
**BANDANNA ENERGY LIMITED** INTERIM FINANCIAL REPORT

# Corporate Directory

## DIRECTORS

Jeremy W. Barlow – Non Executive Chairman

Raymond D. Shaw – Managing Director (resigned 5 March 2012)

David D.H. Graham – Non Executive Director

Robert K. Johansen – Non Executive Director

Park Soon IL – Non Executive Director

John Pegler – Non Executive Director (appointed 1 January 2012)

Michael Gray – Managing Director (appointed 5 March 2012)

## COMPANY SECRETARY

Matthew Scott

## SENIOR MANAGEMENT

Matthew Scott – Chief Financial Officer

David Campbell – Manager Exploration

Peter Binnie – Manager Infrastructure

## REGISTERED OFFICE

Level 4, 260 Queen Street

BRISBANE Queensland 4000

## BUSINESS OFFICE

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GPO Box 5227
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## SHARE REGISTRY

Computershare Investor Service Pty Ltd
Level 5, 115 Grenfell Street
Adelaide South Australia 5000

Tel: (08) 8236 2300

## AUDITORS

Grant Thornton Audit Pty Ltd
Ground Floor, 102 Adelaide Street
Brisbane Qld 4000

## STOCK EXCHANGE

Code Shares: BND

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# Highlights

## 1. Wiggins Island financial close

Close of financing package for Wiggins Island Coal Terminal and commencement of major construction phase.

## 2. Rail access

Wiggins Island Rail Access Project (WIRP) Deed signed with Queensland Rail National Limited for 4 Mtpa rail access for Springsure Creek for Stage 1 of Wiggins Island.

## 6. WICET capacity

Increase to 8 Mt of nominated annual capacity under the Feasibility Funding Facility Agreement (FFFA) for WICET.

## 10. Feasibility studies

Definitive Feasibility Studies commenced for Springsure Creek and Dingo West.

## 3. ML applications

Mining Lease applications made for Dingo West, Springsure Creek and South Galilee projects.

## 4. Springsure Creek JORC Resource

Significant increase in JORC Resource for Springsure Creek to 490.5 Mt.

## 5. Springsure Creek JORC Reserves

Marketable Reserve for Springsure Creek Project more than doubled to 102.6 Mt.

## 7. Key agreements

Cultural Heritage and Native Title Agreements reached in Springsure Creek and South Galilee Coal projects, respectively.

## 8. Strategic cropping legislation

Strategic Cropping Legislation enacted including provision for Springsure Creek under the transition arrangements.

## 9. Landowner strategy

Implementation of Co-existence Strategy policy with landowner/occupier stakeholders.

## 11. AMCI Farmin

50 / 50 Joint Venture formed for South Galilee Coal Project following successful completion of farmin by AMCI.

## 12. Strengthening our financial position

Completed an accelerated rights issue involving the raising of approximately $100 million at $1 per share.

## 13. Expanding our internal resources

John Pegler and Michael Gray appointed to the board, with Michael commencing as Managing Director during Q1 2012.

# Significant and strategically positioned thermal coal assets

## SUMMARY OF RESOURCES & RESERVES

The JORC compliant coal resources and reserves at the end of the half year stood as follows:

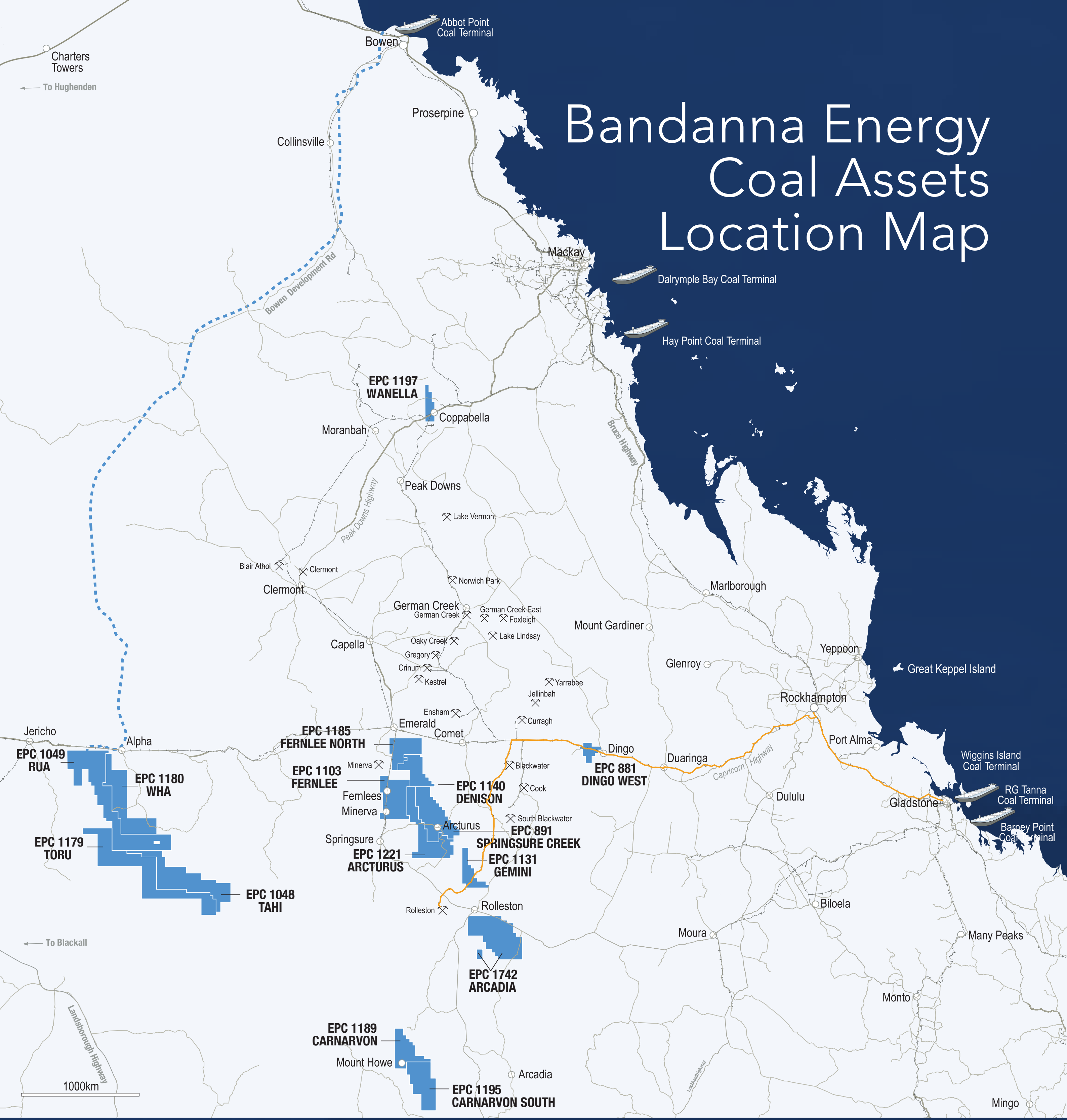
| TENEMENT | PROJECT | HOLDING COMPANY | BANDANNA SHARE | RESOURCES (MT) | | | | RESERVES (MT) |
|---|---|---|---|---|---|---|---|---|
| | | | | Inferred | Indicated | Measured | Total | Probable |
| EPC 891 | Springsure Creek | Springsure Creek Coal Pty Ltd | 100% | 262.5 | 228.0 | - | 490.5 | 102.6 |
| EPC 1221 | Arcturus | Springsure Creek Coal Pty Ltd | 100% | 103.7 | 102.6 | - | 206.3 | 44.3 |
| EPC 881 | Dingo West | Dingo West Coal Pty Ltd | 100% | 91.1 | - | - | 91.1 | - |
| EPC 1049 | South Galilee | Alpha Coal Pty Ltd | 50% | 403.0 | 103.1 | 83.3 | 589.4 | - |
| EPC 1742 | Arcadia | Arcadia Coal Pty Ltd | 100% | 272.9 | - | - | 272.9 | - |
| Total | | | | 1,133.2 | 433.7 | 83.3 | 1,650.2 | 146.9 |

## BANDANNA ENERGY COAL PORTFOLIO

| TENEMENT NO. | TENEMENT NAME | LOCATION | INTEREST |
|---|---|---|---|
| EPC 1048 | South Galilee – Tahi | Galilee Basin, Queensland | 100(1) |
| EPC 1049 | South Galilee – Rua | Galilee Basin, Queensland | 100(1) |
| EPC 1179 | South Galilee – Toru | Galilee Basin, Queensland | 100(1) |
| EPC 1180 | South Galilee – Wha | Galilee Basin, Queensland | 100(1) |
| EPC 1742 | Arcadia | Bowen Basin, Queensland | 100 |
| EPC 1221 | Arcturus | Bowen Basin, Queensland | 100 |
| EPC 1189 | Carnarvon | Bowen Basin, Queensland | 100 |
| EPC 1195 | Carnarvon South | Bowen Basin, Queensland | 100 |
| EPC 1140 | Denison | Bowen Basin, Queensland | 100 |
| EPC 881 | Dingo West | Bowen Basin, Queensland | 100 |
| EPC 1103 | Fernlee | Bowen Basin, Queensland | 100 |
| EPC 1185 | Fernlee North | Bowen Basin, Queensland | 100 |
| EPC 1131 | Gemini | Bowen Basin, Queensland | 100 |
| EPC 891 | Springsure Creek | Bowen Basin, Queensland | 100 |
| EPC 1197 | Wanella | Bowen Basin, Queensland | 100 |

*(1) 50% / 50% joint venture with AMCI. Legal transfer to AMCI of interest in South Galilee tenements not complete at date of report.*

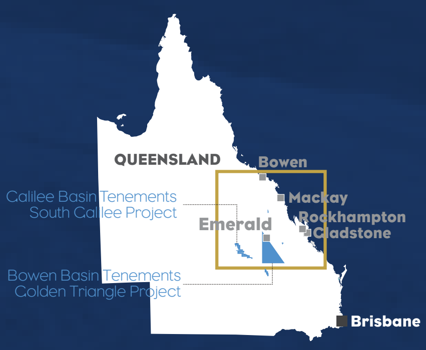
# Bandanna Energy Coal Assets Location Map




## Legend

| | |
|---|---|
| Highways | Towns |
| Major roads | Major Coal Minesites |
| Railways | Bandanna Energy Limited Coal Licences |
| Railways Rolleston / Blackwater lines | Coal Loading Terminals |
| Proposed Rail Routes | |

Disclaimer: Data capture from Department of Minerals & Energy; Accuracy at 1:250,000



# REPORT OF THE DIRECTORS

for the half year ended 31 December 2011

The Directors of Bandanna Energy Limited ("Bandanna" or the "Company") present their report on the Consolidated Group consisting of the Company and its controlled entities for the half year ended 31 December 2011.

## DIRECTORS

The following persons were Directors of Bandanna Energy Limited during the half year and up to the date of this report:

- Jeremy Warde Barlow
- David Douglas Heydon Graham
- Robert Karlo Johansen
- Raymond Douglas Shaw (resigned 5 March 2012)
- Park Soon IL
- John Harry Pegler (appointed 1 January 2012)
- Michael John Gray (appointed 5 March 2012)

Details of the Directors at the date of this report are as follows:

### **Jeremy Warde Barlow** *(Chairman)*

Jeremy Barlow was appointed Chairman of the Board of Directors of Bandanna Energy Limited in October 2008. A highly-regarded executive with a long and distinguished career in the coal and petroleum industries, he is a fellow of the Australasian Institute of Mining and Metallurgy (AusIMM) and has a Bachelor of Engineering (Mining) and a Masters of Business Administration. Mr Barlow was formerly a principal of the Barlow Jonker consulting group which provided a wide range of specialist consulting to the coal industry prior to its acquisition in 2007 by Wood Mackenzie. He was also a founding Director of CH4 Gas Limited and upon its merger with Arrow Energy, became a Non Executive Director of Arrow Energy Limited in August 2006 until its sale in 2010. Mr Barlow brings diverse technical and commercial expertise to the Bandanna Energy Limited Board including senior management and executive positions with a number of operating companies in Australia and overseas, as well as having been a consultant to major international clients within the energy sector.

#### Directorships in Other Listed Entities

Armour Energy Limited

### **Dr Raymond Douglas Shaw** *Managing Director (Resigned 5 March 2012)*

Dr Raymond Shaw was appointed Managing Director of the Bandanna Energy Limited Board in October 2008 bringing more than 30 years resources industry experience to the position. He resigned from his position as Managing Director on 5 March 2012 with the commencement of Michael Gray. He was a Non Executive Director of Wiggins Island Holdings Pty Ltd, the company responsible for the development of WICET until 5 March 2012.

Dr Shaw has worked with major energy companies and has been a consultant to industry and government and was the founding Managing Director of Great Artesian Oil and Gas Limited from 2003 until April 2007. He was appointed to the Board of Enterprise Energy Limited as Executive Director and Chairman in May 2007 and oversaw the merger and relisting of the Company as Bandanna Energy Limited in October 2008. Dr Shaw holds a B.Sc (Hons1) and Ph.D from the University of Sydney, a Diploma of Law (SAB) and is a Member of the Australasian Institute of Mining and Metallurgy (AusIMM).

#### Directorships in Other Listed Entities

Non Executive Chairman of Earth Heat Resources Limited and Red Gum Resources Limited.

### **David Douglas Heydon Graham**

Offering an extensive background with leading financial service and listed companies, David Graham was appointed to the Bandanna Energy Limited Board in October 2008. Mr Graham has specialised in capital market transactions for organisations including Ord Minnet, Bankers Trust Australia, Bankers Trust International and CitiNational Limited and served on the boards of public companies such as Santos Limited, Crusader Limited, Mincom Limited and Bank of Queensland Limited. Mr Graham is Chairman of DDH Graham Limited, an advisory and funds management company he founded in 1981. A highly-qualified industry professional, Mr Graham holds a Bachelor of Economics (Hons) and Bachelor of Commerce from the University of Queensland and a Master of Business Administration from Lehigh University in the USA.

#### Directorships in Other Listed Entities

Nil

### **Robert Karlo Johansen**

Robert Johansen was appointed to the Bandanna Energy Limited Board in October 2008. He was responsible for the incorporation, development and operation of Bandanna Coal Pty Ltd and its subsidiaries from its inception to its acquisition by Bandanna Energy Limited. Previously Mr Johansen held various operational and management positions in the Australian and South African coal industries over a ten year period. A Member of the Australasian Institute of Mining and Metallurgy (AusIMM) and Certified Practicing Accountant, he holds a first class honours degree in Mining Engineering and Bachelor degrees in Commerce and Law from the University of Queensland.

#### Directorships in Other Listed Entities

Nil

**Park Soon IL**

The Managing Director of SAMTAN's Energy and Resources Development Division, Park Soon IL was appointed to the Bandanna Energy Limited Board in November 2009. A qualified mining engineer with more than 30 years experience in South Korean and Indonesian coal mining operations, Mr Park brings an exceptional grounding in company operations and senior management to the Board. His coal-industry knowledge developed through involvement with the establishment of SAMTAN's Kideco mine in Indonesia is a significant asset for Bandanna Energy Limited.

Directorships in Other Listed Entities
Nil.

**John Harry Pegler** *(appointed 1 January 2012)*

John Pegler was appointed to the Bandanna Energy Limited Board on 1 January 2012. John has 40 years experience 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, he recently retired as Chief Executive Officer of Central Queensland open cut coal producer Ensham Resources Pty Ltd.

He was twice President and is an elected Life Member of the Queensland Resources Council.

His current roles include Chairman of the Australian Coal Association (ACA), Chairman of ACA Low Emission Technologies Ltd, Foundation Member of the Queensland Clean Coal Council, Director of ERA Ltd, Australia's largest publicly listed uranium producer and Director of WDS Ltd, a publicly listed contractor to the mining and gas industries. John has a Bachelor of Engineering (Mining) Degree from the University of Melbourne and Coal Mine Manager's Certificate of Competency. He completed the Program for Management Development at Harvard Business School and is a Member of the Australasian Institute of Mining and Metallurgy.

Directorships in Other Listed Entities
ERA Limited. WDS Limited

**Michael John Gray** *Managing Director (Appointed 5 March 2012)*

Michael Gray was appointed Managing Director of Bandanna Energy Limited on 5 March 2012, replacing Dr Raymond Shaw. Michael has more than 20 years experience in the planning and development of major mining and infrastructure projects and has extensive involvement in resource feasibility and development, project finance, project execution, infrastructure development, environmental management and Native Title issues.

Mr Gray was Chief Executive Officer of Middlemount Coal Pty Ltd from September 2010 and prior to this Michael held a number of senior and executive roles at Macarthur Coal since 2005. From 2007 he was Executive General Manager - Projects and Infrastructure where he was responsible for the overall management of exploration and project feasibility activities and management of long-term infrastructure requirements and Government relations. Before joining Macarthur Coal, Michael held senior project development roles with the Port of Brisbane Corporation and the Queensland Government's Office of the Coordinator-General.

Mr Gray is a graduate of the Australian Company Director's Course and holds a Bachelor of Engineering from the University of Queensland and Master of Business Administration from Deakin University.

Mr Gray has previously been a Director of North Queensland Coal Terminal Pty Ltd and the Queensland Resources Council.

Directorships in Other Listed Entities
Nil

## COMPANY SECRETARY

**Matthew Scott** *CA*

Matthew Scott has worked for Bandanna Energy Limited since 3 November 2008 as Chief Financial Officer and was appointed Company Secretary on 10 March 2009. He has extensive financial experience in the coal sector and is an Alternate Director to Dr Shaw on WICET Holdings Pty Ltd.

*Left to right: David Graham, Park Soon IL, Robert Johansen, Jeremy Barlow, Dr Ray Shaw. Absent: John Pegler, Michael Gray*

# REPORT OF THE DIRECTORS

for the half year ended 31 December 2011

## EXECUTIVE SUMMARY

Despite continuation of overall investor market uncertainty Bandanna has maintained the full balance of its commitment to progress towards becoming the next coal producer in Queensland. To this end some very significant milestones were attained during the Reporting Period. Most importantly these involved infrastructure solutions, particularly the completion of financing for Wiggins Island Coal Export Terminal (WICET) and signing of the Wiggins Island Rail Project Deed with Queensland Rail National. Together these now give Bandanna a clear port and rail solution for the first 4 Mtpa development of its Bowen Basin opportunities. Operationally, the Reporting Period saw significant gains in resource confidence levels, including increases in marketable reserves and resources at Springsure Creek and applications for mining leases over three project areas; at South Galilee Coal, Springsure Creek and Dingo West projects. Definitive feasibility studies were on-going during the Reporting Period for both Springsure Creek and Dingo West projects.

Corporately, Bandanna terminated the formal strategic review process in late December 2011. Discussions with several parties will continue as the Company now focuses on establishing a strategic joint venture relationship for its key Bowen Basin assets, as part of its funding solution for major mine developments.

Bandanna's capital raising in August 2011 enabled it to meet its funding requirements for rail and port associated with WICET Stage 1 and also for the Definitive Feasibility Studies which will be due for completion during quarter 3 2012. Discussions have already taken place with leading banks for providing advisory and arrangement services for any future project finance requirements.

At a Board level, and in keeping with the Company's transition to developer and producer, Mr Michael Gray, formerly of Macarthur Coal Limited, agreed in December 2011 to join the Board and become Managing Director replacing Dr Ray Shaw who has relinquished that position during quarter 1 2012. Also in December 2011 the Company announced the appointment from 1 January 2012 of Mr John Pegler to the Board as non executive director. Both Messrs Gray and Pegler have strong Queensland coal industry experience, from which the Company will benefit over the coming years in its transition to producer.

The Company has also relocated its business and registered offices to larger premises (at level 4, 260 Queen Street Brisbane) in order to accommodate the increasing number of staff and consultants which are now working on various projects, as Bandanna ramps up its activities to meet the additional demands necessary to affect an orderly transition from explorer to producer.

The Reporting Period was also one where the Company responded to major new government initiatives. In July 2011 Bandanna released to the ASX its estimate of the impact of the new Carbon Tax proposal of the Federal Government. In October 2011 the Company also provided a summary of its approach to the broader issues of landowner / occupier concerns and the Queensland Government's Strategic Cropping Land legislation which was enacted in December 2011.

## REVIEW OF OPERATIONS

During the Reporting Period the Company operated a number of coal activities, participated in the South Galilee Coal Project Joint Venture and pursued various infrastructure solutions for future development.

### Infrastructure

In September 2011 Bandanna, together with the other Stage 1 WICET proponents, reached commercial agreement with QR National Limited to proceed with construction of the Wiggins Island Rail Project (WIRP). Under the WIRP Deed there will be over $900 million spent on upgrades of mainly the Blackwater rail corridor in order to facilitate the delivery of 27 Mtpa of coal for Stage 1 of WICET. Construction is due to start in early 2012 and be completed in time for the new port facilities. As part of its obligations under the WIRP Deed Bandanna is providing approximately $15 million in guarantees for its access to this corridor which will connect its source mines to the Wiggins Island coal export terminal.

The signing of the WIRP Deed was effectively a condition precedent to the completion of the funding package necessary for the construction of the Stage 1 of WICET. In early October 2011 the Company, in conjunction with WICET, announced the successful completion of funding and tenure arrangements which would see the construction of the new 27 Mtpa capacity terminal as part of WICET Stage 1. Bandanna has a 4 Mtpa allocation, representing 14% of the Stage 1 capacity. The project is designed to have first coal export during mid 2014 with a ramp up period over some 12 months in order to achieve the full nameplate 27 Mtpa capacity. Following finalisation of the project financing package, Bandanna is fully funded to meet all of its obligations to the port, including a bank guarantee for $52 million under the take or pay agreement. Bandanna had previously contributed its pro-rata share of $41 million of the total preference equity of $275 million funded by the Stage 1 proponents. This is the only user funding component for the project and Bandanna will not make any further capital contributions for the budgeted construction costs.

*Construction commenced at Wiggins Island Coal Export Terminal*

# REPORT OF THE DIRECTORS

for the half year ended 31 December 2011

In order that Bandanna is better positioned for port allocations in future stages of WICET development, the Company acquired, in July 2011, a further 6 Mtpa of nominated annual capacity from third party WICET founding members of the Feasibility Funding Facility Agreement (FFFA). Together with Bandanna's already existing 2 Mtpa reserve capacity rights, the aggregate 8 Mtpa nominated annual capacity significantly improves the likelihood of Bandanna securing port allocation in future stages of WICET.

In August 2011 AMCI on behalf of South Galilee Coal Joint Venture submitted expressions of interest with the Northern Queensland Bulk Ports Authority (NQBP) for an allocation in the proposed expansion of port facilities at Abbot Point. This is part of an independent strategy to that at Wiggins Island, in order to gain export port capacity for future Galilee Basin coal development. As announced to the market on 1 December 2011 the South Galilee Coal Project Joint Venture was unsuccessful in the award of Preferred Respondent status for the T4-9 expansion of Abbot Point. However, at the instigation of NQBP, the South Galilee Coal Project JV is now having discussions with some preferred proponents about securing capacity given that the South Galilee Coal Project Joint Venture has, by relative standards, a very advanced and practical mine development plan and approvals process based on a significant JORC delineated resource. At the time of this Report these discussions were incomplete but fruitful.

### The Bowen Basin Thermal Coal Projects – Arcturus, Springsure Creek & Arcadia

Each of these three projects are located in a highly prospective portion of the Bowen Basin, situated between the townships of Emerald, Springsure and Rolleston on the Central Tablelands, where they represent the potential for a clustered "multi-project" precinct. All three projects would lie within 50 km of each other and so offer synergistic development scenarios; the sharing of infrastructure including coal handling, washing, power, water, rail, and accommodation- as well as scope for enhancing value through blending of coal products to meet specific end-user requirements. Collectively these three projects have the potential to produce in excess of 20 Mtpa of thermal coal product, subject to port and rail availability. Already JORC resources in these three project areas total approximately 1,000 million tonnes. Through various subsidiaries Bandanna holds these three projects 100%.

Key to any future development will be the observance of impositions which may arise as a result of the Queensland Government's new Strategic Cropping Legislation. This is but one facet of a raft of issues which are being considered as part of Bandanna's plan to implement a co-existence strategy with landowner, occupiers and other stakeholders. Bandanna welcomed the draft legislation during the Reporting Period and made submissions to it, as part of a stakeholder response, prior to the enactment of this legislation in December 2011.

The Central Tablelands region, based on Emerald, has historically developed as one where there has been a co-existence of mining and agricultural pursuits. As previously stated, Bandanna seeks to preserve this co-existence through establishing a balance between pursuing its interests and preserving those of existing landowners and occupiers.

During the Reporting Period the following initiatives were undertaken:

1. Completion of an aerial laser scanning and photometric survey.

This survey has provided high quality aerial photography of current land use patterns and topographic information, to a vertical resolution of approximately +/-20 cm, over key project areas. This $500,000 project has provided a state-of-the-art data base against which any future mining activities can be benchmarked and future restoration/rehabilitation activities can be measured.

2. Appointment of Agricultural Management Specialists.

An agreement has been reached with Customised Farm Management Pty Ltd (CFM) to provide agricultural management advice, implementation of best land management practices, and expert advice on enhancing crop and farming techniques in order to ensure that agricultural pursuits and yields on any properties subject to future mining activities will not be impacted or that effects can be mitigated as far as reasonably possible. CFM has significant experience in broad acre farm management in northern New South Wales and the Central Queensland Tablelands, including areas in the Emerald – Springsure region.

3. Acquisition of strategic properties.

Bandanna has acquired a strategic property within its Springsure Creek-Arcturus area. Under the terms of the purchase agreement, the existing owners have entered into a lease back arrangement on favourable terms, with CFM providing management services. As part of this lease arrangement, Bandanna has undertaken to contribute capital to the property over the next three years in order to enhance existing farm management practices and crop yields. Yields, measured against historical yield data, are expected to materially increase as capital improvements and enhancements to land management practices are made. It is foreseen that as a result, total yield increases will offset any diminution of yield which otherwise might occur due to mining activities on strategic properties . The working plan is to provide permanent yield increases across any properties which may fall within Bandanna's project footprints through co-operation with existing landowners or third parties.

# REPORT OF THE DIRECTORS

for the half year ended 31 December 2011

## EXPLORATION TENEMENTS FOR COAL

### Arcturus – EPC 1221

Arcturus is 100% owned and operated by Bandanna through the fully-owned subsidiary Springsure Creek Coal Pty Ltd.

Total JORC compliant resources comprise 206.3 Mt, representing 103.7 Mt of Inferred and 102.6 Mt of Indicated. In addition 44.3 Mt of Marketable Probable Reserves have been delineated. The target coals of the permit, the Aries, Castor, Pollux and Orion, can be correlated to the Rangal Coal Measure seams which to the north are mined at BMA's Blackwater Mine. The primary target for underground mining is the Pollux Seam. Exploration activity, and the resulting resources and reserves, has been centred on the south-eastern portion of EPC 1221 across the flanks of the north plunging Arcturus Anticline where Bandanna has already defined the potential of a shallow open cut and underground punch longwall mine combination.

During the Reporting Period environmental assessment work was undertaken following the completion of a Feasibility Study earlier in April 2011. This environmental work follows the receipt of the final terms of reference for the EIS study. As part of establishing a state-of-the-art database for future assessment of Strategic Cropping Land, a laser levelling and photometric survey was conducted over portions of the Project area during the Reporting Period. Future development of Arcturus will proceed under the SCL passed by the Queensland Government in December 2011.

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

Arcturus is located 35 km southwest of Emerald and some 15 km northeast of Springsure. The tenement is bound to the north by the Capricorn Highway and the Dawson Highway to the west. Land use is a mixture of dry land cropping and beef cattle production.

The Arcturus Project is strategically located with respect to existing infrastructure, with the Springsure rail corridor (servicing the Minerva Mine) to the west and the Rolleston rail corridor (servicing Xstrata's Rolleston Mine) to the east. Future transport corridors are likely to be developed with a vision of facilitating coal output from both Arcturus and neighbouring Springsure Creek.

### Springsure Creek – EPC 891

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

During the Reporting Period the Company provided two Resource Statement upgrades. The latest, made on 23 December 2011, has now established a total resource of 490.5 Million tonnes; comprising Inferred Resources of 262.5 Million tonnes and Indicated Resources of 228.0 Million tonnes. Included in this update was an inaugural Inferred Resource of 29.3 Mt for the Castor Seam, which underlies the target Aries 2 Seam. This represents over a 50% increase in the resource inventory prior to the Reporting Period (324.2 Mt). Based on the resource statement of July 2011, marketable Reserves currently sit at 102.6 Mt, up from the previous 44.3 Mt. This reserve was based on a high capacity underground longwall mine concept designed by independent Brisbane based mining consultants, Minecraft Pty Ltd. The "marketable" Probable Reserves follows reviews of the mining, economic and marketing data by Minecraft. Further reviews will follow the latest December 2011 Resource Statement upgrade.

During the Reporting Period the Definitive Feasibility Study was on-going , following earlier completion of the Feasibility Study. In addition the Company applied for a Mining Lease covering the northern portion of EPC 891 tenement. The ML application (MLA 70461) 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-principle agreement was reached with the Indigenous Kairi people for Cultural Heritage Management Plans at the Springsure Creek and Arcturus Projects.

The Springsure Creek mine is proposed as a totally underground longwall and conventional mining extraction process. Springsure Creek Coal Pty Ltd is currently developing mining plans and surface management techniques. Further details will be released as the Environmental Impact Assessment and MLA processes move forward.

As mentioned, progress was made to implement a co-existence strategy with other landowner, occupier and stakeholders across the project area during the Reporting Period. This included the purchase and lease back of a significant parcel of land to the former owners and the engagement of an agricultural management group to oversee and advise, in conjunction with environmental and rehabilitation specialists, on protocols designed to mitigate any detrimental impacts of mining activity including requirements under the new Strategic Cropping Legislation (SCL). In addition, an airborne laser and photometric survey was undertaken to record very detailed topographic and land use information for future reference and benchmarking of any mine development outcomes.

The Queensland Government passed the SCL in December 2011 and together with accompanying Regulations these came into force on 30 January 2012. In accordance with S.289, EPC 891 has been included in the transitional arrangements.

The Springsure Creek Project covers an area of 462 $km^2$ some 40 km south of Emerald and 60 km southwest of Blackwater To the south and west it abuts the Arcturus Project area. As such, it is conveniently located with respect to existing infrastructure, being bound by the Springsure rail corridor (servicing the Minerva mine) to the west, and the Rolleston rail corridor (servicing the Xstrata mine) to the east.

The principal target is the Aries 2 seam which occurs within the tenement at shallow depths along a number of anticlines; the Turkey Creek, Springton, Moorooloo and Arcturus.

The thickness of the Aries 2 Seam averages approximately 3.3 m. Exploration drilling and seismic analyses suggests that the resource areas of the Springton Anticline are structurally benign with lateral coal continuity favouring potential long wall development.

During the Report Period drilling was focused on the Springton domain portion of the Tenement where the primary target is the Aries 2 seam. Previously 55 drill holes, including 32 core holes, had been completed by Springsure Creek Coal Pty Ltd within the EPC, excluding additional historic petroleum and stratigraphic holes.

Between July and December 2011, a total of new 26 holes were completed, totalling of 8549 metres, and including 646 metres of core. Intermittent wet weather and soft soil conditions severely restricted land access in December such that only one drill hole was drilled for that month.

With the relatively dry conditions prevailing drilling recommenced in January 2012.

Coal quality data recovered so far suggests a coal ash content of around 11%, sulphur content of 0.25% and calorific values of 6310 kcal/kg (adb) for the Aries 2 Seam. Run of Mine (ROM) coal could be sold as a raw thermal product with no requirement for wash beneficiation. The Castor Seam has a mineable thickness in excess of 2.0 metres with insitu ash of 10-12% and CV of 6210 kcal/kg (adb). The Castor Seam underlies the Aries 2 Seam.

The Springsure Creek tenement remains one of the Company's key focus areas and exploration will continue during 2012 as part of a Definitive Feasibility Study assessment of the Springsure Creek Project and possible future dual development in conjunction with Arcturus. During the Reporting Period the Company continued to refine its potential mine development plan and undertook detailed financial modelling.

### Arcadia – EPC 1742

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

EPC 1742 is located 4 km south of the township of Rolleston, and is bound to the north and east by the Dawson Highway. Known as the Arcadia Project it represents a potential underground project adjacent to Bandanna's other Bowen Basin projects.

The nearest rail head is the Bauhinia line located 19 km to the north of the tenement which connects the Rolleston Mine to the Blackwater-Gladstone corridor. The total rail distance to the Port of Gladstone of approximately 430 km.

Most of the exploration has been focused on the Purbrook Anticline where the target Aries 2 Seam occurs at depths as shallow as 210 m. The Purbrook Anticline is one of two major anticlines identified within the tenement. The Company believes that shallow underground development potential exists within the areas proximal to the crest of the north-west trending Rolleston and Purbrook anticlines. Penetrated thicknesses range from 1.35 m to 4 m and average 2.5 m.

Although no new field work was conducted during the Reporting Period, previous drilling has indicated that the raw coal beneath the Purbrook Anticline has an inherent moisture content of approximately 4.5%, ash content of 12%, sulphur content of 0.33% and a calorific value of some 6600 kcal/kg on an air dried basis. Coal quality testing implies potential for a washed semi-coking product as well as excellent thermal coal.

Previous drilling has also enabled a JORC compliant Inferred Resource of 273 Mt to be delineated.

In December 2010 Bandanna commissioned an expanded and integrated study of an earlier Conceptual Mining Study involving the design of a single underground longwall on the Purbrook Anticline integrating possible infrastructure and coal transport scenarios. This study has also been integrated with potential mine and infrastructure development of other mines owned by Bandanna in the Arcturus and Springsure Creek regions. During the Reporting Period the Company considered the results of this study which was completed by Larpro mining consultants.

It is intended to undertake further drilling during 2012 to increase the confidence level of the current Inferred Resource to underpin possible future longwall development. Bandanna's vision for the Arcadia Project is to develop an underground operation, producing at least 8 to 9 Mtpa of washed semi soft coking coal and high quality thermal coal.

# REPORT OF THE DIRECTORS

for the half year ended 31 December 2011

## South Galilee Project – EPCs 1048, 1049, 1179 and 1180

The South Galilee Project comprises four EPCs; 1048, 1049, 1179 and 1180. Located to the west of the township of Alpha these tenements cover a combined area of 2,698 km$^2$ in the eastern Galilee Basin (refer Figure 1).

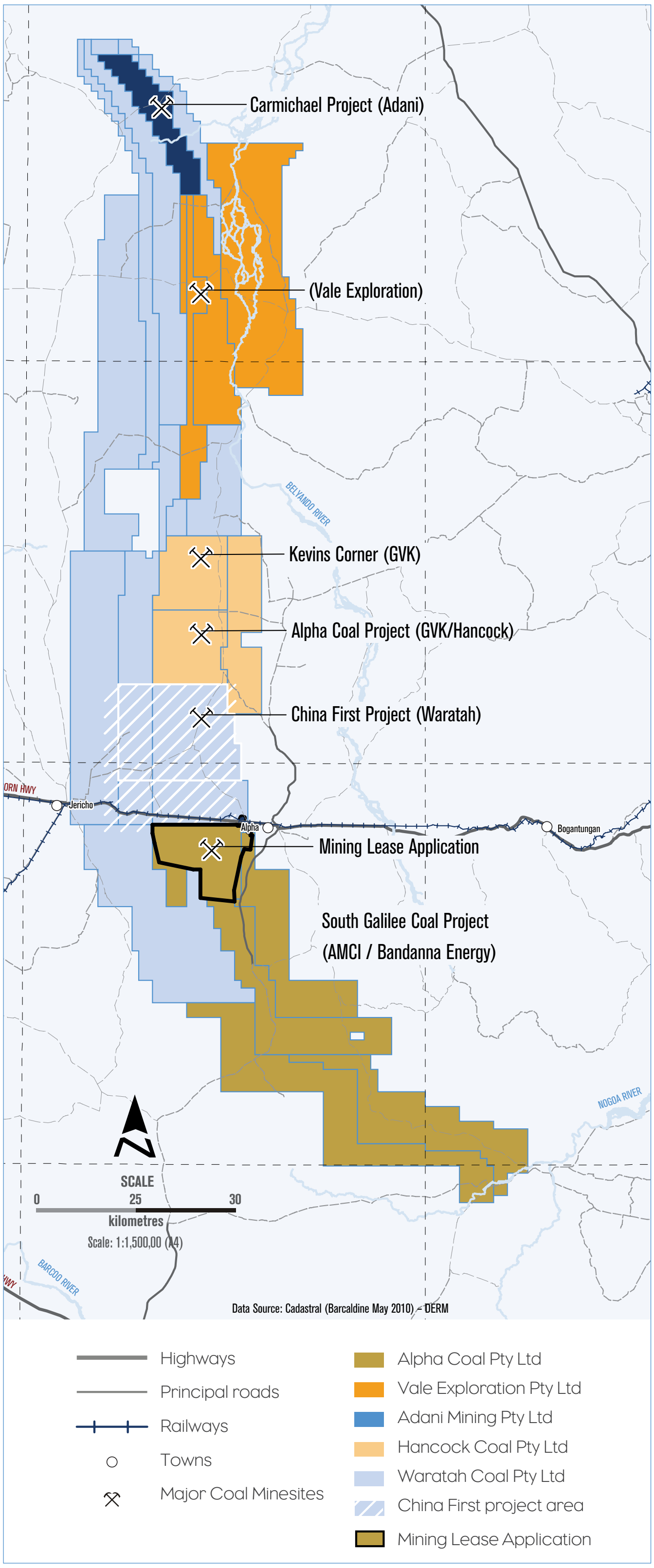
During the Reporting Period AMCI (Alpha) Pty Ltd exercised its right to earn a 50% participating interest in the South Galilee Coal Project (SGCP). Under the terms of the Farm-In and Joint Venture Agreement, between Alpha Coal Pty Ltd (100% subsidiary of Bandanna) and AMCI & AMCIC Stropdas Holding B.V ("AMCI"), AMCI was entitled to earn up to a 50% participating interest in the SGCP from Bandanna by spending $25 million on exploration and development of the project prior to 5 September 2011. At the time of election AMCI had spent over $16.8 million in undertaking exploration, Concept and Prefeasibility studies as part of its farm-in commitments. AMCI, in accordance with the Farm-In Agreement, elected to make a cash contribution to the Joint Venture of $8.188 million in order that it could acquire its full 50% stake in the South Galilee Project. The contribution by AMCI to the JV account is being used to fund on-going activities on behalf of the JV participants. AMCI will continue to be manager of the Joint Venture following the vesting of its 50% interest whilst Bandanna will retain the remaining 50% interest.

During the Reporting Period drilling continued within the South Galilee Coal project area. 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. By the end of the Reporting Period a total of 11 holes were completed and two were in progress for a total of 2165 metres. This, and earlier drilling results, will form the basis for further resource estimations.

As 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.

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 the State on 23 January 2012.

**Figure 1 – South Galilee Project Tenement Location Plan**



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 T4-9 expansion. 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 at the T4-T9 Abbot Point Expansion through nominated Preferred Respondents. These discussions have been proceeding and have been fruitful to date.

The South Galilee Coal Project area is located approximately 170 km west of Emerald. The Project lies to the south of Waratah Coal's Galilee Coal Project and GVK's Kevin's Corner and Alpha projects (refer Figure 1), the respective proponents of both have submitted EIS's with a view to fast-tracking development of their respective projects

Exploration within the South Galilee Project area has targeted up to six individual coal seams, each lying within the Bandanna Formation. The geological setting of the tenements is benign, there is minimal faulting and the coal sequences gently dip to the west across the easterly shallowing flank of the Galilee Basin. The principal targets are the "D1" and "D2" seams. The coal is bituminous and would yield a thermal product.

The D1 and D2 seams lie at depths consistent with potential for commercial exploitation by both shallow open-cut and underground operations. A Prefeasibility Study completed in April 2011 indicated a potential mine life of some 33 years with average product of 13.6 Mpta and a peak of 16.6 Mtpa. The initial mine development plan envisages 3 distinct stages; Stage 1, 5 Mtpa: an open-cut operation targeting the shallower portions of the lower ash content D1 and D2 seams. Stage 2, 10 Mtpa: addition of first longwall. Stage 3, 15 Mtpa : addition of a second longwall.

The announcement by the Queensland Government that the South Galilee Project is one of State Significance follows the submission in March 2010 of an Initial Advice Statement to the Queensland Department of Infrastructure and Planning for determination of the approval route. In addition, on 16 June 2010, the Commonwealth Government determined that the South Galilee Project will be a controlled action requiring approval under the EPBC Act consistent with other projects in the Galilee Basin

### Dingo West – EPC 881

#### Highlights

- Mining Lease application lodged
- Continued drilling confirms satellite pit development
- On-going negotiations for key infrastructure
- Terms of reference for approvals process finalised

During the Reporting Period, drilling was on-going with a total of 6393 m of drilling completed; comprising of 52 drill holes and 2658 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.

During the Reporting Period, a Mining Lease was applied for. This MLA covers the southern section of the EPC below the Capricorn Highway and Blackwater Rail corridor with minor provision for a rail loadout loop on the northern side of the rail corridor. (Refer figure 1). The MLA follows confirmation from recent drilling that this area contains the potential for a number of small, open-cut, satellite pits. Environmental and infrastructure studies continued during the Reporting Period as part of a Definitive Feasibility Study which is being undertaken by Larpro Consulting on behalf of Bandanna. The study is due for completion in quarter 3 2012. Modelling of various mine development scenarios involving on-site washing, third-party toll washing of run-of-mine (ROM) coal and/or the production of raw (unwashed) coal have all been evaluated. Given the scale of probable mining, development could be fast-tracked over a 2 year timetable. This potential flexibility, coupled with the attractive positioning of any proposed mine site near the existing Blackwater rail corridor and the prospect of a quality PCI product, has led Bandanna to prioritise the progression of the Dingo West Project.

The Dingo West Project is 100% owned and operated by Bandanna through the fully-owned subsidiary Dingo West Coal Pty Ltd. The Dingo West Project is expected to produce 1.0 Mtpa of high quality, low volatile PCI coal for the export market.

Dingo West is located just 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 traverse the northern part of the lease with the Port of Gladstone located approximately 200 km to the east by rail. Strategically, a mine at Dingo West would be approximately 40 km closer to this port facility than any existing operating mines situated along the Blackwater corridor.

The primary exploration target is the Rangal Coal Measures and in particular the Aries, Castor, Pollux, Orion and Pisces seams. Structurally, the region is extensively faulted and folded making it difficult to delineate and correlate individual coal seams over significant distances using borehole data alone. To date, two seismic surveys have been recorded. The coal quality data indicate a potential low volatile PCI product similar to those produced by Yarabee and Jellinbah mines, located slightly to the west of the Dingo West Project in similar geological settings.

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

### Fernlee – EPC 1103

The tenement EPC 1103 was granted 100% to Fernlee Coal Pty Ltd, a wholly owned subsidiary of Bandanna, on 30 January 2007. It is considered that open cut development potential may exist within the areas proximal to the throw of the Merivale Fault, and on the eastern limb of the Springsure Anticline, which both traverse the tenement.

Previously, Fernlee Coal Pty Ltd completed 6 bore holes, including 2 water bores, totalling 772 m of drilling. Two coal seams were intersected in one of the drilled holes. No field work was conducted during the Reporting Period. However, Bandanna is currently reviewing the drilling data prior to planning further exploration.

### Fernlee North – EPC 1185

Lying immediately to the north of the Fernlee tenement, EPC 1185 was granted 100% to Fernlee Coal Pty, a wholly owned subsidiary of Bandanna, on 23 January 2008. The Fernlee North tenement is considered to offer scope for potential open cut development within those areas proximal to the throw of the Merivale Fault, and potentially, on the eastern limb of the Springsure Anticline where it projects northward from the adjoining Springsure Project area.

No field work was conducted during the Reporting Period. Bandanna is currently reviewing pervious drilling data together with that from Fernlee prior to planning further exploration.

### Gemini – EPC 1131

EPC 1131 Gemini was granted 100% to Springsure Coal Pty Ltd, a wholly owned subsidiary of Bandanna, on 19 June 2007. The southern boundary of the tenement is located 12 km north of the township of Rolleston. It is considered that underground development potential may exist.

Previously, one cored hole and a single water bore, involving a total of approximately 683 m of drilling, were completed. Several seams were intersected in the core hole and Bandanna is currently reviewing the drilling data prior to further exploration in 2012.

The Gemini EPC is transacted by the Bauhinia Line which currently directs coal from Rolleston Mine to the Blackwater Line and on to the Port of Gladstone. For this reason Gemini is strategically placed should mineable coal be intersected.

*Blackwater – Gladstone rail line traversing Dingo West project*

### EPC 1140 – Denison

EPC 1140 Denison was granted 100% to Springsure Coal Pty Ltd, a wholly owned subsidiary of Bandanna Energy Limited, on 7 August 2007. The tenement is located approximately 17 km south-southeast of Emerald. The presence of the Springsure rail line only 4 km to the west of the tenement also makes it ideally suited from an infrastructure viewpoint.

No field exploration occurred during the Reporting Period, however, a further program to investigate that potential is being considered for 2012.

### Carnarvon – EPC 1189 & Carnarvon South (100%) – EPC1195

The Carnarvon Project area comprises two tenements. EPC 1189 (Carnarvon Project) was granted on 27 April 2009 and EPC 1195 (Carnarvon South Project) on 19 January 2009. Both tenements are held 100% by Carnarvon Coal Pty Ltd, a wholly owned subsidiary of Bandanna. Whilst located in a relatively remote, frontier area both tenements are considered, on regional grounds, to have potential for the presence of coal seams of the Bandanna Formation at depths which may be compatible for shallow underground mine operations. Additionally, there may be potential within these areas for a coal liquefaction resource from overlying Jurassic coal or lignite.

Desk-top studies and data compilation have been undertaken as part of aiding the planning of drill site locations, scheduled to be undertaken during the next reporting period.

### Wanella (100%) – EPC 1197

EPC 1197 Wanella was granted 100% to Waitara Coal Pty Ltd on 7 February 2008, a wholly owned subsidiary of Bandanna. The principal exploration target within the tenement is the Leichhardt Seam, within the Rangal Coal Measures (Blackwater Group), which is of late Permian age. This seam is extensively mined in nearby areas and has been penetrated in boreholes adjacent to the tenement. Existing coal analysis from surrounding areas indicates a high potential for a strong coking coal and/or PCI coals to be found at depths between 360 and 825m.

During the Reporting Period, a review was undertaken of the drilling completed earlier in 2011 as part of planning future exploration activity within the tenement.

## OIL SHALE AND MINERAL TENEMENTS

During the Reporting Period, the Company did not undertake any field activities in relation to its oil shale and mineral tenements. In keeping with the Government's decision not to allow any development of oil shale tenements during a moratorium period, Bandanna has decided not to commit to exploration expenditure until this moratorium is lifted.

## FUTURE ACTIVITIES

The Company intends to focus its coal exploration and development activities on the Arcturus, Dingo West and Springsure Creek projects with the focus on the completion of definitive feasibility studies for Springsure Creek and Dingo West which are due for completion during 2012.

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

## CORPORATE ACTIVITIES

### Capital Raising

During the Reporting Period Bandanna undertook a 5 for 16 accelerated non-renounceable entitlement offer raising $101 million before expenses. The entitlement offer comprised two components: an Institutional component fully underwritten by UBS, and a Retail component. Record date for the entitlement offer was 22 August 2011.

The Offer Price of $1.00 per share represented a 12.6% discount to the theoretical ex-rights price and a 16.0% discount to the closing price of Bandanna shares on Tuesday, 16 August 2011. New shares issued under the Entitlement Offer rank equally with existing ordinary shares.

Together with Bandanna's existing cash reserves, proceeds raised from the Entitlement Offer will be used to:

- satisfy financial commitments at financial close for Bandanna's 4 Mtpa export capacity through Wiggins Island Coal Export Terminal ("WICET") Stage 1;
- provide cash-backing for bank guarantees in respect of above and below rail commitments;
- fund the Definitive Feasibility Studies ("DFS") at Springsure Creek, Dingo West and South Galilee and other project development expenditures.

There was strong demand for the Institutional component of the offer raising $100 million. Bandanna advised that the non-underwritten Retail component of the Entitlement Offer ("Retail Offer"), which closed on Friday, 9 September 2011, resulted in a total uptake of 1,134,269 shares raising $1.1 million before expenses. The small uptake reflected upon the severe deterioration in macro-economic conditions during the retail offer period. Prudently, Bandanna did not anticipate any material uptake of the retail component in its funding planning.

# REPORT OF THE DIRECTORS

for the half year ended 31 December 2011

### Changes to Board of Directors

During the Reporting Period it was announced that John Pegler will join the board as a non executive director on 1 January 2012. John is very well known in the international coal industry. A mining engineer by training, he has worked for 40 years in open-cut and underground resource development, coal mining and processing operations, international and domestic coal marketing, project management and international procurement. He has worked 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 became effective on 5 March 2012 at which time he joined the board of the company as Managing Director, replacing 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 was 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 corresponding changing skills base required for 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 and field liaison officer to be based in Emerald. 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 during 2011 in conjunction with UBS. Interest by a number of third parties, particularly in Joint Venture participation in key Bowen Basin projects, will continue to be addressed 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.

### Employee Share Option Plan

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 2012, 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.

## AUDITOR'S INDEPENDENCE DECLARATION

A copy of the Auditor's Independence declaration, as required under Section 307C of the *Corporations Act 2001*, is set out on page 20 for the half year ended 31 December 2011.

This report is signed in accordance with a resolution of Directors.

**JW Barlow** *Chairman*

**David Graham** *Non Executive Director*

Signed in Brisbane this 13th March 2012

# JORC COMPLIANCE STATEMENT

The information compiled in this Report relating to South Galilee resources is based on that 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 this Report of the matters based on her 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 that 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 that compiled by David Keilar, who is a member of the Australian Institute of Geoscientists and who was 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 that 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.

Grant Thornton

## AUDITOR'S INDEPENDENCE DECLARATION

## TO THE DIRECTORS OF BANDANNA ENERGY LIMITED

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In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the review of Bandanna Energy Limited for the half-year ended 31 December 2011, I declare that, to the best of my knowledge and belief, there have been:

1 No contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the review; and

2 No contraventions of any applicable code of professional conduct in relation to the review.

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

Dan Carroll

D J Carroll
Partner - Audit & Assurance

Brisbane, Dated 13 March 2012

# STATEMENT OF COMPREHENSIVE INCOME

For the half year ended 31 December 2011

| | Note | CONSOLIDATED GROUP<br>31 December 2011<br>$ | <br>31 December 2010<br>$ |
|---|---|---|---|
| **CONTINUING OPERATIONS** | | | |
| **Revenue** | 2 | - | - |
| Cost of Sales | | - | - |
| Gross Profit | | - | - |
| Other Revenues | 2 | 8,506,341 | 482,874 |
| Employee Benefits Expense | | (1,805,898) | (1,140,960) |
| Share Based Payment Expense | | (237,600) | (362,122) |
| Depreciation Expense | | (41,193) | (53,138) |
| Administration Expense | | (2,416,478) | (1,151,913) |
| Finance Cost | | (629,940) | (113,093) |
| Other Expenses | | (38,861) | (25,022) |
| **Profit /(loss) before income tax** | | 3,336,371 | (2,363,374) |
| Income tax benefit/(expense) | | - | - |
| **Profit/(loss) from continuing operations** | | 3,336,371 | (2,363,374) |
| **DISCONTINUED OPERATIONS** | | | |
| Cost of Sales | | - | (352) |
| Gross Profit | | - | (352) |
| Gain/(Loss) on Disposal of Assets | | 298,955 | (58,948) |
| Profit/(loss) from discontinued operations after tax | | 298,955 | (59,300) |
| **Profit for the period** | | 3,635,326 | (2,422,674) |
| Other Comprehensive Income | | | |
| Available for Sale Investments:<br>Net Valuation Gain/(Loss) | | 745,390 | - |
| **Total Comprehensive Income** | | **4,380,716** | (2,422,674) |
| **EARNINGS PER SHARE** | | | |
| **From continuing and discontinued operations** | | | |
| Basic and diluted earnings per share (cents per share) | | 0.69 | (0.57) |
| **From continuing operations** | | | |
| Basic and diluted earnings per share (cents per share) | | 0.63 | (0.57) |
| **From discontinued operations** | | | |
| Basic and diluted earnings per share (cents per share) | | 0.06 | - |

These financial statements should be read in conjunction with the accompanying notes.

# STATEMENT OF FINANCIAL POSITION

As at 31 December 2011

| | Note | CONSOLIDATED GROUP<br>31 December 2011<br>$ | <br>30 June 2011<br>$ |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | | 124,227,536 | 60,290,757 |
| Trade and other receivables | | 1,258,199 | 20,520,149 |
| Inventories | | 198,195 | 198,196 |
| Financial Assets | | 1,341,248 | - |
| Other current assets | | 2,153,628 | 156,853 |
| Total current assets | | 129,178,806 | 87,165,955 |
| **Non-current assets** | | | |
| Financial Assets | | 40,852,130 | 1,347,571 |
| Property, plant and equipment | | 9,018,745 | 343,449 |
| Exploration and evaluation assets | | 29,871,647 | 18,345,633 |
| Other non-current assets | | 221,608 | - |
| Total non-current assets | | 79,964,130 | 20,036,653 |
| Total assets | | 209,142,936 | 107,202,608 |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Trade and other payables | | 1,548,972 | 2,008,451 |
| Employee benefits | | 420,760 | 140,097 |
| Total current liabilities | | 1,969,732 | 2,148,548 |
| **Non-current liabilities** | | | |
| Employee benefits | | 17,900 | 12,140 |
| Total non-current liabilities | | 17,900 | 12,140 |
| Total liabilities | | 1,987,632 | 2,160,688 |
| **Net assets** | | **207,155,304** | 105,041,920 |
| **EQUITY** | | | |
| **Equity attributable to members of the parent entity:** | | | |
| Issued capital | | 217,484,381 | 119,879,506 |
| Reserves | | 2,134,549 | 1,403,097 |
| Retained earnings | | (12,463,626) | (16,240,683) |
| **Total equity** | | **207,155,304** | 105,041,920 |

These financial statements should be read in conjunction with the accompanying notes.

# STATEMENTS OF CHANGES IN EQUITY

For the half year ended 31 December 2011

| | Share Capital $ | Retained earnings $ | Share Option Reserve(1) $ | Available for Sale Reserve(2) $ | Total $ |
|---|---|---|---|---|---|
| **CONSOLIDATED GROUP** | | | | | |
| **Balance at 1 July 2010** | 42,468,775 | (11,889,791) | 1,156,398 | - | 31,735,382 |
| Total comprehensive income for the period | - | (2,422,674) | - | - | (2,422,674) |
| Transactions with owners in their capacity as owners: | | | | | |
| Share issued during the period | 78,872,729 | | | | 78,872,729 |
| Capital raising costs | (2,319,628) | - | - | - | (2,319,628) |
| Dividend paid or provided for | - | - | | | - |
| Options issued to Directors & Executives | - | - | 317,711 | - | 317,711 |
| Sub-total | 76,553,101 | - | 317,711 | - | 76,870,812 |
| **Balance at 31 December 2010** | 119,021,876 | (14,312,465) | 1,474,109 | - | 106,183,520 |
| **Balance at 1 July 2011** | 119,879,506 | (16,240,683) | 1,855,527 | (452,430) | 105,041,920 |
| Total comprehensive income for the period | - | 3,635,326 | - | 745,390 | 4,380,716 |
| Transactions with owners in their capacity as owners: | | | | | |
| Shares issued during the period | 101,373,524 | | | | 101,373,524 |
| Capital raising costs | (3,768,649) | - | - | - | (3,768,649) |
| Dividend paid or provided for | - | - | | | - |
| Options issued to Directors & Executives | - | - | 237,600 | - | 237,600 |
| Options exercised | - | - | (109,807) | - | (109,807) |
| Options lapsed | - | 141,731 | (141,731) | - | - |
| Sub-total | 97,604,875 | 3,777,057 | (13,938) | 745,390 | 102,113,384 |
| **Balance at 31 December 2011** | **217,484,381** | **(12,463,626)** | **1,841,589** | **292,960** | **207,155,304** |

These financial statements should be read in conjunction with the accompanying notes.

*(1) Share Option Reserve represents the fair value of options granted but not exercised.*

*(2) Available for Sale Reserve represents the fair value adjustments to available for sale financial assets.*

# STATEMENT OF CASH FLOWS

For the half year ended 31 December 2011

| | Note | CONSOLIDATED GROUP<br>31 December 2011<br>$ | <br>31 December 2010<br>$ |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers | | - | - |
| Payments to suppliers and employees | | (4,298,699) | (2,553,010) |
| Interest received | | 2,522,435 | 460,300 |
| Interest paid | | (494,983) | - |
| Net cash provided by (used in) operating activities | | (2,271,247) | (2,092,710) |
| **Cash flows from investing activities** | | | |
| Proceeds from sale of tenements | | - | 149,998 |
| Proceeds from rental income | | 94,240 | - |
| Proceeds from sale of shares | | 1,050,667 | - |
| Proceeds from sale of plant and equipment | | - | 24,636 |
| Payments for property, plant and equipment | | (8,716,489) | (68,818) |
| Payments for exploration activities | | (9,385,019) | (3,244,933) |
| Payments for investments | | (20,117,441) | - |
| Net cash provided by (used in) investing activities | | (37,074,042) | (3,139,117) |
| **Cash flows from financing activities** | | | |
| Proceeds from issue of shares | | 101,263,717 | 76,457,318 |
| Payments for Capital raising | | (3,768,649) | (2,319,628) |
| Payments under Capacity Commitment Deed (WICET) | | - | (2,984,299) |
| Payments under Feasibility Funding Deed (WICET) | | (213,000) | - |
| Net cash provided by (used in) financing activities | | 97,282,068 | 71,153,391 |
| Net change in cash and cash equivalents held | | 57,936,779 | 65,921,564 |
| Cash and cash equivalents at beginning of period | | 66,290,757 | 20,342,436 |
| **Cash and cash equivalents at end of period** | | **124,227,536** | 86,264,000 |

These financial statements should be read in conjunction with the accompanying notes.

# NOTES TO THE FINANCIAL STATEMENTS

For the half year ended 31 December 2011

## Note 1. Statement of significant accounting policies

The general purpose financial statements for the interim reporting period ended 31 December 2011 have been prepared in accordance with Accounting Standards (including Australian Accounting Interpretations), other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*.

The financial statements cover Bandanna Energy Limited as an individual parent entity and Bandanna Energy Limited and its controlled entities as a consolidated entity ("Group"). Bandanna Energy Limited is a company limited by shares, incorporated and domiciled in Australia.

### Statement of compliance

These general purpose interim financial statements for the half-year reporting period ended 31 December 2011 have been prepared in accordance with requirement of the *Corporations Act 2001* and Australian Accounting Standard AASB 134 Interim Financial Reporting.

The financial statements were authorised for issue by the directors on 13th March 2012.

### Basis of preparation

This interim financial report is intended to provide users with an update on the latest financial statement of Bandanna Energy Limited and its controlled entities. As such, it does not contain information that represents relatively insignificant changes occurring during the half-year within the Group. It is therefore recommended that this financial report be read in conjunction with the annual financial statements of the Group for the year ended 30 June 2011, together with any public announcement made during the following half-year.

The financial statements have been prepared on an accruals basis and are based on historical costs modified by the revaluation of selected non-current assets and financial instruments for which the fair value basis of accounting has been applied. The same accounting policies and methods of computation have been followed in this interim financial report as were applied in the most recent annual financial statements.

### Third statement of financial position

Two comparative periods are presented for the statement of financial position when the Group:

i applies an accounting policy retrospectively,

ii makes a retrospective restatement of items in its financial statements, or

iii reclassifies items in the financial statements.

We have determined that only one comparative period for the statement of financial position was required for the current reporting period as the application of the new accounting standards have had no material impact on the previously presented primary financial statements that were presented in the prior year financial statements.

### Adoption of new and revised accounting standards

In the current reporting period, the Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board that are relevant to its operations and effective for the current reporting period.

Significant effects on current, prior or future periods arising from the first-time application of the standards discussed above in respect of presentation, recognition and measurement of accounts are described in the following notes.

### Adoption of AASB 11 Joint Arrangements

Bandanna Energy Limited and its controlled entities have early adopted the above standard and must also adopt the other standards on consolidation, joint arrangements and disclosures. AASB 10 Consolidated Financial Statements, AASB 12 Disclosure of Interests in Other Entities and AASB 127 Separate Financial Statements (2011), AASB 128 Investments in Associates and Joint Ventures (2011) and AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangement Standards.

### New accounting standards for Application in Future Periods

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2011 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below.

(i) AASB 9 Financial Instruments, AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 and AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) (effective from 1 January 2013). AASB 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2013 but is available for early adoption. When adopted, this standard is expected to have no impact on the Group's financial statements.

## Note 1. Statement of significant accounting policies (cont.)

(ii) Revised AASB 124 Related Party Disclosures and AASB 2009-12 Amendments to Australian Accounting Standards (effective from 1 January 2011). In December 2009 the AASB issued a revised AASB 124 Related Party Disclosures. It is effective for accounting periods beginning on or after 1 January 2011 and must be applied retrospectively. The amendment clarifies and simplifies the definition of a related party. When the amendments are applied, the Group will need to disclose any transactions between its subsidiaries and its associates. However, it is expected that this standard will have no impact on any of the amounts recognised in the financial statements.

(iii) AASB 1053 Application of Tiers of Australian Accounting Standards and AASB 2010-2 Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements (effective from 1 July 2013). On 30 June 2010 the AASB officially introduced a revised differential reporting framework in Australia. Under this framework, a two-tier differential reporting regime applies to all entities that prepare general purpose financial statements. Bandanna Energy Limited is listed on the ASX and is not eligible to adopt the new Australian Accounting Standards – Reduced Disclosure Requirements. The two standards will therefore have no impact on the financial statements of the entity.

(iv) AASB Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments and AASB 2009-13 Amendments to Australian Accounting Standards arising from Interpretation 19 (effective from 1 July 2010). AASB Interpretation 19 clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished by the debtor issuing its own equity instruments to the creditor (debt for equity swap). It requires a gain or loss to be recognised in which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued. It is not expected to have any impact on the company's financial statement as the company has not entered into any debt for equity swaps.

The Group does not anticipate the early adoption of any of the above Australian Accounting Standards.

### Australian Government's proposed carbon pricing mechanism

On 8th November 2011, the Commonwealth Government announced the "Clean Energy Legislative Package". Whilst the announcement provides further details on the framework for a carbon pricing mechanism, uncertainties continue to exist on the impact of any carbon pricing mechanism on the Group. In addition, as the Group will not fall within the "Top 500 Australian Polluters", the impact of the Carbon Scheme will be through indirect effects of increased prices on many production inputs and general business expenses as suppliers subject to the carbon pricing mechanism are likely to pass on their carbon price burden to their customers in the form of increased prices. Directors expect that this will not have a significant impact upon the operating costs within the business, and therefore will not have an impact upon the valuation of assets and/or going concern of the business.

### Mineral Resource Rent Tax (MRRT)

On 23 November 2011, the MRRT Bill was passed by the House of Representatives. The Bill is currently before the Senate for its consideration. It is possible that the Bill will be passed by Parliament, and thus substantively enacted in March 2012, requiring financial reporting of related impacts in the 2012 full financial year results. The MRRT is proposed to apply from 1 July 2012.

## Note 2. Revenue

| | Note | CONSOLIDATED GROUP<br>31 December 2011<br>$ | <br>31 December 2010<br>$ |
|---|---|---|---|
| **Revenue from continuing operations** | | | |
| Sales Revenue | | | |
| Sales | | - | - |
| Total Sales revenue | | - | - |
| **Other Revenue** | | | |
| Gain/Loss on Disposal of Assets | | - | 22,574 |
| Farm-In Contribution | | 4 ,313,313 | - |
| Joint Operation Interest (50%) | 2a | 55,464 | - |
| Rental Income | | 94,240 | - |
| Interest received | 2a | 4,043,324 | 460,300 |
| Total Other revenue | | 8,506,341 | 482,874 |
| | | | |
| **Total Revenue** | | **8,506,341** | 482,874 |
| | | | |
| **a. Interest revenue from** | | | |
| – Other Persons | | 4,043,324 | 460,300 |
| – Joint Operation | | 55,464 | - |
| Total interest revenue | | 4,098,788 | 460,300 |
| | | | |
| **b. Revenue and other income from discontinued operations** | | | |
| – Gain on Sale of Investment | | 298,955 | - |
| | | 298,955 | - |
| | | | |
| **c. Income from continuing operations and discontinued operations** | | | |
| – Income attributable to members of the parent entity | | 8,805,296 | 482,874 |
| – Sales revenue attributable to non-controlling interest | | - | - |
| | | 8,805,296 | 482,874 |

## Note 3. Income Tax Expense

### Unrecognised deferred tax balances

At the time the business combination was effected, Bandanna Coal Pty Ltd and its subsidiaries joined the Bandanna Energy Limited consolidated tax group. As a result of this transaction, tax losses have been generated. These losses have a potential tax benefit in future periods. Given the net deferred tax position results in a significant deferred tax benefit, the directors have determined that the deferred tax balances do not meet the recognition criteria as at 31 December 2011.

The benefit of the net unrecognised deferred tax asset will only be obtained if:

- The Group derives future taxable profit of a nature and an amount sufficient to enable the benefit to be realised;
- The Group continues to comply with the deductibility imposed by the law; and
- No changes in tax legislation adversely affect the Group in realising the benefit.

## Note 4. Segment Reporting

### Primary Reporting – Business Segments

| | Coal & Minerals $ | Total Continuing Operations $ | Oil & Gas $ | Total Discontinuing Operations $ |
|---|---|---|---|---|
| **CONSOLIDATED DECEMBER 2011** | | | | |
| **Revenue** | | | | |
| Segment Revenue | - | - | - | - |
| **Result** | | | | |
| Segment Result | (5,169,970) | (5,169,970) | 298,955 | 298,955 |
| Income Tax Benefit /(Expense) | - | - | - | - |
| Profit/(Loss) after Income Tax | (5,169,970) | (5,169,970) | 298,955 | 298,955 |
| **Reconciliation of segment result to Group Net Profit/(Loss) after Tax** | | | | |
| Unallocated items: | | | | |
| Interest revenue | 4,098,788 | 4,098,788 | - | - |
| Farm-in Contribution | 4,313,313 | 4,313,313 | - | - |
| Rental Income | 94,240 | 94,240 | - | - |
| Other Comprehensive Income | - | - | 745,390 | 745,390 |
| Net Profit/(Loss) after Tax | 3,336,371 | 3,336,371 | 1,044,345 | 1,044,345 |
| **Assets** | | | | |
| Segment Assets | 207,801,688 | 207,801,688 | 1,341,248 | 1,341,248 |
| **Liabilities** | | | | |
| Segment Liabilities | 1,987,632 | 1,987,632 | - | - |
| **Other** | | | | |
| Depreciation | 41,193 | 41,193 | - | - |
| **CONSOLIDATED DECEMBER 2010** | | | | |
| **Revenue** | | | | |
| Segment Revenue | - | - | - | - |
| **Result** | | | | |
| Segment Result | (2,846,248) | (2,846,248) | (59,300) | (59,300) |
| Income Tax Benefit /(Expense) | - | - | - | - |
| Profit/(Loss) after Income Tax | (2,846,248) | (2,846,248) | (59,300) | (59,300) |
| **Assets** | | | | |
| Segment Assets | 106,964,414 | 106,964,414 | - | - |
| **Liabilities** | | | | |
| Segment Liabilities | 780,894 | 780,894 | - | - |
| **Other** | | | | |
| Depreciation | 53,138 | 53,138 | - | - |

## Note 4. Segment Reporting (cont.)

### Accounting Policies

Segment revenues and expenses are those directly attributable to the segments. Administration costs are allocated to the Coal and Minerals segment as the continuing operation.

The oil and gas segment assets represent the investment in a listed company received as consideration for the sale of the oil and gas tenements. Coal and Mineral segment assets represent capitalised exploration expenditure and other assets consisting primarily of cash, receivables and plant and equipment.

Coal and Mineral segment liabilities represent trade payables and accruals attributable to that segment and other liabilities including other accruals, payroll related liabilities and employee benefits.

There are no intersegment transfers or eliminations.

### Geographical Segments

The consolidated groups segments are all located in Australia.

## Note 5. Contingent Liabilities

As at 31st December 2011, Bandanna had provided:

- a bank guarantee of $4,054,800 under the Port Services Agreement in favour of Gladstone Ports Corporation Limited.
- a bank guarantee of $15,300,000 under the Wiggins Island Rail Project Deed and Wiggins Island Rail Project Early Works Deed to QR Network Pty Ltd to fund the development of rail infrastructure.
- a bank guarantee of $52,000,000 to support its obligations for Stage 1 of Wiggins Island Coal Export Terminal development; and
- a bank guarantee of $430,350 under the Feasibility Funding Deed to support Bandanna's share of the feasibility costs for Stage 2 of Wiggins Island Coal Export Terminal development.

Included within the cash and cash equivalents balance at 31 December 2011, are term deposits to secure the bank guarantees.

## Note 6. Events after Balance Sheet Date

As reported to the ASX on 1 January 2012, John Harry Pegler was appointed to the board of Bandanna Energy Limited as a Non Executive Director.

On 31 January 2012 Bandanna announced that AMCI, the manager and 50% participant in the South Galilee Coal Project (SGCP), had provided a JORC compliant Coal Reserve estimate for open cut marketable reserves for SGCP of 217.17Mt.

On 1 February 2012 the remaining shares held in Drillsearch Energy Limited (Drillsearch) were sold. Traditional Oil Exploration Pty Ltd (Traditional), a wholly owned subsidiary of Bandanna, holds no ordinary shares in Drillsearch from this date.

On 23 February 2012 Bandanna announced the award of a 15 year performance based contract to Pacific National for the rail transportation of 4Mtpa from Bandanna's Springsure Creek project to Wiggins Island Coal Export Terminal from mid 2014. Under the contract, Bandanna is required to provide an initial bank guarantee of $0.9 million. The bank guarantee requirement increases to $15.5 million at December 2014.

On 5 March 2012, Bandanna announced the commencement of Michael Gray as Managing Director replacing Dr Ray Shaw.

On 12 March 2012, Bandanna announced that it had entered into a binding agreement with Acacia Coal Limited (Acacia) in relation to the sharing of train loadout infrastructure, in return for Acacia's consent to Bandanna's applications for transportation and infrastructure mining leases for the Springsure Creek project over portions of Acacia's EPC1230. The agreement provides a mechanism for the issue by Bandanna to Acacia of 20 million options to acquire fully paid shares in Bandanna, exercisable at $1.50 for five years, vesting on the grant of the infrastructure mining lease.

The financial statements were authorised for issue on 13th March 2012.

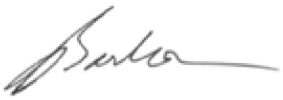
# DIRECTORS' DECLARATION

## For the half year ended 31 December 2011

The Directors of the Company declare that:

1. The financial statements and notes, as set out on pages 21 to 29 are in accordance with the *Corporations Act 2001*, including:
    a. Complying with Accounting Standard AASB 134: Interim Financial Reporting; and
    b. Giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and of its performance for the half-year ended on that date.
2. In the director's opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.



**Mr Jeremy Barlow** *Chairman*

**Mr David Graham** *Non Executive Director*

Dated: 13 March 2012

Grant Thornton

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**INDEPENDENT AUDITOR'S REVIEW REPORT**

**TO THE MEMBERS OF BANDANNA ENERGY LIMITED**

We have reviewed the accompanying half-year financial report of Bandanna Energy Limited (the "Company"), which comprises the consolidated financial statements being the statement of financial position as at 31 December 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, a statement of accounting policies, other selected explanatory notes and the directors' declaration of the consolidated entity, comprising both the Company and the entities it controlled at the half-year's end or from time to time during the half-year.

**Directors' responsibility for the half-year financial report**

The directors of the Company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

**Auditor's responsibility**

Our responsibility is to express a conclusion on the consolidated half-year financial report based on our review. We conducted our review in accordance with the Auditing Standard on Review Engagements ASRE 2410: Review of a Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the Corporations Act 2001 including giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations 2001. As the auditor of Bandanna Energy Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

**Independence**

In conducting our review, we complied with the independence requirements of the Corporations Act 2001.

**Conclusion**

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Bandanna Energy Limited is not in accordance with the Corporations Act 2001, including:

1 Giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and of its performance for the half-year ended on that date; and

2 Complying with Accounting Standard AASB 134: Interim Financial Reporting and Corporations Regulations 2001.

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

Dan Carroll

D J Carroll
Partner - Audit & Assurance

Brisbane, Dated 13 March 2012

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