
QUARTERLY ACTIVITIES REPORT

THREE MONTHS to 31 December 2011

The following activities have been conducted by, or on behalf of, the Company and its wholly-owned subsidiaries ("Bandanna") during the three months 1 October to 31 December 2011 ("Reporting Period").

Executive Summary

Bandanna Energy Limited (ASX-BND) continues to strengthen its position as an emerging force in the Australian thermal coal sector, with the following significant events having occurred during the Reporting Period.

Operational – Exploration and Development Activities

- Significant increase in Resources for Springsure Creek Project.
- Mining Lease application made for Springsure Creek Project.
- Cultural Heritage and Native Title Agreements reached in Springsure Creek and South Galilee Coal projects, respectively.
- Strategic Cropping Legislation passed including provision for Springsure Creek under the transition arrangements.
- Implementation of Co-existence Strategy with landowner/occupier stakeholders.

Infrastructure

- Close of financing package for Wiggins Island Coal Terminal and commencement of major construction phase.
- Submission of expression of interest for a 15 Mtpa port allocation for the South Galilee Coal Project in the proposed T4-T7 expansion of Abbot Point terminal unsuccessful, however subsequent discussions with the North Queensland Bulk Ports for alternate options to gaining necessary port capacity at Abbot Point are continuing.

Corporate

- Announcements that John Pegler and Michael Gray are to be appointed to the board, with Michael to become the new CEO and Managing Director during Q1 2012.
- Termination of the Strategic Review Process.
- Increased staff and resources and relocation of registered and business office to larger premises as part of Company's up-gearing during Development stage.

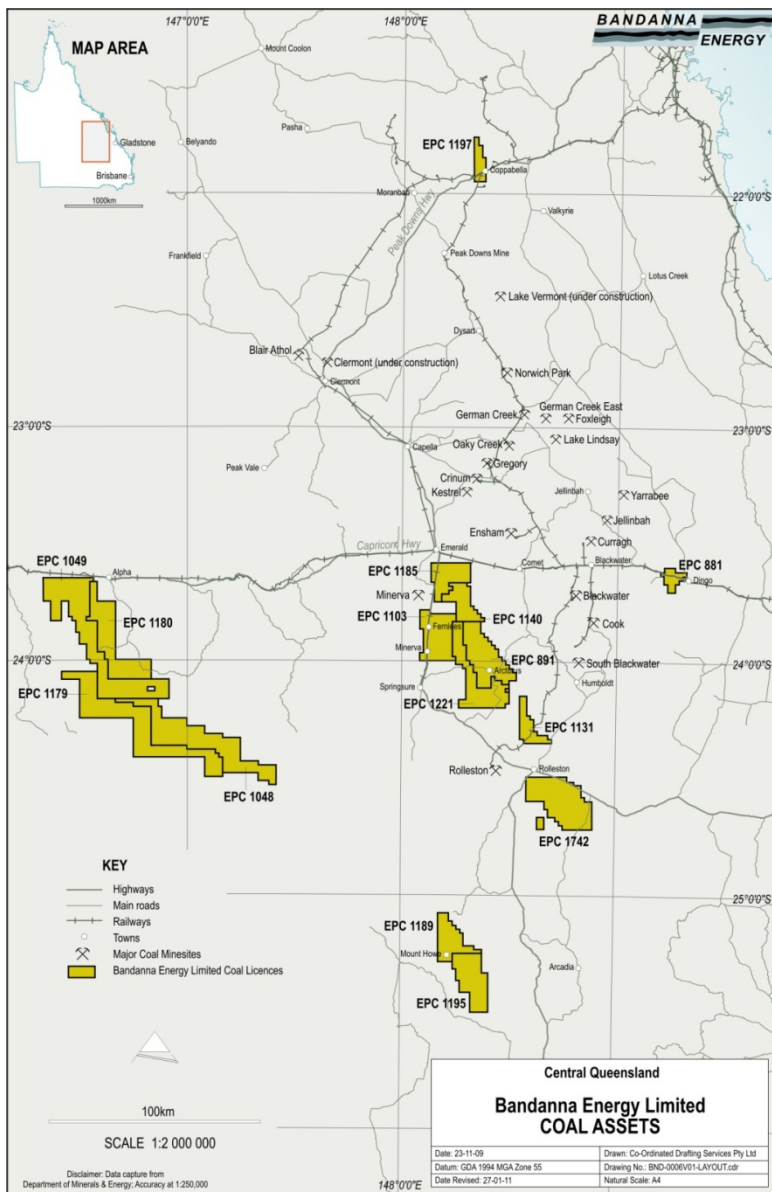
1. EXPLORATION AND DEVELOPMENT ACTIVITIES

During the Reporting Period, the Company operated a number of field operations on its coal projects, notably in the Springsure Creek, Dingo West and, under a Joint Venture Agreement with AMCI, the South Galilee Coal Project.

Arcturus, Springsure Creek & Arcadia Projects

These three major potential thermal coal projects (Arcturus, Springsure Creek and Arcadia) are clustered in a highly prospective portion of the Bowen Basin situated between the townships of Emerald, Springsure and Rolleston. The region is well serviced by existing infrastructure and a long established mining industry and community. Collectively, the three projects have JORC Resources exceeding 900 Mt and the potential to produce in excess of 20 Mtpa of combined thermal coal product through the development of multiple source mines. Bandanna, through its various subsidiary companies, retains 100% ownership of these projects.

Figure 1 - Location Plan for Bandanna Energy Limited EPC Interests



Project Specific Exploration and Development Activities during the Reporting Period

SPRINGSURE CREEK – EPC 891

Springsure Creek is 100% owned and operated by Springsure Creek Coal Pty Ltd, a wholly owned subsidiary of Bandanna.

The Springsure Creek Project covers an area of 462 km² and is located some 40 km south of Emerald and 60 km southwest of Blackwater. To the south and west it abuts the Arcturus Project.

During the Reporting Period a total of 9 holes were drilled, for a total of 2660 metres, including 275 m of core. This on-going programme is designed to target increased confidence of existing resources with a view to expansion of both resources and reserves to underpin further Definitive Feasibility Studies following the completion of the Feasibility Study announced to the ASX on 19 April 2011.

During the Reporting Period, and as a result of drilling during the past few months in the Springton South Domain, the Company announced on 21 December 2011 in a new Resource Statement that it had increased its total JORC compliant Resources at EPC 891 to 490.5 Mt (up 31%), including Indicated Resources of 228 million tonnes (up by 76%). These resources also included for the first time some 29.3 Mt of Inferred Resources in the Caster Seam within the Springton South Domain. Previously all resources and reserves had been delineated in the Aries 2 Seam. The Castor Seam underlies the Aries 2 Seam and has potential to be mined either post or pre Aries 2 development. The Caster Seam has mineable thicknesses in excess of 2.0 m with insitu ash of 10-12% and CV of 26 Kj/Kg (adb).

During the Reporting Period the Company applied for a Mining Lease covering the central portion of EPC 891 tenement. The ML application is part of a rigorous process involving an Environmental Impact Statement which is currently in progress. During the Reporting Period the environmental approvals process continued, as did cultural heritage negotiations with the various stakeholders. As disclosed to the ASX on 23 December 2011, an in-principal agreement was reached with the Indigenous Kairi people for Cultural Heritage Management Plans at the Springsure Creek and Arcturus projects.

Considerable progress was also undertaken to implement a co-existence strategy with other landowner and occupier stakeholders. Bandanna has purchased a significant parcel of land which has been leased back to the former owners and engaged an agricultural management group to oversee and advise, in conjunction with environmental and rehabilitation specialists, on protocols designed to mitigate any future detrimental impacts of mining activity including requirements under the new Strategic Cropping Legislation (SCL).

The Queensland Government passed SCL in December 2011 and together with accompanying Regulations these are anticipated to come into force on 30 January 2012. In accordance with S.289 EPC 891 has been included in the transitional arrangements. As part of establishing a scientific benchmark of elevation and landuse information over the tenement a laser levelling and photometric survey was completed during the Reporting Period.

ARCTURUS – EPC 1221

Arcturus is 100% owned and operated by Bandanna through its wholly owned subsidiary Springsure Creek Coal Pty Ltd. During the Reporting Period a laser levelling and photometric survey was completed to provide base line topographic and landuse information. The topographic detail will provide vertical resolution to approximately +/-20 cm. The survey was conducted over both Arcturus and Springsure Creek project areas as well as potential access corridors.

Following the receipt the Terms of Reference for the EIS in June 2011, the approvals process is progressing. Future development of Arcturus will proceed under the SCL passed by the Queensland Government in December 2011.

During the Reporting Period an in-principal agreement was reached with the Indigenous Kairi people for a Cultural Heritage Management Plans at the Springsure Creek and Arcturus projects.

ARCADIA – EPC 1742

Arcadia is 100% held by Arcadia Coal Pty Ltd, a wholly owned subsidiary of Bandanna Energy Limited.

EPC 1742 is located 4 km south of the township Rolleston, and is bound to the north by the Dawson Highway. Known as the Arcadia Project, exploration work conducted to date has identified a potential underground project on the Purbrook Anticline where the target Aries 2 Seam occurs at depths as shallow as 210 m. Although no new field work was conducted during the Reporting Period, previous drilling has indicated that the raw coal across the Purbrook Anticline has an inherent moisture of approximately 4.7%, ash content of 14%, sulphur content of 0.33% and a calorific value of some 6440 kcal/kg on an air dried basis. Coal quality testing implies potential for a washed semi-coking product as well as an excellent thermal coal.

Previous drilling has also enabled an Inferred Resource of 273 Mt to be delineated by Bandanna.

During the reporting period the Company considered the results of a technical feasibility study of an underground longwall mine development and operation at the Purbrook Anticline completed by Minecraft mining consultants.

Also, during the reporting period the Company was presented with a desktop study by E3 Consulting addressing Strategic Cropping issues in the area where the underground on the Purbrook Anticline is located. This study will now be followed up with field studies.

It is intended to undertake further drilling during 2012 which will address potential increases in the confidence level of the current Inferred Resource to underpin possible future longwall development.

DINGO WEST – EPC 881

Dingo West is 100% owned and operated by Bandanna through its wholly owned subsidiary Dingo West Coal Pty Ltd.

Dingo West is located west of the township of Dingo where it occupies a convenient position close to key infrastructure; the main Blackwater-Gladstone rail line and Capricorn Highway traversing the northern part of the lease. The rail distance to the port of Gladstone is 200 km. Strategically, a mine at Dingo West would be approximately 60 km closer to this port facility than any existing operating mine situated along the Blackwater corridor. Dingo West Project is expected to produce 1.0 Mtpa of high quality, low volatile PCI coal for the export market. Importantly, the coal quality data indicates a potential low volatile PCI product similar to those produced by Yarrabee and Jellinbah mines, located slightly to the west of the Dingo West Project.

Previously Bandanna announced a JORC Code-compliant Inferred Resource of 91 Mt within the tenement.

During the Reporting Period drilling was on-going with a total of 5017.35 m of drilling completed; comprising of 39 drill holes and 1282.85 m of core. This drilling was focused on delineating resources in three areas believed to have potential for future satellite open-cut pit development. Initial independent assessment of the resources in specific potential pit locations was commenced by Xenith Consulting.

During the Reporting Period and following communication from the Queensland Government it was agreed that Dingo West should proceed in accordance with the Commonwealth's Department of Sustainability, Environment, Water, Population and Community's Environment Protection and Biodiversity Conservation Act 1999 as a controlled action. Whilst this will take longer than an Environmental Management Plan (EMP) to complete, the appropriate studies are well advanced and should not result in any significant deviation from the critical path timetable previously contemplated for an EMP.

Other Bowen Basin Projects

During the Reporting Period no field operations were conducted at Fernlee (EPC 1103), Fernlee North (EPC 1185), Gemini (EPC 1131), Denison (EPC 1140), Wanella (EPC 1197) or within the Carnarvon Project (EPC 1189 and the EPC 1195).

SOUTH GALILEE PROJECT – EPCS 1048, 1049, 1179 AND 1180

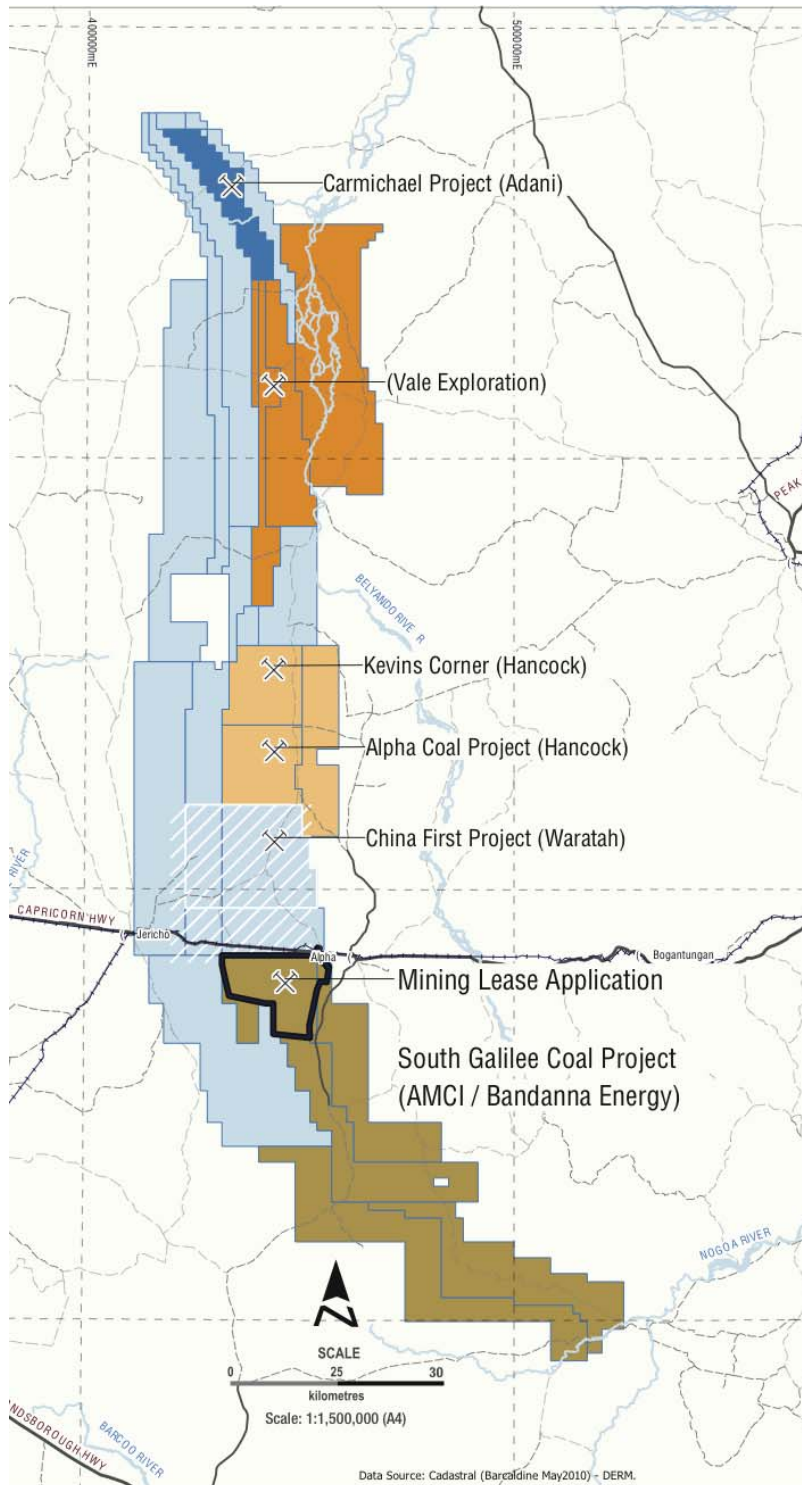
The South Galilee Coal Project (SGCP) comprises four EPCs: 1048, 1049, 1179 & 1180. Located to the west of the township of Alpha these tenements cover a combined area of 2,698 km² in the eastern Galilee Basin (Figure 2). As also announced on 8 July 2011 the South Galilee Joint Venture applied for a mining lease (MLA 70453) covering the northern portion of EPC 1049, in order to progress its development plans for the South Galilee Project. The ML application is part of a rigorous process involving an Environmental Impact Statement which is currently in progress. During the Reporting Period a drilling program was approved by the JV. The purpose of this program, which comprises 75 holes is to obtain additional geotechnical information for underground and open cut mine design, sample material for overburden geochemical characterisation work, washability test work, and provide additional control for infill resource delineation. During the Reporting Period a total of 9

holes were drilled for a total of 1698 metres. This, and earlier drilling results, will form the basis for further resource estimations.

As announced to the market on 8 December 2011 the Joint Venture received the consent of the Wangan and Jagalingou People (W & J People) for all approvals needed to develop the Project and infrastructure corridor. In consideration of this consent the Joint Venture has agreed to provide certain benefits over the life of the project to the W & J People. A Section 31 Deed was submitted to the State for signing following this agreement and was signed by State on 23 January 2012.

Following submission of an Expression of Interest with the Northern Queensland Bulk Ports Authority for a 15 Mtpa port allocation in the proposed expansion of Abbot Point coal export terminals the Joint Venture was advised that it had been unsuccessful in the award of Preferred Respondent status for the T4-7 expansion of Abbot Point. However, and following the announcement, the Northern Queensland Bulk Ports (NQBP) invited the South Galilee Coal Project JV to early discussions in order to explore other options for securing capacity for the proposed T4-T9 Abbot Point Expansion through nominated Preferred Respondents. These discussions are continuing.

Figure 2 - South Galilee Coal Project Location Plan



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|--|----------------------|--|--------------------------|
| | Highways | | Alpha Coal Pty Ltd |
| | Principal roads | | Vale Exploration Pty Ltd |
| | Railways | | Adani Mining Pty Ltd |
| | Towns | | Hancock Coal Pty Ltd |
| | Major Coal Minesites | | Waratah Coal Pty Ltd |
| | | | China First project area |
| | | | Mining Lease Application |

Future Activities

The Company intends to focus its coal exploration and development activities on the Springsure Creek, Dingo West and Arcturus projects and attendant infrastructure needs in order to meet WICET Stage 1 and any Stage 2 commitments, as appropriate.

Exploration of other tenements will progress in line with deed of grant expenditure commitments during the 2012 calendar year.

2. INFRASTRUCTURE

Bandanna's Access to Port Infrastructure

As announced during the Reporting Period Bandanna has a 4 Mtpa allocation secured for the proposed 27 Mtpa Stage 1 development following Financial Close in October 2011. This was a major milestone for the Company and provides Bandanna, as an owner shareholder in Stage 1, its 4 Mtpa allocation, representing 14% of the total 27Mtpa capacity. First coal is due for export through WICET in mid-2014 following a planned 34 month build. Bandanna is fully funded to meet all its obligations to the port including a bank guarantee for \$52 million under the Take or Pay Agreement. Its pro-rata share (\$41 million) of total preference equity of \$275 million funded by the eight Stage 1 proponents represents the only user funding component. Bandanna will need to make no further capital contributions for the budgeted construction cost as funded under the \$2.5 billion privately funded financing package of senior and subordinated debt arranged by ANZ bank.

Bandanna has previously announced on 5 September 2011, that together with other Stage 1 proponents, it had entered into a commercial agreement with QR National (QRN) whereby QRN will construct and fund the \$900 million Wiggins Island Rail Project (WIRP) to provide the necessary rail infrastructure to ensure rail connection for the proposed source mines. Under the WIRP development, the rail infrastructure will align with the WICET commissioning. As part of its Access Agreement, Bandanna will pay a charge to access the Blackwater corridor

As at the end of the Reporting Period no announcement had been made by WICET as to allocation to be made for the expansion of the Wiggins Island export facilities under Expansion Stage.

Bandanna continued negotiations with power providers for potential supply of power to its Bowen Basin source mines. This was conducted in conjunction with an assessment of various transport corridors connecting source mines to existing rail corridors. Numerous transport corridors are being reviewed in order to minimise potential strategic cropping land and stakeholder impacts.

As mentioned in the Operations Section of this Report the South Galilee Coal Project joint venture was unsuccessful in the award of Preferred Respondent status for the expansion of Abbot Point. Initiated by the Northern Queensland Bulk Ports (NQBP) discussions are being held with nominated preferred respondents in order to explore other options for securing port capacity at Abbot Point. This determination has NO bearing on the Wiggins Island, 4 Mtpa WICET allocation of Bandanna, nor on the current construction and development schedules of WICET. WICET's Gladstone port facilities will provide port access to Bandanna's Bowen Basin located source mines and not those of any future mine development in the Galilee Basin.

3. CORPORATE ACTIVITIES

Proposed Changes to Board of Directors

During the Reporting Period it was announced that John Pegler will join the board as a non-executive director. John is very well known in the international coal industry. A mining engineer by training, he has worked for 39 years in open-cut and underground resource development, coal mining and processing operations, international and domestic coal marketing, project management and international procurement. After service with BP and Rio Tinto Groups in NSW, Queensland and Indonesia including roles at Managing Director level of major Queensland mines and most recently as Chief Executive Officer of Central Queensland open cut coal producer Ensham Resources Pty Ltd.

In early December 2011 the Company also announced the appointment of highly experienced mining executive Michael Gray to the position of Chief Executive Officer. Mr Gray's appointment will become effective in the first quarter of 2012 at which time he will join the board of the company as Managing Director, replacing the existing Managing Director, Dr Ray Shaw.

Mr Gray has more than 20 years' experience in the planning and development of major mining infrastructure projects, including high-level involvement in resource feasibility and development, project finance, project execution, environmental management and Native Title issues.

Mr Gray is currently Chief Executive Officer of Middlemount Coal Pty Ltd where he had overall responsibility for development of the Middlemount project from exploration to operating mine. These changes to the Board reflect the transition of Bandanna from an explorer to a future significant producer of Queensland coal.

Change of Registered Office & Staff

During the Reporting Period Bandanna Energy Limited advised the change of address of the Company's Brisbane office effective Thursday 15th December 2011. Details of the new Brisbane Office of Bandanna Energy Limited were announced as Level 4, 260 Queen Street, Brisbane, QLD, 4001 GPO Box 5227, Brisbane, QLD, 4001. Office Phone numbers remain unchanged. During the Reporting Period the company employed a senior procurement officer (Mr Tony Bahre) and field liaison officer to be based in Emerald (Mr Mark Foley). Additional senior management and technical positions will also be filled in coming months to meet expanding requirements.

Termination of Strategic Process

At the end of the Reporting Period Bandanna terminated the formal Strategic Review Process which was undertaken in conjunction with UBS during 2011. Interest by a number of third parties, particularly in Joint Venture participation in key Bowen Basin projects, will continue via discussions outside of that formal, competitive, process. As announced on 23rd December 2011 the outcome of these discussions is expected to provide funding solutions for major project capital expenditure.

Options

On November 3 2011, 978,000 options exercisable at \$0.745 each expired. 400,000 options exercisable at \$0.745 were exercised during the reporting period.

On 23 December 2011, the Company issued 1,932,000 options to key management personnel under the Employee Share Option Plan. The options are exercisable at \$0.745 once the Company's share price has increased to at least \$1.10 at any time between 1 December 2011 and 1 December 2014.

Yours faithfully

A handwritten signature in black ink, appearing to read "R D Shaw", with a horizontal line underneath.

Dr Raymond D Shaw
Managing Director

***Statement of Compliance**

The information compiled in this Report relating to South Galilee resources is based on information compiled by Lynne Banwell. Lynne Banwell is a member of the Australasian Institute of Mining and Metallurgy and has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity she is undertaking to qualify as a Competent Person as defined in the 2004 edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves". Lynne Banwell consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

The information compiled in this Report relating to Arcturus, Arcadia and Dingo West resources is based on information compiled by Gordon Saul, who is a member of the Australian Institute of Geoscientists and who is employed by Resolve Geo Pty Ltd. Gordon Saul has sufficient experience which is relevant to the style of mineralization and types of deposit under consideration and to the activity he is undertaking to qualify as a Competent Person as defined in the 2004 edition of the "Australian Code for reporting of Exploration Results, Mineral Resources and Ore Reserves". Gordon Saul consents to the inclusion in this report of the matters based on his information and in the form and context in which it appears. Resolve Geo Pty Ltd is a shareholder in Bandanna Energy Limited.

The information compiled in this Report relating to Springsure Creek resources, other than those of the Springton domain (that is the Turkey Creek, Moorooloo and Arcturus domains), is based on information compiled by David Keilar, who is a member of the Australian Institute of Geoscientists and who is employed by Resolve Geo Pty Ltd. David has sufficient experience which is relevant to the style of mineralization and type of deposit under consideration and to the activity he is undertaking to qualify as a Competent Person as defined in the 2004 edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves". David Keilar consents to the inclusion in the report of the matters based on his information in the form and context in which it appears. Resolve Geo Pty. Ltd. is a shareholder in Bandanna Energy Limited.

The information in this Report relating to exploration results and coal resources for the Springton North and Springton South domains is based on information compiled by Mr Troy Turner who is a member of the Australasian Institute of Mining and Metallurgy and is a full time employee of Xenith Consulting Pty Ltd. Mr Turner is a qualified geologist and has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking, to qualify as Competent Person as defined in the 2004 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves". Mr Turner consents to the inclusion in the report of the matters based on the information, in the form and context in which it appears.

Opencut Reserves estimate for Arcturus shown in this Report have been prepared by Mr Ken Hill. Ken Hill is the Managing Director of Xenith Consulting Pty Ltd. He holds a Bachelor in Civil Engineering degree from the University of Queensland and a Post Graduate Diploma in Business Administration from University Queensland. He has over 20 years' experience in the open cut coal mining industry and substantial experience in mining operations financial evaluations. Ken Hill is a Member of the Australasian Institute of Mining and Metallurgy and as such qualifies as a Competent Person under the JORC Code. Ken Hill consents to the inclusion in this report of the matters based on his information and in the form and context in which it appears.

Underground Reserve estimates for Arcturus and Springsure Creek have been prepared by Mr Jeremy Busfield, Principal Mining Engineer of Mine Craft Consulting Pty Ltd. Jeremy holds a Bachelor of Mining Engineering degree from the University of Queensland. He is a Chartered Professional Member of the Australasian Institute of Mining and Metallurgy (AusIMM) and a Registered Professional Engineer of Queensland (Mining) (RPEQ 10285). Jeremy Busfield has worked in various planning, operational and consulting roles for the underground coal industry for 26 years and as such qualifies as Competent Person under the JORC Code. The relationship between the Estimator and the Project owner is that of independent consultant. Jeremy Busfield consents to the inclusion in this report of the matters based on his information and in the form and context in which it appears.