has 12 years' experience as a CFO internationally and has been CFO of several ASX listed mining companies over the past 5 years. He has been working in the Indonesian coal market with Fireside Resources for the past 12 months. Mr. Ralston is a member of the Australian Institute of Company Directors, holds a Bachelor of Commerce from University of South Africa and a Chartered Management Accountant (London).

Mr Jerko Zuvela- Chief Geologist

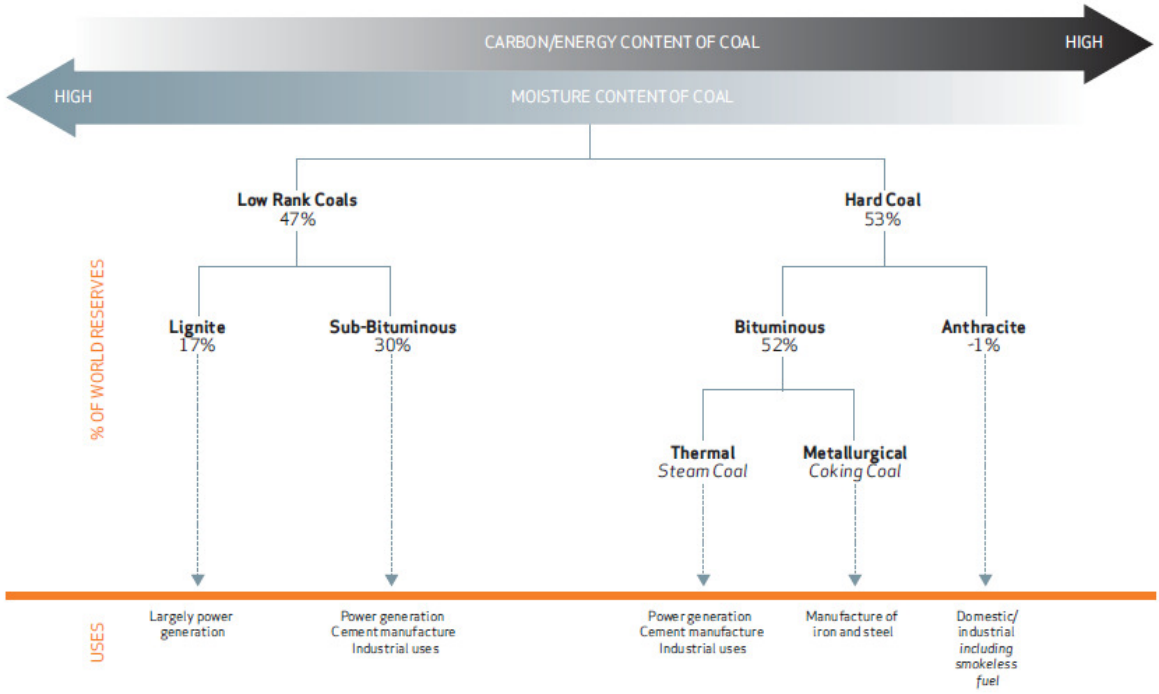
Mr Zuvela has 14 years resources experience in Australia and internationally, and has been directly involved in the Indonesian coal sector during the past 4 years, during which time he has worked for Strike Resources as General Manager and Fireside Resources as Chief Geologist. Mr. Zuvela is a member of the Australasian Institute of Mining and Metallurgy and holds a Bachelor of Science in Applied Geology from Curtin University of Technology in Western Australia.

Mr Sean Henbury – Company Secretary

Mr. Henbury (CA, FITA) is a Chartered Accountant with over 13 years' experience in public practice with three of Perth's major accounting firms. He was a founding director of the accounting firm FJH Solutions Pty Ltd, where he continues to provide client support across a wide range of industries including mining, exploration, research and development, construction and manufacturing.

Appendix I - Coal classification

Coal is a fossil fuel used for a variety of industrial applications, primarily power generation and in steel making. Geologically, coal is a combustible sedimentary rock composed mainly of carbon, hydrogen and oxygen. In simple terms, coal is formed by the consolidation and compaction of vegetation between other rock strata, often as a result of the burial of organic matter in swamps and peat bogs. Physical changes in the vegetation caused by the application of temperature and pressure over the course of millions of years transforms the vegetation into peat, and ultimately coal.



Source: World Coal Institute

Coal types by rank

The quality of coal is determined by its organic maturity, which is affected by pressure, temperature and the formation time. The degree of change undergone by coal as it matures from brown coals such as lignite to hard black coals such as Anthracite is known as coalification, essentially metamorphism.

The degree of coalification has a direct bearing on perhaps the most important characteristic of coal, its rank. Lower rank coals such as lignite are characterised by high moisture content and low carbon content with resultant low calorific value, i.e. the amount of energy that can be utilised from one tonne of coal is less than higher rank coals such as the bituminous coals and anthracite.

- **Lignite.** The lowest rank of coal, with a high moisture and oxygen content, low carbon content. Can be used for power generation although high moisture content and lower intrinsic value can make transport uneconomic.
- **Sub-bituminous.** Dark brown to black coal and intermediate rank, representing approximately 30% of world reserves. Carbon content 42%% to 52%. Can be used for power generation and also amenable to conversion to gaseous and liquid fuels.
- **Bituminous Coal.** Dense black coals with a brilliant or shiny lustre. The carbon content is generally 60% to 80% and as such is used for electricity generation and for making coke.
- **Anthracite.** A very hard black coal with carbon content of 85%-95%. Most frequently used for home heating due to clean burning and high heating value, but market generally small.

Coal types by use:

In addition to rank, coal can also be classified by its end use. Although coal has a variety of applications, its use is dominated by two major industries; power generation and steel making.

Thermal Coal

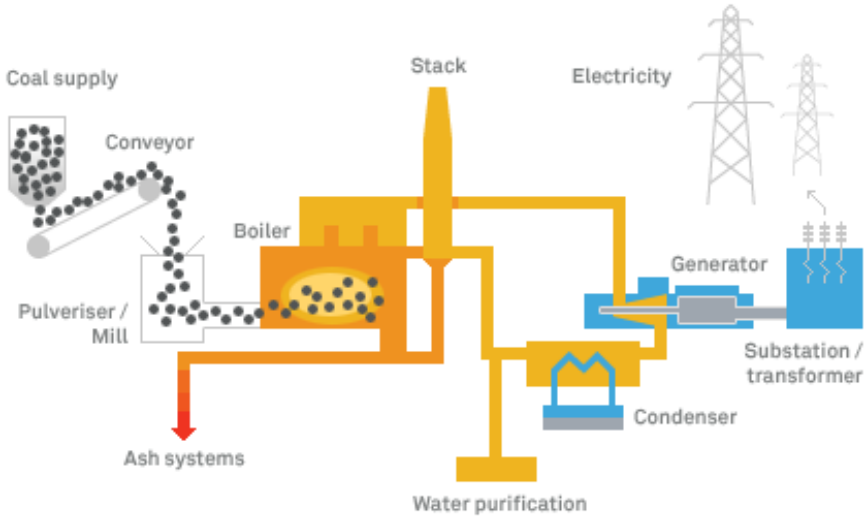
Thermal Coal or steam coal is primarily used for power generation purposes. Most non-coking coal ranks of coal are suitable for power generation in conventional power stations. High energy and high volatile sub-bituminous and bituminous rank coals are well suited to power generation needs. In terms of coal quality (see appendix II) the sulphur content is critical for thermal coal, as high sulphur coals can produce pollutant gases on combustion.

Generating electricity with coal

Early coal-fired power stations used to burn coal in lump form in order to produce steam. However, in modern power stations the coal is first milled into a fine power powder in order to increase the surface area of the coal and speed up combustion. For these types of pulverised coal combustion systems, the powered coal is blown into the combustion chamber of a boiler and burnt at a high temperature. The resultant heat energy and gases converts water in pipes lining the boiler to steam.

The high pressure steam is then channelled into a turbine to pass through thousands of propeller like blades. The high pressure steams hits these blades and causes the turbine drum to rotate at a high speed. A generator in the turbine shaft composed of tightly wound wire coils, generates electricity when rapidly rotated in a strong magnetic field. Condensed steam is then returned to the boiler to be re-heated.

Use of thermal coal in electricity production



Source: World Coal Institute

Coal for use in electricity generation normally has a benchmark calorific value of approximately 6,000 kcal/kg although many power stations will accept lower energy content coals depending on the blending capability and technology of the plant, especially in India. The average calorific value of coal burnt in Indian power stations is only about 3,500 kcal/kg. A 600 MW coal-fired power station operating at 38% efficiency and 75% overall availability will consume approximately 1.5 Mtpa of Bituminous coal with a CV of 6,000 kcal/kg.

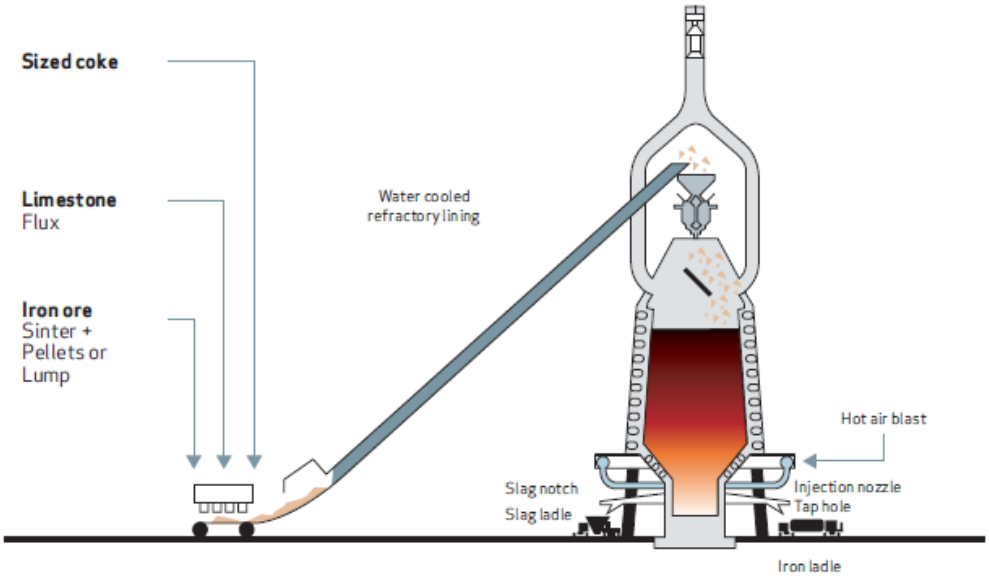
Coking Coal

Coking coal, also called metallurgical coal refers to coals used to produce coke for use in steel production. Coking coals are normally hard black, high quality and high calorific bituminous coals with low ash, sulphur and phosphorus contents. Along with these factors the other key determinant as to whether coal is suitable for coke production is the degree of free swelling. The coal must reduce to coke after heating in the absence of air which softens, liquefies and re-solidifies the coal into hard porous lumps.

For steelmaking, coke, iron ore and fluxes such as limestone are feed into a blast furnace. Steel can also be produced using an electric arc furnace, although this process does not directly use coal as a raw material input, other than utilising electricity sourced from coal-fired power stations.

Air heated to 1,200°C is blown through the furnace which burns the coke, producing carbon monoxide and reducing the iron ore to molten iron by the removal of oxygen. The molten iron and slag is then tapped from the bottom of the furnace and taken to a basic oxygen furnace. Here steel scrap and more limestone are added before blowing through 99% pure oxygen into the mixture. The reaction raises the temperature to 1,700°C, burning off impurities and producing almost liquid steel. According to the World Coal Association it takes approximately 600 kg of coke to produce 1 tonne of steel.

Use of coking (metallurgical coal) in steel production



Source: World Coal Institute

Semi-soft coking coal refers to coking coals with weaker coking properties then hard premium coking coals and usually is a result of lower free swelling numbers. Semi-soft coking coals can be blended with harder more expensive coking coals in order to reduce coke production costs in steel making.

Coking coal normally commands a premium with regards to pricing when compared with thermal and other types of coal. For example current FOB coking coal contracts negotiated by Anglo American in March 2011 stand at US$330/tonne, compared to US$120/tonne for current thermal FOB export coal prices at Richard's Bay in South Africa

Appendix II - Coal quality analysis

Moisture

The moisture content of coal varies by type of coal, the region where it is mined and the location of coal within a seam. The moisture content is important as all coals are essentially mined wet. The moisture content of coal is related to the energy content. In general, high moisture content decreases the energy content and increases the weight of the coal, thereby making it more expensive to transport. Moisture content in coal, as sold, can range from approximately 5–30% for bituminous and sub-bituminous coal to up to 45% for lignite. Total moisture (TM) is analysed by loss of mass between an untreated sample and the sample once heated and analysed. Groundwater and moisture from other extraneous sources is readily evaporated but the portion of moisture contained within the coal itself is known as inherent moisture (IM).

Energy content

The energy content (CV) of coal is typically measured as the heat released on complete combustion in air or oxygen, expressed as the amount of heat per unit weight. It is usually expressed in units of kilocalories per kilogram (kcal/kg). Energy content is affected by moisture content. Generally the higher the energy content, the greater the economic value, particularly for thermal coal.

Volatile matter

Volatile matter (Vol) in coal refers to the components of coal (excluding water) that are liberated at high temperatures in the absence of air. This is usually a mixture of short and long chain hydrocarbons, aromatic hydrocarbons and some sulphur. The volatile matter of coal is determined by heating the coal sample under controlled conditions. Volatility is critical for both electricity generation and steel making as it determines the burn rate of the coal. High volatile coals are very easy to ignite but often not as desirable as medium volatile coals. Low volatile coals are difficult to ignite but generally have high energy content as a result of their higher rank. Thus while high volatile coals may be desirable for power generation, a smelter must balance the volatile content to optimise ease of ignition, burn rate, and energy output of the coal.

Ash content

Ash is the inorganic residue remaining after the combustion of coal. It is an important characteristic of coal because electricity generators must handle and dispose of ash following combustion. Coal with a low ash content is therefore considered to be of higher quality.

Fixed carbon

The fixed carbon content of coal is the carbon remaining after volatile materials are driven off. This differs from ultimate carbon content because some carbon is lost with the volatile materials as hydrocarbons. Fixed carbon is used as an estimate of the amount of coke that will be yielded from a sample of coal. Fixed carbon is determined by subtracting the moisture, ash and volatile matter content from the original mass of the coal sample.

Sulphur content

Low sulphur coal is generally characterised as coal with a sulphur content of 1% or less by weight. The sulphur content is increasingly important for thermal power generation due to environmental controls restricting sulphur emissions by electricity generators in many countries. Low sulphur coal therefore offers environmental and economic advantages over high sulphur coal and reduces the need for flue gas desulphurisation. Coking coal requires a maximum sulphur content of 0.8%, because higher values affect steel quality.

Appendix III – Indonesian coal

Indonesia is currently the world's largest exporter of seaborne thermal coal with the Asia-Pacific region representing the vast majority of demand growth. Indonesia's coal are bituminous to sub-bituminous in rank, with variable ash and sulphur contents as summarised in the table below.

In recent years a market has developed for lower rank Indonesian coals with a CV value of between 3,700 kcal/kg (gar) to 4,200 kcal/kg (gar) that generally sit below the sub-bituminous rank in terms of CV. The acceptance of lower rank coals in the export market is driven by two factors; the relatively low sulphur content of Indonesian coals (0.2% or lower) and the emergence of demand largely from Indian power stations running on CV 4,000 kcal/kg (gar) coal or less. The downside of the ultra-low sulphur and low ash Indonesian coals is that total moisture contents can often be in excess of 40%.

Many Indian power stations are built to run on much lower CV coal then other countries, primarily as a factor of India's domestic resources of coal, which are generally very low rank 3,000 kcal/kg (gar) to 4,500 kcal/kg (gar) with high ash contents.

The coal at Pakar fits into this key export market, with a CV of 3,100 to 3,775 kcal/kg (gar), with low ash and sulphur but relatively high moisture.

Indonesia has a comparative advantage over Australian sourced export coals in that Indonesia is geographically closer to the Indian market, although reliability of security of supply has been in issue in the past. In addition, Indonesian coal operations are generally lower cost than in Australia, as Indonesian coal transport is normally water based, allowing the easy transfer of coal from barges directly to capsize vessels.

Typical quality specifications for Indonesian export thermal coals

Quality	Bituminous Coal	Sub-bituminous coal
Total Moisture	10 - 12%	24 - 38%
Ash content	2 - 12%	1.5 - 7.5%
Volatile matter	31 - 42%	28 - 37%
Sulphur content	0.1 - 0.95 %	0.07 - 0.90 %
Energy content (CV)	5,300 - 6,700 kcal/kg	4,100 - 5,200 kcal/kg

Source: World Coal

Appendix IV – Indonesian mining law

In January 2009 a major change to Indonesian mining law came into effect, replacing its 1967 predecessor. The new law replaces the old system of KPs (Mining Authorisation) and CoWs (Contract of Work) which were issued by the central government.

The new mining law grants permits through the issuance of a mining licence or IUP (Izin Usaha Pertambangan) which is granted by central, provincial or regional government. Specifically for coal, the Exploration IUP grants rights for up to 7 years for a concession area of between 5,000 Ha and 50,000 Ha whilst the Production Operations IUP grants rights for up to 20 years, extendable for 10 years x2, for an area of 15,000 Ha.

Foreign investment is now permitted with the IUP but with divestment. A foreign investor can hold 100% of an IUP concession, but after 5 years must divest a portion of its shareholding in the IUP. The regulations have yet to specify percentages for the divestment and this issue is being closely monitored by foreign investors in Indonesia.

Financial summary

Kangaroo Resources Limited

ASX:KRL

All A$m unless noted / Fiscal Year End June. (A) Actual, (F) Forecast

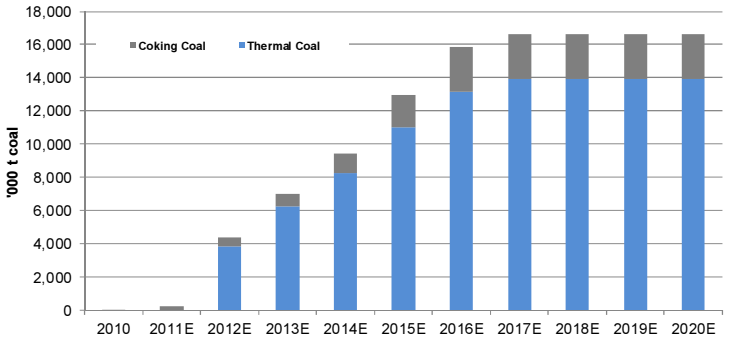
CAPITAL STUCTURE				
Share Price	A$0.20	Ticker	KRL
Shares Outstanding (m)	3,434	Market Capitalisation	A$687
Shares Fully Diluted (m)	3,581	12-Month High	A$0.25
Net Debt (Cash) $m	-A$12.3	12-Month Low	A$0.08
P/NAV	0.84	Enterprise Value (EV)	A$677
Return to target valuation	25%		

PRICING ASSUMPTIONS		2009A	2010A	2011F	2012F	2013F
Mamahak Coking Coal	US$/t			100	100	100
Kubah Indah Coking Coal	US$/t			250	250	250
Pakar Low Moisture Thermal Coal	US$/t			38	38	38
Pakar High Moisture Thermal Coal	US$/t			28	28	28
GPK Thermal Coal	US$/t			38	38	38
USD/AUD Exchange rate	x			1.00	1.00	1.00

COAL RESOURCES			
100% Project Basis		**Attributable**	
Resources (M&I)	1271 Mt	Resources (M&I)	1250 Mt
Resources (Inferred)	1876 Mt	Resources (Inferred)	1848 Mt
Resources (Total)	3146 Mt	Resources (Total)	3099 Mt
Reserves (P&P)	426 Mt	Reserves (P&P)	422 Mt

PRODUCTION (attributable)		2009A	2010A	2011F	2012F	2013F
Total Coal	000t	0	0	115	1,401	5,903
Thermal Coal	000t	0	0	0	1,001	5,303
Coking Coal	000t	0	0	115	400	600

Coal production forecast (Calendar yr Basis)



PROFILE	
Location	Kalimantan - Indonesia
Commodities	Thermal Coal & Coking Coal

NET ASSET VALUATION						Fully diluted
Coal Projects	**Type**	**Discount**	**Interest ***	**% NAV**	**A$m**	**A$/sh**
Mamahak	Coking Coal	12%	100%	15%	133	0.04
Pakar	Thermal Coal	15%	99%	72%	625	0.17
GPK	Thermal Coal	15%	85%	12%	104	0.03
Kubah Indah	Coking Coal	20%	100%	0%	0	0.00
MBK/BP	Thermal Coal	-	100%	-	0	0.00
Other Projects	-	-	-	-	0	0.00
Net Operating Assets				**100%**	**A$862**	**A$0.24**
Working Capital					32	0.01
LT Debt					0	0.00
Corporate G&A					(38)	(0.01)
Net Asset Value					**A$856**	**A$0.24**
Target Price					-	**A$0.25**

*interest post PT Bayan Resources transaction

Source: Company reports, Old Park Lane Capital estimates

METRICS	2009A	2010A	2011F	2012F	2013F
Shares Outstanding - basic (m)	246	568	2,110	3,434	3,434
Shares Outstanding - FD (m)	278	777	3,581	3,563	3,581
EPS (A$/sh)	-0.01	-0.08	-0.01	0.01	0.03
EPS Growth	-	-862%	89%	158%	491%
P/E	-	-	-	40x	7x
CFPS (A$/sh)	0.00	-0.02	-0.01	0.01	0.03
P/CFPS	-	-	-	38x	7x
EBITDA	-0.6	-4.3	0.6	22.2	131.1
EV/EBITDA (x)	-	-	1,158.3	30.5	5.2
ROE	0%	0%	0%	20%	54%
ROCE	0%	0%	0%	27%	68%
Debt-Equity ratio	21%	28%	12%	9%	4%

INCOME STATEMENT (A$m)	2009A	2010A	2011F	2012F	2013F
Group Revenue	0.0	3.6	16.9	81.0	269.0
Cost of Sales	0.0	0.0	-7.5	-50.8	-130.0
Other expenses (inc G&A)	-0.6	-7.9	-8.9	-8.0	-8.0
Depreciation	0.0	0.0	-0.1	-0.7	-1.8
Finance costs	-0.1	0.0	-13.5	3.5	-0.2
Other (inc impairments)	-0.5	-4.5	-4.6	-2.0	-2.0
Profit before tax	**-1.2**	**-8.8**	**-17.6**	**23.0**	**127.0**
Tax	0.0	0.0	-0.7	-5.8	-25.3
Disc. Operations	-0.8	-36.1	0.0	0.0	0.0
Profit / Loss for the year	**-2.0**	**-44.9**	**-18.3**	**17.2**	**101.6**
Minority interests	0.0	-0.6	-0.1	0.9	2.5
Comprehensive profit / loss	**-2.0**	**-48.4**	**-12.5**	**17.2**	**101.6**

CASH FLOW (A$m)	2009A	2010A	2011F	2012F	2013F
Operating profit	-2.0	-44.9	-18.3	17.2	101.6
Depreciation	0.0	0.0	0.1	0.7	1.8
Impairments / FX / other	1	36	4	0	0
Net change in working capital	0	3	5	0	0
Cash flow from operations	**-0.4**	**-6.0**	**-9.3**	**17.9**	**103.5**
Acquisitions / Disposals (net)	0	0	3	-14	0
Capex (inc exploration)	-1	-12	-2	-17	-33
Other	0	-12	-6	0	0
Cash from investing activities	**-1**	**-23**	**-5**	**-30**	**-33**
Issue of shares	2	28	24	0	0
Net borrowing	-1	4	12	0	0
Cash from financing activities	**1**	**32**	**36**	**0**	**0**
Net Increase (Decrease) In Cash	0	2	22	-12	70
Beginning Cash	1	1	4	25	13
Ending cash	**1**	**4**	**25**	**13**	**83**

BALANCE SHEET (A$m)	2009A	2010A	2011F	2012F	2013F
Cash	1	4	25	13	83
Other current assets	0	14	13	13	13
Total current assets	1	17	38	26	96
Property, plant equipment	0	0	-14	15	27
Other fixed assets	3	24	50	50	70
Total non-current assets	3	24	35	65	97
Total assets	**4**	**41**	**74**	**91**	**193**
ST borrowing	0	1	2	2	2
Other current liabilities	0	5	4	4	4
Total current liabilities	1	6	7	7	7
LT borrowing	0	3	0	0	0
Other non-current liabilities	0	0	1	1	1
Total non-current liabilities	0	3	1	1	1
Total Liabilities	**1**	**9**	**8**	**8**	**8**
Shareholder's Equity	4	32	66	83	185
Total Liab. & S'holder's equity	**4**	**41**	**74**	**91**	**193**

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The recommendation system used for this research is as follows. We expect the indicated target price relative to the FT All Share Index to be achieved with 12 months on the date of this publication. A 'Hold' indicates expected performance relative to this index of +/-10%, a 'Buy' indicates expected outperformance of >10% and a 'Sell' indicates underperformance of >10%.

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