2012 ANNUAL REPORT

Building community through mining and agriculture

BANDANNA ENERGY

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All photographs included in the Report, other than those photographs included courtesy of Pacific National and WICET, were taken at properties owned or occupied by the Consolidated Group, in Brisbane and at Springsure Creek. Thank you to those employees and contractors who assisted with the photography for the Report.

COAL TENEMENT MAP.

LEGEND

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

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

COMPANY PROFILE

Bandanna Energy Limited is an ASX 300 listed company (ASX: BND), uniquely positioned in the Queensland coal sector to become Australia's next coal producer. Its core activities are exploration, project evaluation and development of thermal and PCI coal assets located in Queensland, Australia.

Bandanna has a clear pathway to production and export for its Springsure Creek underground thermal coal project, scheduled to commence production in the second half of 2014. Bandanna is a 14% shareholder in Wiggins Island Coal Export Terminal (WICET) Stage 1 at Gladstone, with port allocation of 4Mtpa for the Springsure Creek Project. Bandanna has secured the necessary infrastructure capacity for the integrated rail haulage of coal from the Springsure Creek Project to port.

Bandanna has over 1,650 million tonnes of JORC compliant Resources and Reserves within its portfolio. With all coal tenements located in Queensland, Bandanna is the only ASX listed company with substantial coal assets in both the Bowen and Galilee basins subject to EIS and advanced mine studies. Bandanna's Board of Directors and senior management team, who have collective, proven, track records of successful coal development and recent operational experience in Queensland, are committed to unlocking Bandanna's shareholder value via these assets and their respective development pipelines. Bandanna is committed to working constructively with the communities in which it operates, to deliver the returns of successful mining and agricultural activities to shareholders, government and the community.

As at 31 August 2012, Bandanna had 7,660 shareholders and a total of 528,481,199 ordinary fully paid shares on issue. The top three shareholders by volume of shares in the Company were DJ Mining Pty Ltd (16.62%), Resolve Geo Pty Ltd (14.49%) and Samtan Aures Pty Ltd (10.67%).

ACTIVITY HIGHLIGHTS.

CORPORATE

Accelerated rights issue raises approximately $100 million at $1.00 per share in August 2011

Consolidation of the expertise and experience of Bandanna's leadership team, with the appointment of John Pegler as an independent, non-executive Director in January 2012 and as Chairman of the Board from April 2012, the appointment of Michael Gray as Managing Director in March 2012 and, subsequent to the end of the Reporting Period, the appointment of Stuart Clarke as Chief Development Officer

Ongoing discussions with third parties regarding equity participation in Bandanna's Springsure Creek and Dingo West projects, as part of Bandanna's development funding strategy

INFRASTRUCTURE

Close of financing for Stage 1 of Wiggins Island Coal Export Terminal (WICET) and commencement of construction

Take or pay agreement executed with WICET, in which Bandanna Energy is a 14% shareholder, for 4 Mtpa port allocation and shiploading of coal from the Springsure Creek Project

Agreement with Pacific National for the haulage of coal from the Springsure Creek Project to WICET

Agreement with QR National for upgrade of rail capacity in the Blackwater system to enable coal haulage to WICET

Securing additional 6 Mtpa nominated annual capacity under the Feasibility Funding Facility Agreement (FFFA) as part of a strategy for obtaining additional export capacity in future WICET expansion stages

Agreement with Acacia Coal for the development and operation of Triumph Creek, a multi-user train loadout facility on portions of Acacia's EPC1230

OPERATIONS

Implementation of co-existence strategy for mining and agriculture on the Springsure Creek Project; commencement of land acquisition for project development while maintaining farming activities

Finalising Cultural Heritage Management Plans with the indigenous Kauri and Karingbal Peoples for the Springsure Creek Project

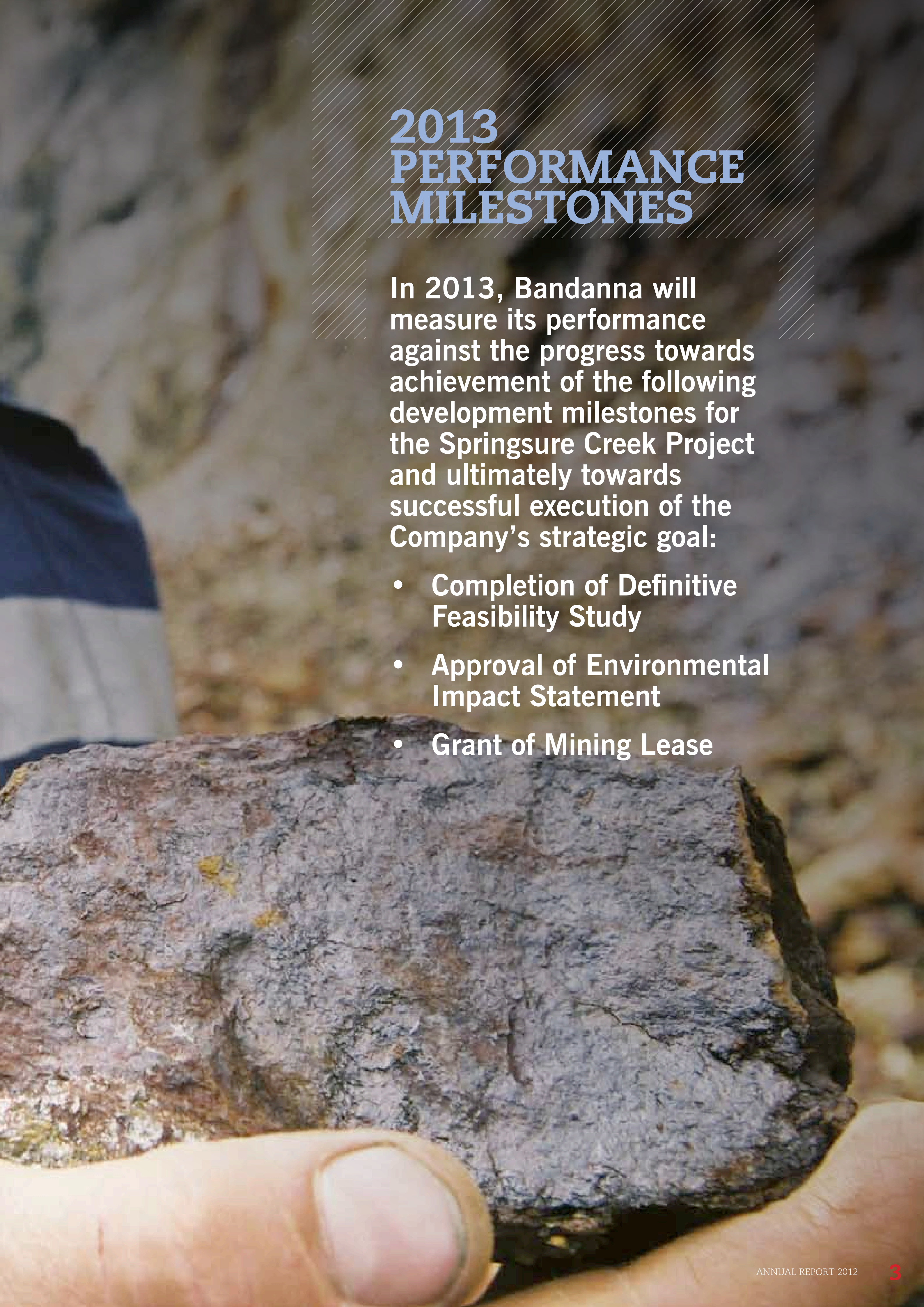
Confirming increase in the JORC compliant Reserve for Springsure Creek (EPC891) to 153.5 Mt

Continuing definitive feasibility studies and preparation of the draft EIS for the Springsure Creek and Dingo West projects

Maiden open-cut Reserve for the South Galilee Coal Project

STRATEGIC GOAL

TO BE AUSTRALIA'S NEXT COAL PRODUCER.



2013 PERFORMANCE MILESTONES

In 2013, Bandanna will measure its performance against the progress towards achievement of the following development milestones for the Springsure Creek Project and ultimately towards successful execution of the Company's strategic goal:

- **Completion of Definitive Feasibility Study**
- **Approval of Environmental Impact Statement**
- **Grant of Mining Lease**

CHAIRMAN'S REPORT.

On behalf of the Board of Directors and senior management of Bandanna Energy Limited, I am delighted to present the Annual Report to shareholders for the year ended June 30 2012.

John Pegler
Chairman

On behalf of the Board of Directors and senior management of Bandanna Energy Limited, I am delighted to present the Annual Report to shareholders for the year ended June 30 2012.

Clearly, the backdrop in 2012 has been one of global market uncertainty. Bandanna continues to look beyond the shore-break of these current choppy waters and remains focused on market opportunities and increasing demand for its products in the middle of this decade. In readiness for these improved conditions, Bandanna Energy continues to target first coal production from Springsure Creek in the second half of 2014.

The past year has seen a watershed of achievements. The management team has been adjusted with the inclusion of new talents necessary for Bandanna to transition from pure explorer through the various phases of project development to become Australia's next coal producer. Particular highlights have included the financial close for Wiggins Island Coal Export Terminal (of which Bandanna is a 14% shareholder); contracts signed for port access, rail access and haulage; significant advancement in the approvals processes and commercialisation studies of our flagship Bowen Basin projects.

Following a capital raising in August 2011 and recent commencement of a bank guarantee facility freeing up cash which was previously securing bank guarantees, Bandanna is well funded to complete its current approvals processes and definitive feasibility studies. Moreover, it is actively involved in discussions about potential joint ventures and project sell-downs, of its key 100% owned projects. The calibre of these opportunities is expected to deliver a very attractive funding solution which will support the projects through to first production and beyond.

The fortunes of our national and state economies can only prosper if there is continued political will to ensure that the major contribution mining makes to the well-being of every Australian is not stymied by short term political opportunism or a lack of vision. Investment decisions in port, rail and mining projects come about as a result of long gestation periods and carefully staged studies of opportunities and risks. Successful investment decisions flow only when there is investor confidence in the consistency and certainty of Government policies which recognise the imperative of competitiveness in the international marketplaces in which our coal sales take place.

As a new generation miner, Bandanna is intent on adapting to changes in political and community expectations. Sustainable co-existence will work when all major stakeholders see long term benefits. It is well within the capability of the agricultural and mining industries to develop sustainable, workable co-existence strategies which deliver enhanced value for all parties, and not become bogged down by ideologies which stalemate the process of collaboration.

Finally, I would especially like to thank Jeremy Barlow who as Bandanna's previous Chairman, and together with Ray Shaw our former Managing Director, oversaw the creation of the solid foundations upon which we now build. I also thank all my fellow Directors and in particular our recently appointed Managing Director Michael Gray and his team for their unwavering efforts to ensure that Bandanna Energy provides exemplary shareholder value by becoming Australia's next coal producer.

"Bandanna Energy continues to target first coal production from Springsure Creek in the second half of 2014."

MANAGING DIRECTOR'S REPORT.

It is with great pleasure that I am able to present this, my first report to shareholders since becoming Managing Director of Bandanna Energy in March this year.

Michael Gray
Managing Director

It is with great pleasure that I am able to present this, my first report to shareholders since becoming Managing Director of Bandanna Energy in March this year. Having just spent the past three years overseeing the construction of Queensland's most recent coal mine at Middlemount, I have been in a unique position to observe which companies were positioned to successfully deliver the next operating mine. It was from this vantage point that I was compelled to join Bandanna.

The combination of world class coal resources and equity ownership in a port mean that Bandanna is uniquely placed to make the transition from explorer to become Australia's next coal producer. It was therefore a simple decision for me to join Bandanna to lead the Company through this challenging but exciting transition.

As outlined in the Chairman's Report, the past financial year has been a landmark in the Company's short history and provides a platform for Bandanna to become a coal producer. Below, I have outlined some of the achievements of the year that span the Company's key operational and corporate activities.

HEALTH & SAFETY

Bandanna has a strong commitment to ensuring that its employees and contractors remain committed to and vigilant about health and safety issues, especially given the significant level of field activities in which the Company engages. Bandanna will not compromise the safety of its employees, those who work for it, nor the stakeholders with whom it interacts. Bandanna has a goal of zero harm. The Company monitors, reviews and modifies, as appropriate, its safety and health management plans (SHMP) for all its active projects.

During the Reporting Period the Company investigated one Reportable Incident, and all recommendations of the investigation were subsequently implemented. The Company had no lost time injuries or recordable injuries during the Reporting Period. Safety performance targets have been set internally for FY2013 and will be reported on in the 2013 Annual Report.

INFRASTRUCTURE

Unquestionably the highlight of the year and the transformational event for Bandanna was the financial close of WICET Stage 1 in October 2011. The successful raising of project finance to fund development of the $2.5billion project confirmed Bandanna's 14% ownership of the terminal and more importantly secured the 4Mtpa port capacity associated with that ownership. This port capacity now provides Bandanna with the ability to unlock value from its significant world class coal resources.

To complement this contracted port capacity, the Company secured rail capacity and haulage agreements to provide an integrated supply chain solution for the development of the Springsure Creek Project. These agreements include a contract with QR National to proceed with the upgrade of rail infrastructure capacity, a rail haulage agreement with Pacific National and agreements with Acacia Coal for the development and operation of the Triumph Creek train loadout facility, adjacent to the Bauhinia rail corridor.

This fully integrated infrastructure solution provided the Company the opportunity to commit to progress of the Definitive Feasibility Study and approvals process for the project, to ensure it is on track for first production in the second half of 2014.

Construction of WICET Stage 1 commenced in December 2011 and despite above average rainfall during the first half of 2012, remains on track for completion in the second half of 2014. Bandanna is represented on the WICET board and is actively overseeing progress of construction of the port.

Whilst there has been substantial progress of infrastructure for the Springsure Creek project, a different infrastructure framework presents challenges for the South Galilee Coal Project (SGCP), in which Bandanna has a 50% interest through a joint venture with AMCI (SGCPJV). Final plans for critical export infrastructure for the Galilee Basin are yet to be confirmed.

In April 2012, the new Queensland Government announced that it was abandoning the previous Government's plans for six new terminals at Abbot Point. The South Galilee Coal Project did not obtain allocation at those planned terminals, known as T4-T9. As such, the Government's decision to shelve T4-T9 provides increased opportunity for the SGCP, which is one of the most advanced projects in the Galilee Basin, to secure priority access to future terminal capacity. The SGCPJV continues to engage with Government in relation to the new allocation process for this capacity.

In June 2012, the Government announced that its preferred rail solution for the haulage of coal from the southern Galilee Basin to Abbot Point was via the proposed GVK-Hancock Coal standard gauge alignment. The SGCPJV strongly supports this solution and is progressing third party access agreement with the proposed developers of that rail line.

OPERATIONS

Operational activities for the Company focused on the two development projects under direct management by the Company – Springsure Creek and Dingo West. The SGCP is externally managed and the Company has been kept well informed as to the operational activities of the SGCP conducted by the manager during the Reporting Period.

Consistently positive new drilling results have enabled the Company to announce a number of Reserve and Resource upgrades for the Springsure Creek Project. Subsequent to the Reporting Period the Company announced the establishment of total JORC compliant Resources at 547.3 Mt. This includes a Maiden Measured Resource of 52.8 Mt, an Indicated Resource of 222.3 Mt and an Inferred Resource of 219.0 Mt for the Aries 2 Seam. During the Reporting Period the Company had announced that the JORC compliant marketable (Probable) Reserve at Springsure Creek had increased from 102.6Mt to 153.5Mt. The Reserve calculations are based on a high capacity underground longwall mine concept.

Performance Milestones for FY2013 have been set around the critical development milestones for the Springsure Creek Project, being completion of Definitive Feasibility Study (DFS), approval of the Environmental Impact Statement (EIS) and grant of the mining lease.

The draft Definitive Feasibility Study (DFS) is due for completion of all external input by the end of September 2012. Following the building of internal resources and capability during the DFS process, the Company will review the external consultants' reports and, in conjunction with independent technical review, finalise the DFS by the end of October 2012. Following completion of the DFS, the Company will be in a position to finalise its Draft Environmental Impact Statement (EIS) for public release during December quarter.

During the Reporting Period, the Company lodged MLA 70461, which was subsequently rejected by the

MANAGING DIRECTOR'S REPORT CONTINUED.

Queensland Government following consultation with Bandanna to address procedural deficiencies in the original application and a number of issues raised by local community members. Following revision of the project mine plan as part of the DFS and extensive consultation with Government, the local Council and landowners, Bandanna is preparing a replacement MLA. The revised MLA, which utilises the updated mine plan based on further drilling and addresses a number of community concerns, will be submitted early in the December quarter 2012.

At Dingo West, during the Reporting Period a feasibility study was completed and the approvals process continued. Public review of the Draft Terms of Reference for the EIS were completed earlier this year. An MLA has been lodged and the DFS is underway for Dingo West, involving mine design of up to three satellite open-cut pits with a total production capacity of up to 1.4 Mtpa of ROM coal. Dingo West has been the location for an active drilling campaign, and despite another persistent wet summer over 14,000 metres of drilling was completed during the Reporting Period.

In the Galilee Basin, the SGCPJV released a maiden open cut JORC compliant Reserve of 274 Mt. During the Reporting Period AMCI also exercised its right to earn 50% participating interest in the SGCP and a 50/50 joint venture between a subsidiary of the Company and AMCI was formed. The SGCPJV manager submitted an MLA on behalf of the participants in the SGCPJV and reached agreement with the Wangan and Janalingou Peoples with respect to Native Title.

CORPORATE

On 17 August 2011 Bandanna announced its intention to undertake a capital raising through a 5 for 16 accelerated, non-renounceable, entitlement offer at $1.00 per share. The institutional component of that entitlement offer, which was underwritten by UBS, attracted strong demand and was oversubscribed, resulting in gross proceeds of approximately $100 million. Further capital was raised in the corresponding retail component of the entitlement offer which closed on 9 September 2011.

Total proceeds of the capital raising have been applied to development of the Springsure Creek and Dingo West projects, and in particular the provision of bank guarantees for Stage 1 capacity at WICET and associated rail contracts for the Springsure Creek Project.

Bandanna terminated a formal strategic review process in late December 2011, which had been instigated earlier in the year in conjunction with UBS. The Company has continued to entertain third party interest, particularly in joint venture participation in its key Bowen Basin projects. In the latter part of the Reporting Period, discussions continued with a number of strategic third parties in relation to a potential sell down by Bandanna of a minority interest in the Springsure Creek Project. The Company is focused on completion of, and fully funded to complete, the DFS for Springsure Creek in 2012, after which time Bandanna believes that it will be a more appropriate time to advance these negotiations.

During the Reporting Period, the Company issued share options to a number of Key Management Personnel under the Company's Employee Share Option Plan (ESOP) approved by shareholders at the 2010 Annual General Meeting of the Company. Subsequent to the Reporting Period, considerable work was undertaken by the Nomination and Remuneration Committee to finalise a new remuneration and reward policy for employees. The remuneration and reward policy, approved by the Board and effective from 1 July 2012, anticipates a significant increase in the size of the corporate and site-based workforce and meets the requirement for a structured and transparent pay for performance remuneration framework. Full details of changes in the corporate structure, options issued to Key Management Personnel during the Reporting Period and the remuneration and reward policy effective from 1 July 2012 are set out in the Directors' Report.

Subsequent to the Reporting Period, the Company announced that it had accepted a senior secured bank guarantee facility with Credit Suisse for $67.3 million (refer to the Directors' Report for a summary of events subsequent to the Reporting Period). The new arrangement with Credit Suisse provides for the release of $50 million cash that Bandanna has previously used to secure infrastructure guarantees for the Springsure Creek Project. Access to these additional funds further underpinned Bandanna's ability to progress the DFS and ensure critical path timetables for long lead-in equipment procurement and strategic acquisitions, such as the purchase of additional land.

BOARD & MANAGEMENT

To meet the challenges of the transition from explorer to developer and producer, the Board of the Company consciously set about implementing a broad scale ramping up of base skills of its senior management team and of the Board in order to better execute the transition. Two new Directors bring first hand, recent, Queensland coal industry production experience to the Board. John Pegler, whose current roles include Chairman of the Australian Coal Association and who is the former Managing Director of Ensham Resources Pty Ltd, joined the Board on 1 January 2012 as a non-executive Director. On 4 April 2012 Mr Pegler was appointed Chairman of the Board replacing Jeremy Barlow who, as a founding shareholder, director of Bandanna Coal Pty Ltd and substantial shareholder, remains on the Board as a non-executive Director.

Likewise, with more than 20 years' experience in planning and development of major mining and infrastructure projects - most recently as Chief Executive Officer of Middlemount Coal Pty Ltd – I joined Bandanna on 5 March 2012, replacing Ray Shaw as Managing Director.

In March 2012 Tess Lye joined Bandanna, as General Counsel and Company Secretary, allowing Matthew Scott to concentrate on his role as Chief Financial Officer. Tess previously held the positions of General Manager – Governance and Legal and Corporate Counsel with Macarthur Coal. In June 2012 Matthew Palmer joined the Company in the new position of General Manager – Surface Infrastructure, with responsibility for design, development and delivery of all surface infrastructure at Springsure Creek including coal handling facilities, rail loop, transport corridors and power and water supplies.

In recognition of the importance of community stakeholders and ensuring responsible environmental management in development of its projects, in June 2012 the Company appointed Rachel Gibson as Manager Community and Environment. Ms Gibson comes to Bandanna with a very successful background in facilitating constructive community and environmental stakeholder interactions, with a genuine interest in and commitment to sensitively and co-operatively working with communities at a local level.

Subsequent to the Reporting Period, Stuart Clarke joined Bandanna in the new position of Chief Development Officer, providing project-focused leadership to the Springsure Creek Project team. Having previously held senior project management and planning roles with Peabody Energy, Roche Mining and BMA, Mr Clarke brings with him a wealth of operational and mine development expertise.

The Company continues to make investments in its people, with additional roles scoped and recruited across many aspects of the business. Our people have, and will continue to, equip Bandanna to positively and collaboratively embrace the challenges in achieving our FY2013 performance milestones.

MANAGING DIRECTOR'S REPORT CONTINUED.

COMMUNITY RELATIONS

Bandanna recognises that it must embrace the changing expectations of its political, community and other stakeholders.

During the Reporting Period the SCL Legislation was enacted, providing the framework for future development of the Springsure Creek Project within strategic cropping land. The Reporting Period also saw Bandanna involved in several key community relation initiatives and support programmes, including:

- undertaking high resolution LIDAR and photometric survey over some 2,318 km^2 which will provide a benchmark of land use and topographic information against which future mining outcomes may be measured;
- completing Cultural Heritage Management Plans with the indigenous Kairi and also with the Karingbal Peoples for their respective traditional lands;
- contributing over $4 million towards a $35 million social program at Gladstone as part of the WICET Stage 1 consortium;
- participating in local community activities and sponsorship of regional events;
- through the acquisition of a strategic parcel of land, establishing protocols to demonstrate both co-existence and sustainability of local agricultural practices and mining operations;
- appointing its first management team member focused on community and environment.

Bandanna is proactively engaging with the community, State and local governments to understand and respond to social, governmental and stakeholder needs. The Company is committed to securing a social licence to operate and to demonstrating its commitment to and the reality of co-existence of mining and agriculture through the Springsure Creek Project.

OUTLOOK

Despite the challenging macro economic conditions, and political environment facing all extractive industries, as outlined in the Chairman's letter, Bandanna maintains a positive view and believes its performance outlook is very strong. The combination of world class greenfield coal resources and fully contracted port and rail infrastructure places Bandanna in a unique position compared with other Australian small coal companies.

Unlocking the value of Bandanna's assets and creating new mining opportunities through development is not an easy process. To develop greenfield projects requires a leadership team with the necessary skills, commitment and entrepreneurial spirit to meet these challenges. I am confident that the talented and experienced team at Bandanna has the drive and skills to overcome these challenges and unlock the full potential of Bandanna's growth story for our shareholders and the communities in which we operate.

"Our people have, and will continue to, equip Bandanna to positively and collaboratively embrace the challenges in achieving our FY2013 performance milestones."

OPERATIONS REVIEW.

COAL TENEMENT PORTFOLIO

Tenement No.	Tenement Name	Geological Setting	Interest
EPC 1048	South Galilee – Tahi	Galilee Basin, Queensland	50
EPC 1049	South Galilee – Rua	Galilee Basin, Queensland	50
EPC 1179	South Galilee – Toru	Galilee Basin, Queensland	50
EPC 1180	South Galilee – Wha	Galilee Basin, Queensland	50
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

RAIL AND PORT

Infrastructure

With a total inventory exceeding 1 billion tonnes of JORC compliant coal Resources and Reserves located within Bandanna's 100% wholly owned Bowen Basin tenements, future development plans are very much predicated on executing appropriate supply chain and infrastructure solutions. As a result of several major milestones achieved during the Reporting Period, Bandanna is uniquely placed as the only ASX listed coal company, transitioning from explorer to producer, that is a part owner and participator in the construction of a new, major, Australian coal export terminal and that has a 4Mtpa supply chain solution.

Separately, significant progress has been made with our Galilee Basin assets. These are reported separately in the tenement report on the South Galilee Coal Project.

Highlights of Bandanna's Bowen Basin based infrastructure progress during the Reporting Period were:

- becoming a 14% owner and securing 4 million tonne per annum (Mtpa), 10 year rolling contract in Stage 1 of Wiggins Island Coal Export Terminal (WICET) following financial close;
- submitting an Expression Of Interest (EOI) for 5 Mtpa in the proposed Stage 2 Expansion of WICET (WEXP2);
- acquiring a further 6 Mtpa nominated annual tonnage under the Feasibility Funding Facility Agreement (FFFA), providing an aggregate of 8 Mtpa nominated priority annual tonnage for future WICET expansions;
- submitting an EOI for future participation in development plans for the proposed Dudgeon Point terminal near Mackay;
- contracting with QR National on the Wiggins Island Rail Project (WIRP) for the upgrade of the Blackwater corridor to facilitate a 4 Mtpa below rail access agreement;
- contracting with Pacific National for a 4 Mtpa rail haulage agreement;
- contracting with Acacia Coal for development of the Triumph Creek coal train loadout and rail balloon loop facility on Acacia's EPC 1230, adjacent to the Bauhinia rail corridor.

About WICET (Wiggins Island Coal Export Terminal)

Wiggins Island Coal Export Terminal (WICET) is a new coal export terminal situated at Golding Point, immediately west of the existing RG Tanna Coal Terminal in Gladstone Harbour. This important coal transport infrastructure, of which Bandanna owns 14% of Stage 1, will form part of the existing Port of Gladstone. Currently WICET is to be developed in a number of stages. Stage 1 involves the initial build of 27 Mtpa of capacity. Expansion Stage 1 (WEXP1) will involve increasing capacity to 59 Mtpa (2015-2016) and WEXP2 will involve an increase to nominally 84 Mtpa (2017). Preferred proponents for WEXP1 were notified in June 2012 and the composition confirmed the emphasis for WEXP1 on Surat Basin sourced mines, to be connected to Gladstone through the construction of the new 274 km Surat Basin Rail "southern missing link" project. Potential users of the next stage – WEXP2 – will be identified in late 2012 and early 2013 with preferred candidates notified in the second quarter of 2013. Bandanna has a priority capacity request under the FFFA and has nominated a 5 Mtpa EOI for WEXP2.

Photo courtesy of Wiggins Island Coal Export Terminal

Photo courtesy of Pacific National

Photo courtesy of Pacific National

OPERATIONS
REVIEW CONTINUED.

Photo courtesy of Wiggins Island Coal Export Terminal

WICET has the combined support of the Queensland Government, Gladstone Ports Corporation and other infrastructure providers to deliver the terminal using an industry-owned and privately funded consortium structure.

Construction of WICET Stage 1 commenced in December 2011 and is expected to be completed to enable first exports during the second half of 2014.

Stage 1 construction involves:

- a rail receival facility designed to handle 7600 tonnes per hour;
- a 5.5 km long overland conveyor;
- stockyard area for 1.9 million tonnes of coal;
- materials handling and sampling systems feeding the 2 km long jetty conveyor;
- single berth with a travelling ship loader to fill ships at 8,250 tonnes per hour;
- channels and wharf to accept a range of vessels from 40,000dwt to 220,000dwt;
- 132kV substation, access roads, workshops, administration offices and amenities.

Construction for WICET Stage 1 has been largely project financed through a consortium of international banks. Bandanna has fully funded all of its obligations to the port, having provided a bank guarantee for $52 million under the take or pay agreement, and contributing its pro-rata share (totalling $41 million) of a total preference equity of $275 million – which is funded by all Stage 1 proponents. These are the only user funding components for the project and Bandanna is not required to make any further capital contributions for the budgeted construction costs.

In addition to Bandanna lodging an expression of interest for 5 Mtpa in WEXP2, as announced on 12 July 2011, Bandanna acquired a further 6 Mtpa of nominated annual tonnage under the FFFA from a third party. Together with its existing 2 Mtpa existing nominated annual tonnage, this significantly improves Bandanna's position in securing allocations in future WICET expansion stages through existing prioritisation arrangements.

Future Infrastructure Options

In addition to having lodged expressions of interests for participation in subsequent stages of WICET expansion, Bandanna is seeking potential participation and access through other proposed Queensland port developments.

During the Reporting Period, Bandanna commenced discussion with Dudgeon Point Project Management regarding participation in a feasibility study of the proposed Dudgeon Point Project south of Mackay. In April 2012 Deputy Premier and Minister for State Development, Infrastructure and Planning, Jeff Seeney, invited the public to comment on the draft terms of reference for the proposed $10 billion Dudgeon Point Coal Terminal project. North Queensland Bulk Ports Corporation, and a consortium including Adani Mining and Dudgeon Point Project Management, is proposing to build the terminals near the Port of Hay Point, 25 km south of Mackay. If constructed, the terminals will have a full capacity of more than 90 Mtpa. These proposed port developments lie only about 50 – 60 km more distant than Gladstone's WICET terminal to Bandanna's principal Bowen Basin mine development projects. Importantly, these proposed ports already have connecting QRN rail links via the Bauhinia rail line and Goonyella rail system. Bandanna will also participate in a prefeasibility study

of the Goonyella rail corridor expansion to align potential rail upgrades with this new Dudgeon Point port capacity.

Bandanna has held preliminary discussions with other new proposed greenfield ports regarding participation in feasibility studies and is also investigating alternative options with a view to securing long term port capacity beyond its currently contracted 4 Mtpa WICET Stage 1 capacity.

Rail

In readiness for the commissioning of WICET Stage 1, three major milestones were achieved during the Reporting Period; relating to below rail access, a rail haulage contract and development and operating agreements for the Triumph Creek train loadout facility.

Rail Access

In September 2011 Bandanna, together with the other seven Stage 1 WICET proponents, reached commercial agreement with QR National Limited's wholly owned subsidiary, QR Network Pty Ltd, to proceed with construction of the Wiggins Island Rail Project (WIRP). Under the terms of the WIRP Deed, QR Network will spend over $900 million on upgrades, principally of the Blackwater rail corridor in order to facilitate the delivery of 27 Mtpa of coal for WICET Stage 1. This is one of the largest rail expansions in Australia and will provide about a 30% increase in the tonnes transported from the Southern Bowen Basin coal region. The upgrades include the construction of a 13 km balloon loop near Gladstone, upgrades to sections of the North Coast line, the Moura System and the Bauhinia branch line, as well as duplication of sections of track along the Blackwater system. Construction started in early 2012 and will 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 rail corridor connecting its source mine to WICET. The arrangements provide for commercial returns on the rail infrastructure and were subject to the approval of the Queensland Competition Authority. That approval was provided and announced on 28 May 2012.

Rail Haulage

On 23 February 2012, Bandanna announced that through its wholly owned subsidiary, Springsure Creek Coal Pty Ltd, it had awarded a contract to Asciano's Pacific National for the haulage of 4 Mtpa of coal from the Springsure Creek project to WICET for up to 15 years from mid 2014.

Triumph Creek Train Loadout Facility

During the Reporting Period, Bandanna entered into a binding agreement with Acacia Coal Limited in relation to access to its tenement (EPC1230) for the construction of coal train loadout and rail balloon loop spur, and related transport infrastructure. In return for Acacia's consent to Bandanna's transportation and infrastructure mining lease applications over EPC 1230, Bandanna has agreed to share train loadout infrastructure and provide Acacia with at least 1 Mtpa priority access. On 12 September 2012 Bandanna announced that it had finalised with Acacia Coal the development and operating agreements for the Triumph Creek multi-user train loadout facility.

Bandanna now has a contractual right to establish a coal train loadout access point within EPC 1230 immediately adjacent to the Bauhinia rail line connecting to the Blackwater rail corridor and WICET facilities, to support its Springsure Creek Project through to full production.

OPERATIONS REVIEW CONTINUED.

COAL MARKETS AND DEMAND

Despite current short term weakness in global coal markets, Bandanna remains focused on medium and long term forecasts which indicate significant demand growth from 2015 to 2030, with a consequent increase in price due to the lack of new supply coming to market in that period.

Since Bandanna's 2011 Annual Report, there has seen significant volatility in global coal markets. In particular, in the last six months there have been substantial falls in the thermal and coking coal prices. Analysts have cited these falls as a consequence of a variety of factors, including:

- continued distressed global macro economic conditions resulting in a lower global demand for energy;
- increased development of low cost shale gas extraction in the US energy market resulting in reduced domestic coal consumption and increased export of coal;
- low seaborne freight rates enabling excess coal supply from the depressed Atlantic market to enter the relatively stronger Pacific market.

These interrelated trends of excess supply and reduced demand has seen sharp falls in received prices. Most forecasters predict this will be a relatively short term effect as a return to growth in energy consumption will result in this surplus supply being consumed during the short term. In addition, a return to commodity demand growth will increase freight rates and significantly reduce the ability for Atlantic basin coal to enter the Pacific market.

Key to recovery of Pacific Basin coal prices will be the growth of import demand from China and India. Continued economic growth in both countries, even if at levels below that of the last ten years, will result in significant increases in energy consumption in both countries. Whilst it is likely that this growth in energy demand will be met from an increased variety of energy types, forecasters predict that the growth in demand for coal will exceed the growth in both oil and gas throughout this period (Figure 1).

Whilst both India and China do possess significant coal production, increased consumption means the percentage self sufficiency of coal supply for both countries is predicted to continue to decline through to 2030, the shortfall having to be made up by imports, principally from Indonesia and Australia in the case of Thermal coal. Coking coal demand (to which PCI coal from Dingo West is market linked) remains very sensitive to steel manufacturing output which will take the lead in growth and recovery of the economies of China, Japan, South Korea and Taiwan.

FIGURE 1: Global energy demand by fuel type (Ktoe)

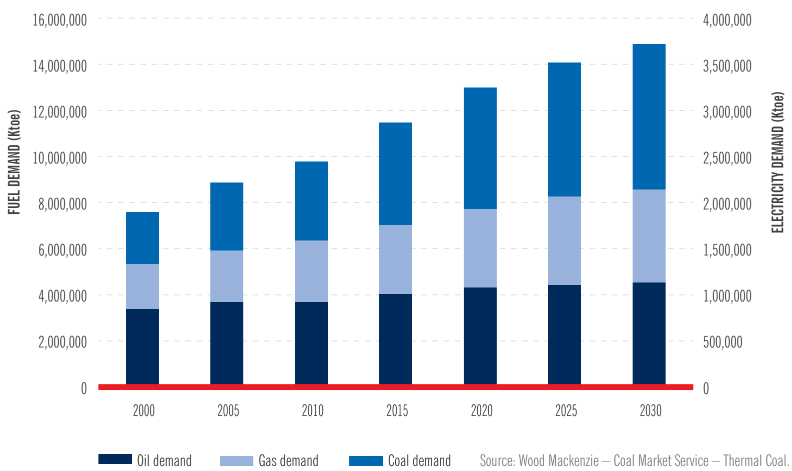
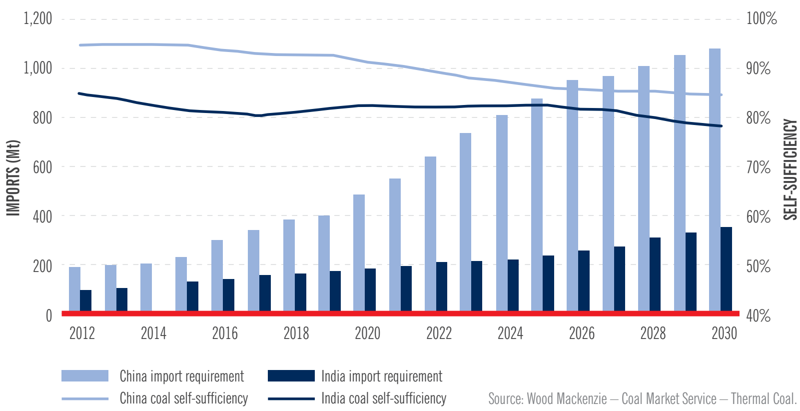


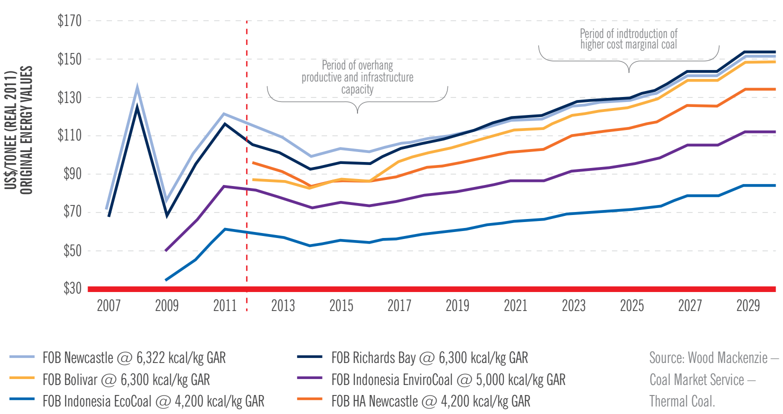
FIGURE 2: China and India Coal Self-sufficiency



OPERATIONS REVIEW CONTINUED.

Both Indian and Chinese economies are likely to rebound quickly as a result of a general recovery in the global economy. In response to resulting increased demand for power, Wood Mackenzie has estimated that total coal imports by both countries will increase from around 300 Mtpa to around 500 Mtpa by 2017 (Figure 2) and to over 1,300 Mtpa by 2030.

FIGURE 3: FOB Prices (Real 2011 US$/t)



In contrast to this forecast growth in demand from 2015-30, many analysts are predicting reduced growth in new supply in most key producer countries. The reasons for the lack of growth in new supply include:

- increased cost of production (all jurisdictions);
- declining coal quality (Indonesia);
- ongoing constraints and delays in the development of infrastructure (Mozambique and Australia).

As a result of this imbalance in demand and supply growth and because of its secure infrastructure position, Bandanna expects to come into production in a period of higher demand and limited new supply. As a result, forecasters are predicting relatively constant recovery and price escalation at least through until 2030 (Figure 3).

As part of its planning for first production in the second half of 2014, Bandanna has commenced introductory discussions with customers in relation to purchase of coal from both its Springsure Creek project. These discussions with leading electricity generators in China, Korea, Japan, Taiwan and South-East Asian markets confirm the forecast view for strong market demand for high quality and reliable supply of Thermal coal from 2015 onwards.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OPERATIONS REVIEW CONTINUED.

SPRINGSURE CREEK PROJECT

Milestones achieved during the Reporting Period:

- significant JORC compliant Resource upgrade; now exceeding 500 million tonnes;
- contracted with QR National on the Wiggins Island Rail Project (WIRP) for the upgrade of the Blackwater corridor to facilitate a 4 Mtpa, below rail, access agreement;
- contracted with Pacific National for a 4 Mtpa, above rail, haulage agreement;
- agreements with Acacia Coal for location of the Triumph Creek coal train loadout and rail balloon loop facility;
- priority for further port capacity to facilitate future longwall expansion;
- acquisition of strategic land holding covering approximately the first seven years of planned production;
- EIS process well advanced, draft due for public release following completion of the DFS in the December 2012 quarter;
- draft consultants' reports forming part of the DFS on schedule for completion by the end of September 2012, with finalisation of the DFS report by the Company in October 2012 following independent and internal peer review of the reports;
- Cultural Heritage Management Plans (CHMP) in place with the indigenous Kairi and Karingal Peoples for their respective traditional lands.

Key attractions of the Springsure Creek Project:

- high energy, high quality Thermal coal from resources well understood and well accepted by leading Asian power generators;
- low ash, low sulphur, ROM product not requiring washing;
- underground operation involving minimal surface footprint and disturbance;
- only major Queensland Thermal coal project with a "pit to port" supply chain solution;
- project assessment under transitional arrangements of SCL Legislation;
- first scheduled coal production in the second half of 2014 to coincide with WICET Stage 1;
- substantial resource with capacity for upgrade to second long-wall to produce up to 11 Mtpa of ROM coal.

Springsure Creek – EPC 891

Springsure Creek is Bandanna's major development project in the Bowen Basin. It is 100% held by Springsure Creek Coal Pty Ltd, a wholly owned subsidiary of Bandanna. EPC 891 covers an area of 462 km^2 and is located some 40 km south of Emerald and 60 km southwest of Blackwater. To the south and west it abuts the Arcturus tenement (EPC 1221) and 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 Xstrata's Rolleston mine) to the east.

The principal target is the Aries 2 seam which occurs within the tenement at shallow depths (250 m to 350 m) along a number of anticlines, including the Springton Anticline. The thickness of the Aries 2 Seam averages approximately 3.3 m. Exploration drilling and seismic survey analyses suggest that the resource areas of the Springton Anticline are structurally benign with lateral coal continuity and thickness conducive for longwall development. Coal quality data for the Aries 2 Seam suggests a raw coal ash content of around 10%, sulphur content of 0.25% and calorific values of 6310 kcal/kg (adb). These favourable specifications provide scope for Run of Mine (ROM) raw coal to be sold as a raw Thermal product with no requirement for wash beneficiation.

Springsure Creek continued to be the focus of a very active drilling campaign during the Reporting Period. Between July 2011 and June 2012, a total of 60 new holes were completed, totalling 17,173 metres, and including 6,252 metres of core. Another wet summer, and continued unseasonal intermittent wet periods subsequently, resulted in soft soil conditions that materially restricted the drilling program in the first half of 2012.

Nevertheless, the new drilling has allowed the Company to provide a number of Reserve and Resource upgrades, the most recent on 3 August 2012. As outlined in the Subsequent Events section of the Directors' Report, this upgrade establishes the total JORC compliant Resource at 547.3 Mt. This includes a Maiden Measured Resource of 52.8 Mt, and Indicated Resource of 222.3 Mt and an Inferred Resource of 219.0 Mt for the Aries 2 Seam. A further 49.6 Mt of Inferred Resource is now

identified in the underlying Castor and Aries 3 seams. In due course these new Resource estimates will provide the basis for further Reserve upgrades which at present are based on an historical JORC compliant Resource statement of July 2011. On 26 April 2012 Bandanna announced that the JORC compliant marketable Reserve at Springsure Creek had increased from 102.6 Mt to 153.5 Mt, derived from JORC compliant Probable Reserves of 161.6 Mt.

In addition to enhanced Reserve and Resource inventory, recent large diameter, 200 mm, drilling has confirmed that the target A2 seam sits on a solid sandstone floor and has a competent ceiling. Subsequent to the Reporting Period, the Company advised that a large diameter core delivered to the surface penetrated a solid Aries 2 Seam, of ~3.35 m thickness, with no structural indications other than the occasional bedding plane. Gas readings indicating low gas content and a consistent seam thickness supports anticipated better than average longwall production rates. Lower than usual gas contents will provide advantages for future carbon emissions scheme imposts and will not necessitate costly pre-drainage.

Following receipt of the Final Terms of Reference for the EIS in June 2011, substantial progress has been made on the Draft Environmental Impact Statement (EIS). During the Reporting Period this has included field assessments, community consultation, fauna and flora surveys and air and noise monitoring. The Draft EIS will be completed during the December quarter 2012, when it will be released for public consultation.

During the Reporting Period, significant progress was also made on the Definitive Feasibility Study (DFS) for the Springsure Creek Project. This work included:

- route alignment and assessment for the proposed transport corridor from the proposed Springsure Creek mining lease to the Triumph Creek train loadout facility;
- ongoing landowner engagement;
- equipment assessment and site selection for drift and underground development;
- design, selection and procurement of long lead-in equipment items;
- finalisation of the mining infrastructure area design and layout;
- identification of proposed site for project accommodation village;
- detailed design of coal handling infrastructure and rail loadout facilities;
- finalisation of design and negotiations for connection and construction of power to mine and rail loadout facility.

The Springsure Creek Project is proposed to be developed as an underground longwall operation with a conventional mining extraction process.

Progress was made to implement a co-existence strategy with landowners, occupiers, indigenous, and other stakeholders across the project area during the Reporting Period. The Company announced that it had signed Cultural Heritage Management Plans (CHMP) with the indigenous Kairi and Karingal Peoples for their respective traditional lands.

Key to Bandanna's co-existence strategy will be observance of the Queensland Government's new SCL Legislation through which Springsure Creek will be assessed under the transitional arrangements. This is but one of a raft of issues and initiatives identified within Bandanna's Social Impact Management Plan (Refer to the section on Positioning for Growth). Specific key Springsure Creek Project initiatives undertaken during the Reporting Period included:

OPERATIONS
REVIEW CONTINUED.

- completion of a 2,381 km^2 aerial laser scanning and photometric survey conducted over portions of Springsure Creek and adjoining tenements to provide base line topographic and land use information. The topographic detail will provide vertical resolution of approximately +/-20 cm. This survey has provided a state-of-the-art data base against which any future mining outcomes can be benchmarked and future management activities can be measured;
- acquisition of an agricultural property within the Springsure Creek (EPC 891) area. The property has been leased back by Bandanna to the former owners. This is a strategic acquisition, with Bandanna committed to enhancing existing farm management practices and crop yields as part of a long term practical demonstration that the co-existence of agricultural operations and mining practices can succeed.

During the Reporting Period the Queensland Government passed the SCL Legislation and, together with accompanying regulations, the SCL Legislation came into force on 30 January 2012. EPC 891 has been included in the transitional arrangements under the SCL Legislation.

During the Reporting Period the Company lodged MLA 70461, covering the northern portion of EPC 891 tenement. On 5 June 2012, after rejection of MLA 70461, Bandanna announced its intention to submit a replacement mining lease application for the Springsure Creek Project to address both technical errors identified in the former MLA 70461, and concerns raised by some members of the local community. The overall approvals timeline is governed by the assessment process for the EIS, so the timing of the lodgement of the replacement MLA will not impact on the timetable for development of the Springsure Creek Project for first production in the second half of 2014. The Company expects to submit the replacement MLA in late 2012.

In consultation with community members, the Central Highlands Regional Council and the Queensland Government, opportunities have been taken to reduce the size and extent of the MLA and revise the layout and design of the proposed mine plan.

OPERATIONS
REVIEW CONTINUED.

DINGO WEST PROJECT – EPC 881

Milestones achieved during the Reporting Period:

- MLA lodged;
- feasibility study completed;
- government approval for EIS to progress as a controlled activity under EPBC Act;
- public review of Draft Terms of Reference for EIS completed;
- over 14,000 m of drilling undertaken as part of optimising future mine development;
- DFS underway involving mine design of up to three or more satellite open-cut pits with total production capacity of up to 1.4 Mtpa of ROM coal.

Key attractions of the Dingo West Project:

- resource is a PCI/high quality Thermal coal with potential for a coking product;
- when developed, closest operating mine located on the Blackwater – Gladstone rail corridor to export ports;
- relatively low capital mine development costs using contract operators;
- similar geologic setting and same coal measure targets as in nearby operating Jellinbah, Yarrabee and Curragh coal mines;
- total open cut JORC compliant Resource of 91 Mt.

Dingo West's strategic location close to existing infrastructure, its PCI potential and low capital cost open-pit operation make it a compelling project for development. The Dingo West Coal Tenement (EPC 881) is 100% owned and operated by Bandanna through wholly-owned subsidiary Dingo West Coal Pty Ltd.

With the main Blackwater – Gladstone rail line and Capricorn Highway traversing the northern part of the tenement, Dingo West is strategically positioned with respect to existing infrastructure. By rail, Gladstone Port lies 250 km to the east and the project area lies approximately 40 km closer to this port facility than any existing operating mines situated along the Blackwater corridor.

During the Reporting Period, Dingo West Coal Pty Ltd submitted an MLA. This MLA covers the southern section of EPC 881, below the Capricorn Highway and Blackwater Rail corridor with provision for a rail loadout loop on the northern side of the rail corridor.

During the Reporting Period it was agreed that the Dingo West Project should proceed in accordance with the *Environment Protection and Biodiversity Conservation Act 1999* (Cth) (EPBC Act) as a controlled action. Whilst this will take longer to complete than the originally envisaged Environmental Management Plan (EMP), the appropriate studies are well advanced and should not result in any significant deviation from the critical path timetable previously contemplated. Draft Terms of Reference for the EIS were released for public comment from 8 December 2011 until 8 February 2012. A total of 11 submissions (8 from government agencies, 2 from non-government organisations and 1 on behalf of a landowner) were received. During the Reporting Period Bandanna worked on finalising the Terms of Reference to address issues raised in these submissions, and considerable impact assessment work was undertaken to expedite completion of a draft EIS for the project.

Significant progress has been made on the DFS during the Reporting Period. The DFS is due for completion during the first quarter 2013. 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, are being evaluated as part of this study. A detailed rail loop design and infrastructure study was initiated during the Reporting Period.

From a field activity viewpoint EPC 881 has been the site of an active drilling campaign during the Reporting Period. Some 13,383 metres of drilling, consisting of a total of 108 bore holes and 3,438 m of drilling consisting of a total of 87 cored drill holes, were completed as part of a program aimed at defining Resource and Reserve estimates within the potential open-cut pit areas. Independent assessment of the Resource and Reserve estimates in the specific potential pit locations, for inclusion in the DFS, is being conducted. In a prior reporting period, Bandanna had announced a JORC compliant Inferred Resource of 91 Mt for EPC 881, based on a cut-off of less than 12:1 strip ratio.

The primary exploration target is the Rangal Coal Measures and in particular the Aries, Castor, Pollux, Orion and Pisces seams. Typically within the potential satellite pit areas multiple seams have cumulative thicknesses ranging generally between 3.5 and 4.5 m but with some sections to 10 m. Studies have highlighted the presence of extensive faulting and folding making it difficult to delineate and correlate individual coal seams over significant lateral distances. As a consequence, close drill patterns, together with seismic coverage, are required to establish the necessary geological and resource confidence levels. Although complex, Dingo West's geological setting is very similar to nearby operating mines, notably Jellinbah, Yarrabee and Curragh, giving confidence to this tenement's ability to also host commercial coal deposits.

The coal quality data indicates a potential PCI/thermal product. The ash content of a potential raw thermal product varies from 10.2 – 15.4% (adb), sulphur ranges between 0.47 – 0.99%, volatile matter 13 – 15% and typically the coal has a very high specific energy of 7,135 – 7,350 kcal/kg. Such coals are in high demand by steel consumers and garner significant premiums over and above benchmark prices for Thermal coal. In some bore holes, sections of 2.3 m thickness have raw swells from 5 – 9 HGI.

Depending upon the ultimate mine development plan, product coal output is expected to be at least some 500,000 tonnes, up to a maximum of 1,000,000 tonnes, per annum. Such quantities are small enough that it may be supported by ad hoc access to port and rail facilities. A contract mining operation is contemplated for the operation of this mine.

Given the relatively small scale of probable mining operations, development can be fast-tracked with first coal produced for export by mid 2014.

OPERATIONS REVIEW CONTINUED.

SOUTH GALILEE COAL PROJECT – EPCS 1048, 1049, 1179 & 1180

Milestones achieved during the Reporting Period:

- AMCI exercised its right to earn 50% participating interest;
- maiden open-cut JORC compliant Reserve of 274 Mt;
- EIS process advancing as a controlled activity under EPBC Act;
- Native Title agreement reached with Wangan and Jagalingou indigenous peoples;
- Government clarification on rail policy.

Key attractions of the South Galilee Coal Project:

- significant JORC compliant inventory, exceeding 1,400 Mt;
- project declared to be of state significance, facilitating an approvals process managed by the Co-ordinator General;
- prefeasibility study (PFS) indicates mine life to exceed 30 years with 13 – 15 Mtpa average production;
- PFS financial analysis concluded that the project was strongly NPV positive;
- staged mine development, initially low strip ratio open-cut;
- advanced approvals process;
- strategically positioned to co-develop with other key stakeholders.

The South Galilee Coal Project (SGCP) covers EPC 1048, EPC 1049, EPC 1179, and EPC 1180. In May 2011 MLA 70453 covering the northern portion of EPC 1049 was lodged – coincident with an area the subject of a February 2011 Resource Statement.

Bandanna holds a 50% interest through its wholly owned subsidiary Alpha Coal Pty Ltd.

During the Reporting Period AMCI (Alpha) Pty Ltd (AMCI) exercised its right to earn a 50% participating interest in the SGCP Joint Venture. Under the terms of the Farm-In and Joint Venture Agreement between Alpha Coal Pty Ltd and AMCI & AMCIC Stropdas Holding B.V (AMCI), AMCI was entitled to earn up to a 50% participating interest 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 SGCPJV of $8.188 million in order that it could acquire its full 50% stake. The contribution by AMCI to the joint venture account is being used to fund ongoing activities on behalf of the SGCPJV participants. As a result of the farm-in by AMCI, Alpha Coal Management Pty Ltd, a wholly owned subsidiary of AMCI (Alpha) Pty Ltd, now manages the SGCPJV.

SGCP is located approximately 170 km west of Emerald. The Longreach – Rockhampton rail line and Capricorn Highway are conveniently located at the northernmost extent of the SGCP tenements. It lies adjacent to the Waratah Coal Resource House “China First” Project, and south of GVK and Hancock Prospecting’s Kevin’s Corner and Alpha projects which are located, in turn, south of the Adani, Meijing and Vale projects. Bandanna is the only ASX-listed entity with a coal development project in this newly emerging, world class, Thermal coal province to have completed a PFS.

Exploration in the SGCP has targeted up to three individual coal seams, each lying within the Bandanna Formation. The geological setting 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 which lie at depths consistent with commercial exploitation by both shallow open-cut and underground operations.

The PFS, completed in April 2011, indicated a mine plan development supporting an average production rate of 15.2 Mtpa of raw coal, yielding 13.6 Mtpa of product coal (peaking at 16.6 Mtpa of product coal), via the establishment of both open-cut and longwall operations for an overall 33 year mine life. This development will involve modest expansion of existing, typical Australian mining methods. Mine plan development is conceived in three discrete stages, each involving approximately 5 Mtpa of incremental production. Progressive, staged, development of operations will best mitigate infrastructure timing and operation risks as well as spread capital expenditure over a number of years. Major stages of mine development would require third party access to the railway link that is proposed to be built to the Abbot Point by GVK. An additional, initial, 1 Mtpa operation utilising existing supply chain infrastructure to export via Gladstone, was also considered especially to gain shorter term cash flow advantage from development coal product and enable testing of coal with priority customers.

Drilling has identified the SGCP as containing a significant Reserve and Resource inventory. A coal Resource Statement released in February 2011 identified 1.179 billion tonnes of JORC Code compliant Resource including 206.2 Mt of Indicated Resource and 166.6 Mt of Measured Resource. Based on the February 2011 Resource Statement and data provided in the PFS completed in April 2011, a maiden open cut Reserve Statement of 274 Mt of Reserve was released on 31 January 2012, comprising 132.3 Mt of Proven Reserve and 141.7 Mt of Probable Reserve. This Reserve Statement was based only on the intersected D1 and D2 seams and exclusive of shallower, inferior quality A and B seams. The PFS coal quality work suggested a thermal coal product with a preferred specification of 5,615 kcal/gar.

Drilling during the Reporting Period has been hampered by unseasonal rains. Emphasis has been on further geotechnical and resource delineation within the proposed open-cut areas, as well as environmental, infrastructure, native title and cultural heritage programs. More than $8 million was expended by the SGCPJV during the Reporting Period. The drilling effort included 27 bore holes, of which 20 were partly cored holes, plus 4 large diameter auger holes for a total of 2,965 metres. The gathered information is being used for underground and open cut mine design, hydrogeological studies, overburden geotechnical characterisation work, washability test work, and additional infill resource delineation.

During the Reporting Period the SGCPJV received consent of the Wangan and Jagalingou People (W & J Peoples) for all approvals needed to develop the SGCP and infrastructure corridor, and entered into a Cultural Heritage Management Plan Agreement with the W & J Peoples.

Infrastructure – Rail

The Galilee Basin contains a globally significant quantity of Thermal coal. With no current coal production, unlocking the potential of the Galilee Basin will ultimately depend upon major infrastructure solutions. As the vast majority of the coal will be destined for overseas markets, this will require the construction of major rail connections to existing, new, or expanded port facilities. In this regard, the newly elected Queensland Government announced its rail policy for the Galilee Basin. On 6 June 2012 the Queensland Government announced a two rail corridors policy to service new and existing coal mines in both the Galilee and Bowen basins.

Firstly, an east-west corridor will see an extension of the existing QR National network from near Moranbah to the central Galilee Basin providing links to coal ports at Abbot Point, Dalrymple Bay and Dudgeon Point. This will underpin developments of the proposed Adani owned mines. Secondly, a 500 km north-south standard gauge rail corridor will be defined along the proposed GVK-Hancock Coal alignment to facilitate the construction of new heavy duty standard gauge rail. The SGCPJV strongly supports the decision by Government. The SGCPJV is in ongoing discussions with GVK-Hancock regarding third party access to its proposed corridor and is confident of reaching a mutual beneficial arrangement.

The Queensland Government supports the potential upgrade of the existing rail line from Alpha to Emerald – thus providing the option for initial development coal from the SGCP via the existing QR rail corridor to ports at Gladstone. Potentially, this represents a strategic opening for early production of coal and revenue for the SGCP Joint Venture during what is otherwise envisaged to be a lengthy production ramp up period for the largest of the basin's mines following completion of the north-south standard gauge corridor to Abbot Point.

Infrastructure – Port

Development and expansion of port facilities at Abbot Point Coal Terminal are key to the future development of the Galilee Basin's vast coal resources.

Whilst there is an existing rail corridor from Alpha to Gladstone, the quantities of coal to be exported from the Galilee Basin vastly exceed any capacity that could utilise this existing rail corridor. Moreover, existing and proposed expansions in Gladstone Harbour capacity will only be sufficient to meet the demands of future Surat and Bowen basin mine developments.

Following the shelving of T4-T9 expansion plans for Abbot Point Coal Terminal late in the Reporting Period, the SGCPJV is now negotiating with the Queensland Government for priority access to future capacity at Abbot Point. Clarity regarding the Government's plan for expansion and allocation of capacity at Abbot Point is expected in late 2012. Due to the advanced progress of the SGCP, the SGCPJV is confident that it is well positioned to obtain allocation in this process.

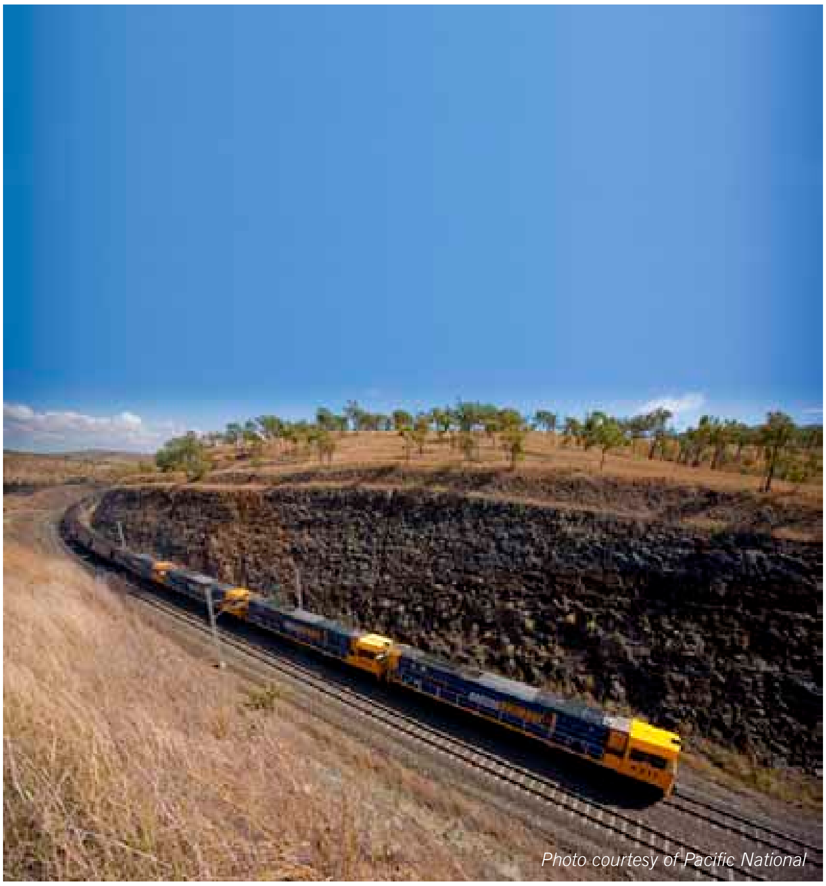


Photo courtesy of Pacific National

OPERATIONS
REVIEW CONTINUED.

EXPLORATION TENEMENTS

ARCADIA EPC 1742

Bandanna's Interests	100% interest through Bandanna's wholly owned subsidiary Arcadia Coal Pty Ltd.
Location	Located in the Bowen Basin, approximately 4 km south of Rolleston where it is bound to the north and east by the Dawson Highway. Land use is mainly beef cattle production with some mixed dry land cropping.
Coal Type & JORC Status	Excellent quality Thermal coal as well as potential for semi-washed coking coal. Has an inherent moisture content of approximately 4.5%, ash content of 12%, sulphur content of 0.33% and calorific value of some 6600 kcal/kg (on ADB basis). JORC compliant Resource is 273 Mt on an Inferred basis. Target coals are the Aries seams, particularly the A2 Seam for underground extraction from depths below approximately 210 m. These are correlated with the Rangal Coal Measure seams which provide production coal in surrounding regional mines. The Aries 2 Seam has penetrated thicknesses of 1.35 m to 4 m with an average of 2.5 m.
Operational Activities	As part of establishing a state-of-the-art database for future assessment of potential strategic cropping land, a regional 2,381 km^2 laser levelling and photometric aerial survey was partially conducted over portions of the tenement during the Reporting Period. This will provide base line topographic and land use information. The topographic detail will provide vertical resolution to approximately +/-20 cm. Arcadia is seen as having the potential to develop into an underground mine of at least 8 or 9 Mtpa of product coal. Previous drilling has concentrated on the Purbrook Anticline, one of two major anticlines within the tenement. A conceptual mining study involving the design of a single underground longwall has been investigated. During the Reporting Period 34 sub-blocks were relinquished as part of the statutory relinquishment program. The relinquished sub-blocks have no impact on the existing resource inventory.
Project Status	Currently at exploration stage; completed conceptual study involving the design of a single underground longwall with a significant JORC compliant Resource.
Access to Infrastructure	Strategically located with respect to existing rail infrastructure, being situated only 19 km from the Bauhinia rail corridor (servicing the Rolleston Mine). Total rail distance to the Port of Gladstone is approximately 430 km.

ARCTURUS EPC 1221

Bandanna's Interests	100% interest through Bandanna's wholly owned subsidiary Springsure Creek Coal Pty Ltd.
Location	Approximately 35 km southeast of Emerald and 15 km northeast of Springsure in the Bowen Basin. The tenement is bound to the north by the Capricorn Highway and to the west by the Dawson Highway. Land use is a mix of dry land cropping and beef cattle production.
Coal Type & JORC Status	Thermal coal. JORC compliant Resource now 206.3 Mt, comprising 102.6 Mt of Indicated Resource and 103.7 Mt of Inferred Resource. In addition 44.3 Mt of (marketable) Probable Resource has been delineated. Target coals are the Aries, Castor, Pollux and Orion seams which are correlated with the Rangal Coal Measures providing production coal in surrounding regional mines.
Operational Activities	As part of establishing a state-of-the-art database for future assessment of potential strategic cropping land, a 2,381 km^2 laser levelling and photometric aerial survey was partially conducted over portions of this tenement during the Reporting Period. This will provide base line topographic and land use information. The topographic detail will provide vertical resolution to approximately +/-20 cm. Cultural Heritage Management Plans (CHMP) in place with the indigenous Kairi People and the Karingal People for their respective traditional lands. Previous drilling has defined the potential for open-cut and an underground longwall mining combination. Exploration activities have focused on environmental assessments and refinement of potential mine plans, especially the reduction of open-cut footprints, in response to the approval process being subject to SCL Legislation.
Project Status	Feasibility Study completed in April 2011 and Final Terms of Reference for an EIS received in June 2011. As a consequence of the SCL Legislation, further work on the Arcturus Project has been put on hold. The Company is focusing on development of the Springsure Creek Project and in particular the demonstration of the Company's strategy for co-existence of mining and agriculture.
Access to Infrastructure	Strategically located with respect to existing infrastructure, including the Springsure rail corridor (servicing the Minerva Mine) to the west and the Bauhinia raid corridor (servicing the Rolleston Mine) to the east. Future development may have an opportunity to leverage off any adjacent Springsure Creek infrastructure, particularly for water, power and transport corridor.

OPERATIONS REVIEW CONTINUED.

EXPLORATION TENEMENTS

CARNARVON EPC 1189 & CARNARVON SOUTH EPC 1195

Bandanna's Interests	100% interest through Bandanna's wholly owned subsidiary Carnarvon Coal Pty Ltd.
Location	Located in the southern Bowen Basin, approximately 100 km south of the township of Rolleston. Mainly unimproved lands with some beef cattle grazing.
Coal Type & JORC Status	No coal drilling activities have been conducted in either tenement. However, based on regional geology, both tenements are considered to have potential for hosting thermal coal within the Bandanna Formation – at depths that may be compatible for shallow open-cut or underground mining operations. There is also potential that the overlying Surat Basin Jurassic aged sequences may contain coal.
Operational Activities	Field studies were conducted during the Reporting Period in order to confirm likely subsurface geological structuring, based on outcrop mapping and historical bore hole information. These were used to revise previous desktop studies as part of formulating future exploratory drilling strategy to be undertaken in the next reporting period.
Project Status	Both tenements are in the early exploration stages. 15 sub-blocks within EPC 1189 will be relinquished as part of the Government's routine relinquishment requirements.
Access to Infrastructure	Both tenements are located relatively remote to either Bowen Basin or Surat Basin infrastructure. Future supply chain development might utilise either the Surat Basin rail corridor, through Moura, or the Bauhinia and Blackwater corridors to connect with export port facilities at Gladstone.

DENISON EPC 1140

Bandanna's Interests	100% interest through Bandanna's wholly owned subsidiary Springsure Creek Coal Pty Ltd.
Location	Located in the Bowen Basin, the tenement is situated approximately 17 km south-southeast of Emerald. Land use is mainly irrigated and dry land cropping and some beef cattle grazing.
Coal Type & JORC Status	Thermal coals of the Rangal Coal Measures – similar to those identified in Bandanna's surrounding tenements. To date no JORC compliant Resources or Reserves have been identified.
Operational Activities	No field exploration activities were undertaken during the Reporting Period. A hole drilled during the last reporting period made 11 coal intersections between 219 m and 251 m, however, none had thicknesses of more than 0.5 m.
Project Status	Currently at an early exploration stage with no defined Resource or Reserves.
Access to Infrastructure	The proximity of the Springsure rail corridor, only 4 km to the west of the tenement, ideally places it with respect to future supply chain connections with Gladstone port, via the Blackwater rail corridor. Lying relatively close to the regional centre of Emerald, Denison is also well positioned with respect to necessary infrastructure as well as a skilled mining work force required for any future mine development.

FERNLEE EPC 1103

Bandanna's Interests	100% interest through Bandanna's wholly owned subsidiary Fernlee Coal Pty Ltd.
Location	Located in the Bowen Basin, the tenement is situated approximately between 25 km and 40 km south of Emerald.
Coal Type & JORC Status	Thermal coals of the Rangal Coal Measures as identified in coal bores drilled within the tenement as well as in those located in surrounding tenements. To date no JORC compliant Resources or Reserves have been identified.
Operational Activities	As part of establishing a state-of-the-art database for future assessment of potential strategic cropping land, a 2,381 km^2 laser levelling and photometric aerial survey was partially conducted over portions of the tenement during the Reporting Period. This will provide base line topographic and land use information. The topographic detail will provide vertical resolution to approximately +/-20 cm. To date 17 holes have been drilled within the tenement and all have only encountered minor coal intersections. Nevertheless, ongoing regional studies, incorporating this and adjoining Bandanna tenements and especially drilling in the adjacent northern portions of the Springsure Creek tenement, indicate that there remains potential especially in areas proximal to the Merivale Fault and on the eastern limb of the Springsure Anticline.
Project Status	Currently at an early exploration stage with no defined Resource or Reserves.
Access to Infrastructure	The Fernlee tenement is traversed by the Springsure rail corridor which connects the Minerva coal mine to export port facilities at Gladstone. There is also excellent all weather road connection to both Springsure and Emerald regional centres. Proximity to centres such as Emerald and associated operating mines within the region ensure that there will be adequate access to necessary infrastructure as well as a skilled mining work force for any future mine development.

FERNLEE NORTH EPC 1185

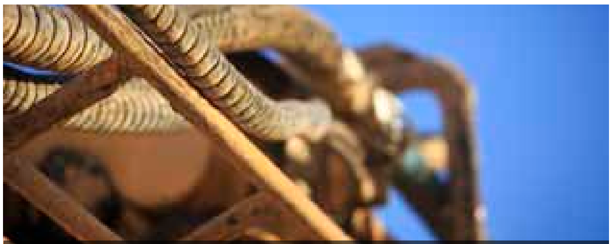
Bandanna's Interests	100% interest through Bandanna's wholly owned subsidiary Fernlee Coal Pty Ltd.
Location	Located in the Bowen Basin, the tenement is situated approximately between 6 km and 20 km south of Emerald. Land use is mixed dry and irrigated land cropping and some cattle grazing.
Coal Type & JORC Status	Thermal coals of the Rangal Coal Measures – as identified in coal bores drilled within the tenement as well as those in surrounding tenements. To date no JORC compliant Resources or Reserves have been identified.
Operational Activities	Previous drilling has not identified any major coal seam development. However, and as applicable to the adjacent Fernlee tenement, ongoing regional studies indicate that there remains potential especially in areas proximal to the Merivale Fault and on the eastern limb of the Springsure Anticline.
Project Status	Currently at an early exploration stage with no defined Resource or Reserves.
Access to Infrastructure	The Fernlee North tenement is traversed by the Springsure rail corridor which connects the Minerva coal mine to export port facilities at Gladstone. There is also excellent all weather road connection to both Springsure and Emerald regional centres. Lying adjacent to the regional centre of Emerald, Fernlee North is extremely well positioned with respect to necessary infrastructure as well as a skilled mining work force.

OPERATIONS
REVIEW CONTINUED.

EXPLORATION TENEMENTS

GEMINI EPC 1131

Bandanna's Interests	100% interest through Bandanna's wholly owned subsidiary Springsure Creek Coal Pty Ltd.
Location	Located in the Bowen Basin, the tenement is situated approximately 12 km north of the township of Rolleston. Land use is mainly beef cattle with mixed dry land cropping.
Coal Type & JORC Status	Thermal coals of the Rangal Coal Measures – as identified in coal bores in surrounding tenements and intersected in GEM001 bore hole. To date no JORC compliant Resources or Reserves have been identified.
Operational Activities	As part of establishing a state-of-the-art database for future assessment of potential strategic cropping land, a regional 2,381 km^2 laser levelling and photometric aerial survey was partially conducted over portions of this tenement during the Reporting Period. This will provide base line topographic and land use information. The topographic detail will provide vertical resolution to approximately +/-20 cm. No other field exploration activities were undertaken during the Reporting Period. However, a review of the tenement's potential was undertaken following Bandanna's drilling of a deep hole to 683 m (GEM001) during the previous reporting period. That hole encountered Aries 1 seam from a depth of 546 m prior to penetrating the Caster Seam (at 560 m), Pollux Seam (at 574 m) and the Orion seam (at 603 m). Overall, the intersected coal occurred in relatively thin intervals, although the Aries 1 contained one seam of 1.79 m thickness. Based on previous regional drilling, coal development was at greater depths than expected and this review has sought to reconcile the implications of these new drilling data.
Project Status	Currently at early exploration stage with no defined Resource or Reserves.
Access to Infrastructure	The Gemini tenement is traversed by the Bauhinia rail corridor which connects the major Xstrata mine operation at Rolleston with the export port facilities at Gladstone. Proximity to regional centres such as Rolleston and surrounding operating mines will ensure that there will be adequate access to necessary infrastructure as well as a skilled mining work force for any future development.



WANELLA EPC 1197

Bandanna's Interests	100% interest through Bandanna's wholly owned subsidiary Waitara Coal Pty Ltd.
Location	Located in the northern Bowen Basin, the tenement lies approximately 40 km east of Moranbah near the Peabody operated Coppabella mine.
Coal Type & JORC Status	Coking and/or PCI coals within the Leichhardt Seam of the Rangal Coal Measures (Blackwater Group). This seam is extensively mined in nearby areas and has been penetrated in boreholes adjacent to the tenement.
Operational Activities	During the Reporting Period desk top studies were undertaken with the objective of better understanding the regional structuring and likely depth of target seams across the tenement – which previously had been predicted to range between 360 m and 825 m. However, and following the drilling of a deep (821 m) exploration hole by Bandanna during the last reporting period, no sediments older than the Triassic Rewan Formation were encountered. This cast doubt on previous understandings of the geometry of the mapped syncline and confidence in predicting coal depths which, at least at that bore hole location, were considerably deeper than anticipated. Coal is known to occur at mineable depths on the eastern and western limbs of the syncline and outside the tenement boundaries and the desk top review has sought to provide more reliable depth estimates.
Project Status	Currently at an early exploration stage with no defined Resource or Reserves.
Access to Infrastructure	Wanella is strategically placed being traversed by the Peak Downs Highway and a rail corridor connecting mines at Blair Athol and Moranbah to the Hay Point and Dalrymple Bay coal export terminals on the coast. Proximity to Coppabella and other mine sites ensures that there will be adequate access to power and skilled mining personnel.

OIL SHALE & MINERALS TENEMENTS

Bandanna, through its various subsidiaries, holds 100% interests in a number of oil shale and mineral tenements all located in Queensland.

Oil Shale Tenements

Bandanna holds 100% interests in five oil shale tenements; EPM 16553 (Mt Bison), EPM 16666 (Toolabuc), EPM 16668 (North Proserpine), EPM 16667 (South Duaringa) and EPM 17567 (Plevna).

In August 2008 the Queensland Government made a policy decision to suspend for at least 20 years exploration or development over the McFarlane oil shale resource in the Whitsundays. Under the specific terms of the Government's policy, no exploration or development activity is allowed over the oil shale resources of the Hillsborough Basin, which includes the McFarlane resource south of Proserpine, for 20 years. This decision was extended to Bandanna Oil Shale's EPM 16668.

This decision also effectively suspended the development of the State's oil shale industry, pending investigation of the industry's potential economic, environmental and social impacts which was not expected to report until September 2010. An exemption was made for a demonstration plant to be built by Queensland Energy Resources (QER) to proceed and once operational, the company has two years to prepare a report and have it independently verified. QER's New Fuels Development Centre at Yarwun, located about 15 km north of Gladstone in Queensland, is a purpose-built facility designed to demonstrate the operational performance of the new Paraho II™ technology. The plant became operational in September 2011, so the company has until September 2013 to release the report. It is now anticipated that any further policy decisions by Government will take into account this report's outcomes and so for the short to medium term no major shift in the Government's current moratorium is anticipated.

Bandanna has maintained the view that it would be irresponsible of the Company to commit expenditure to these tenements, whilst the pathway to commercialisation remains barred. During the Reporting Period, the Company did not undertake any field activities in relation to its oil shale tenements and will reassess its position once Government policy is clarified.

Mineral Tenements

Bandanna, through its various subsidiaries, holds 100% interests in two mineral tenements for the purposes of pursuing bentonite exploration. Bentonite is an absorbent aluminium phyllosilicate clay usually formed by the weathering of volcanic ash. It generally occurs as either sodium or calcium rich varieties and is used in a wide range of applications from absorbent materials (e.g. oil spill kits), agricultural purposes to cosmetics. Its occurrence, and EPM applications arose as a result of Bandanna's field activities associated with coal exploration.

EPM17568 (Planet Creek) was granted on 9 February 2009 and renewed on 19 November 2010 for a further two years. The tenement was applied for to target shallow occurrences of bentonite. An initial field sampling and testing program has been conducted, with some encouraging results.

EPM17932 (Planet Creek 2) was granted on 20 July 2009 and renewed on 3 May 2011 for a further two years. This tenement was applied for to target shallow bentonite deposits.

OPERATIONS
REVIEW CONTINUED.

RESOURCES & RESERVES

Summary of Resources and Reserves

Resources and Reserves Statement as at 30 June 2012

				RESOURCES (MT)				RESERVES (MT)
Tenement	Project**	Holding Company	BND Share	Inferred	Indicated	Measured	Total	Probable
EPC881	Dingo West	Dingo West Coal Pty Ltd	100%	91.1	-	-	91.1	-
EPC891	Springsure Creek	Springsure Creek Coal Pty Ltd	100%	262.5	228.0	-	490.5	153.5***
		Turkey Creek, Moorooloo and Arcturus domains		*152.7*	*82.0*	-		
		Springton domain		*109.8*	*146.0*	-		
EPC1221	Arcturus	Springsure Creek Coal Pty Ltd	100%	103.7	102.6	-	206.3	44.3
EPC1742	Arcadia	Arcadia Coal Pty Ltd	100%	272.9	-	-	272.9	-
EPC1049	South Galilee	Alpha Coal Pty Ltd	50%	403.0*	103.1*	83.3*	589.4*	108.8*
TOTAL				1,133.2	433.2	83.3	1,650.1	306.6

* *Bandanna Energy Limited share.*

** *Only those projects that have had Resources and Reserves determined to the JORC standard are included in the table.*

*** *Reserves of 153.5 Mt announced 26 April 2012 as marketable Reserves, derived from JORC compliant Probable Reserves of 161.6 Mt.*

Resources and Reserves Statement as at 31 August 2012

				RESOURCES (MT)				RESERVES (MT)
Tenement	Project**	Holding Company	BND Share	Inferred	Indicated	Measured	Total	Probable
EPC881	Dingo West	Dingo West Coal Pty Ltd	100%	91.1	-	-	91.1	-
EPC891	Springsure Creek	Springsure Creek Coal Pty Ltd	100%	268.6	222.3	52.8	543.7	153.5***
		Turkey Creek, Moorooloo and Arcturus domains		*152.7*	*82.0*	-		
		Springton domain		*115.9*	*140.3*	*52.8*		
EPC1221	Arcturus	Springsure Creek Coal Pty Ltd	100%	103.7	102.6	-	206.3	44.3
EPC1742	Arcadia	Arcadia Coal Pty Ltd	100%	272.9	-	-	272.9	-
EPC1049	South Galilee	Alpha Coal Pty Ltd	50%	403.0*	103.1*	83.3*	589.4*	108.8*
TOTAL				1,139.3	428	136.1	1,703.4	306.6

** Bandanna Energy Limited share.*

*** Only those projects that have had Resources and Reserves determined to the JORC standard are included in the table.*

*** *Reserves of 153.5 Mt announced 26 April 2012 as marketable Reserves, derived from JORC compliant Probable Reserves of 161.6 Mt.*

STATEMENT OF COMPLIANCE

The Springsure Creek and Arcturus Underground Reserves Estimate been prepared by Mr Jeremy Busfield, Principal Mining Engineer of Minecraft Consulting Pty Ltd. Jeremy holds a Bachelor of Mining Engineering degree from the University of Queensland, is a Chartered Professional Member of the Australasian Institute of Mining and Metallurgy (AusIMM) and is a Registered Professional Engineer of Queensland (Mining) (RPEQ 10285). Jeremy 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 consents to the inclusion in this report of the matters based on his information and in the form and context in which it appears.

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 and Dingo West resources is based on information compiled by Gordon Saul, who is a member of the Australian Institute of Geoscientists and was employed by Resolve Geo Pty Ltd at the time of compilation of the information. Gordon Saul has sufficient experience which is relevant to the style of mineralisation 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 Resource information compiled in this report relating to the Turkey Creek, Moorooloo and Arcturus domains (Springsure Creek) is based on information compiled by David Keilar, who was a member of the Australian Institute of Geoscientists and who was employed by Resolve Geo Pty Ltd at the time of compilation of the information. David has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity he undertook 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 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 Opencut Reserves estimate for Arcturus has 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.

The Resource information in this report relating to the Springton domain (Springsure Creek) 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.

POSITIONING FOR GROWTH.

CO-EXISTENCE WITH AGRICULTURE

All of Bandanna's key coal tenements lie within the Central Highlands region where there has been a strong demographic reliance upon both agriculture and mining. The bulk of Bandanna's tenements located south of Emerald lie within an area which has historically been used for grazing and cropping.

Bandanna acknowledged the commencement of the SCL Legislation by the Queensland Government during the Reporting Period. This now provides a definitive legislative framework in which future mining activities will be accessed within the Central Highlands region. As outlined in other sections of this Report, Bandanna is embracing the changing expectations of local and State Governments and the local community towards new mine development.

Central to this approach is to establish at Springsure Creek the ongoing co-existence of mining and agriculture. Specific to fostering its co-existence with agriculture, Bandanna has during and subsequent to the Reporting Period undertaken the following activities:

- refined mine development plans to reduce possible impacts on existing land use;
- acquired an agricultural property, maintained farming operations on the property and appointed a farm manager;
- acquired benchmark land use and topographic data-base;
- engaged leading agricultural researchers and consultants to provide technical expertise and advice in relation to co-existence;
- visited areas of the U.S. where mining and agricultural operations co-exist, to further understand and assess the impact and management of subsidence from underground mining activities on surface level agricultural operations.

During the Reporting Period Customised Farm Management Pty Ltd (CFM) was retained to provide agricultural management and consultant advice to Bandanna in its dealings with agricultural stakeholders as well as on its own recently acquired property. A key part of the mandate is the provision of 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 detrimentally impacted, or that effects can be mitigated. CFM has significant experience in broad acre farm management in northern New South Wales and the Central Queensland Highlands, including areas in the Emerald – Springsure region.

Following field visits and discussions with local land occupiers Bandanna's underground mine consultants have continued to revise development plans in order to reduce its impact on existing agricultural and other land uses, consistent with the footprint of the proposed replacement MLA for the Springsure Creek Project. This includes revising surface footprints of the drift access and mine management areas and reorienting proposed longwall panel directions. It is estimated that the long wall mining will progress at a rate of 100 hectares per annum. Subsidence assessment (100 hectares per annum) indicates no permanent impact on coincident cropping practices from underground mining. Mine related

surface infrastructure will occupy less than 0.2% of the area of the proposed mining lease for the Springsure Creek Project. Bandanna considers that the small surface footprint of the underground mining operations will allow mining at Springsure Creek to be developed and operate underground, whilst farming businesses continue to operate at surface level.

During the Reporting Period, Bandanna acquired a strategic property within its Springsure Creek area, as part of its commitment to demonstrating that mining and farming can co-exist. This property occupies the surface footprint of the anticipated first eight years of underground production. Essential to sustainable co-existence is the maintenance of ongoing farming practices and in this regard Bandanna has supported the vendors to lease back the property following its acquisition by Bandanna. Bandanna will provide capital support to the property over the next three years in order to enhance existing farm management practices and crop yields. Increased 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 total yield increases will offset any possible diminution of yield which otherwise might occur due to mining activities. 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.

Already, as a result of the close working relationship which has been established between Bandanna, its farm manager and the farm occupants, the implementation of a multistage upgrade of irrigation has commenced. This will provide an additional 273 hectares of new wet irrigation; Stage 1 – 2 x 54.8 hectares centre pivot irrigation systems and Stage 2 – further two pivot point irrigation systems. Additionally, a comprehensive review of farm management practices is currently targeting to achieve yields of 7.5 bales of cotton per hectare compared with current production of 3.5 bales per hectare in flood irrigated land, representing an approximate 114% increase. Other measures combined with the enhanced irrigation are expected to result in substantial savings in water usage. Water use efficiency is targeted to increase from 0.57 bales per megalitre to 1.87 bales per megalitre of water used, a 228% increase in savings.

During the Reporting Period Bandanna completed a 2,381 km^2 aerial laser scanning and photometric survey over portions of Springsure Creek and adjoining tenements. This survey has provided a state-of-the-art data base against which any future mining outcomes can be benchmarked and future restoration/rehabilitation activities can be measured. For example, the topographic detail will provide vertical resolution of approximately +/-20 cm. This will be an important data base for assessing and rehabilitating any subsidence or surface activities footprints.

POSITIONING FOR GROWTH CONTINUED.

STAKEHOLDER ENGAGEMENT

In 2008, the Queensland Government released the Sustainable Resource Communities Policy in response to the need to manage growth in the resource development areas of the Surat Basin, Bowen Basin and north-west Queensland minerals province. The policy was developed as a result of Government's strong interest in securing the best outcomes for those communities directly and indirectly affected by the development of large resource development projects.

Under that policy, and the Surat Basin Future Directions Statement, proponents of new or expanded major resource development projects needed to develop a Social Impact Management Plan in consultation with Government and key stakeholders.

This has fostered industry support for the role of a social licence to operate, as an adjunct of the regulatory commitments flowing from obligations under exploration and mining licences issued by Government. Increasingly, the assessment and management of community health, safety and social wellbeing impacts are being considered as part of the risk management and social responsibility of resource development proponents including Bandanna.

From an industry perspective, a social licence to operate is about operating in a manner that aligns with community expectations and acknowledges that businesses have a shared responsibility with government and more broadly society, to help facilitate the development of strong and sustainable communities.

This is embodied in the Social Impact Management Plan (SIMP). As proposed by the Queensland Government, a SIMP establishes the roles and responsibilities of proponents, Government, stakeholders and communities throughout the life of a project, in mitigating and managing social impacts and opportunities during construction, operation and the decommissioning of major resource development projects. A SIMP is required for the Springsure Creek Project.

The SIMP will include an impact analysis of identified issues, including mitigation and management strategies, monitoring, reporting and review mechanisms, engagement strategies, and dispute resolution mechanisms.

During the Reporting Period Bandanna commenced negotiations with overlapping tenement interest holders for co-development agreements for the Springsure Creek and Dingo West projects. As with landowners and occupiers, it is vital that future mining plans address the issues and requirements of parties involved in tenements coincident with those of Bandanna. Several meetings have been held to address matters such as information exchange, land access, water, rehabilitation and general co-development of surface operations. The co-development agreements are expected to be finalised in FY2013 as part of the process of grant of the mining leases for the Springsure Creek and Dingo West projects.

ECONOMIC AND COMMUNITY CONTRIBUTIONS

Bandanna's strategic goal to become Australia's next coal producer is underpinned by a commitment to building a productive and functional model for sustainable co-existence and co-development within the regional and local communities in which it operates. Other sections within this Report, dealing specifically with co-existence with agriculture, stakeholder engagement and people and diversity, outline some of the initiatives undertaken by Bandanna during the Reporting Period in order to achieve this commitment.

The strong community of the central highlands region has been built on the historical development of the mining and agricultural industries. Mining directly and indirectly employs around 30% of the local workforce. The buoyant and expanding economy of the Emerald region bears testament to the benefits of these two industries, the most recent example of which was the opening of the $10 million expansion of Emerald airport's terminal facilities and the increasing demand for commercial passenger airline services into the region. It is within this context that Bandanna believes that its mining project developments, as well as those of its current exploration activities, provide natural, synergistic contributions to the existing fabric of the region's economy and community.

Whilst not always tangible, or easy to quantify, some of the more significant economic and community contributions that Bandanna's activities will provide are:

- the proposed Springsure Creek Project will generate a coal royalty stream to the State Government of approximately $40 million per annum for Stage 1, commencing in 2015. Future expansion could see the level of State Government coal royalties exceed $100 million per annum;
- revenues to rail and port providers for Stage 1 will exceed $80 million per annum and $50 million per annum, respectively, thus helping to support not only current expansion plans and sustain the provision of services along the Blackwater rail corridor and at Gladstone, but also their underlying employment and skills bases;
- at peak construction, the Springsure Creek Project will employ more than 500 people, approximately 350 people on a permanent basis by 2016 and have a permanent workforce of more than 500 people by 2020. In addition there will be substantial flow-on employment opportunities through contract, consulting, training and sponsorship opportunities, as well as the benefits of flow-on tax receipt revenues to both State and Federal Governments;
- local communities will benefit from the provision of mining project infrastructure including all-weather road access, new and expanded power grid connections and supply, and enhanced communications;
- through land ownership and strategic relationships, Bandanna will foster not only co-existence and maintenance of land use practices but will positively contribute to their enhancement through investment in agricultural management practices and equipment;
- part of the Company's accommodation strategy that serves to identify and plan for the lifestyle needs of its workforce and of the surrounding communities, Bandanna's proposed accommodation village outside of Emerald will provide new service and catering opportunities for local businesses as well as potential upgrades of local council infrastructure;
- Bandanna has contributed over $4 million towards a $35 million social program at Gladstone as part of the WICET Stage 1 consortium;
- Bandanna has proactively participated in local community activities and sponsorships of regional events;
- Bandanna's expanding activities will provide a secure foothold for its Brisbane head office, providing professional employment opportunities within that centre.

Bandanna is fully aware of the importance of, and is committed to, working with the community and recognising the issues that new mining and exploration activities bring, even in a community well accustomed to the mining industry.

PEOPLE AND DIVERSITY

Bandanna commenced the Reporting Period with a small but committed team of seven employees based in Brisbane, Queensland. By 30 June 2012, the number of employees had increased to 16 people with one person based in Emerald, as the Company moved to start securing the additional expertise and resources that will be essential to Bandanna meeting its critical project milestones for FY2013.

POSITIONING FOR GROWTH CONTINUED.

Diversity Policy

Part of laying the foundations for building the human resource capability of the Company during the Reporting Period was the introduction of the Company's Diversity Policy. The Diversity Policy sets out the high level principles upon which Bandanna will seek to achieve cultural, age and gender diversity; principles that will guide and inform decision making across the business in areas such as the recruitment and retention of staff, workforce planning, work arrangements, accommodation facilities and access to training and development.

Bandanna is a small company with a leadership team committed to diversity, and no entrenched recruitment or cultural practices that would prevent the Company from delivering on its diversity objectives, which focus on:

- development of a remuneration framework and policy around reward and recognition;
- development of recruitment and selection processes that promote diversity and maximise the pool of potential candidates for particular roles;
- providing training and development opportunities, flexible work, accommodation and salary arrangements; and
- leading a no-tolerance approach to discrimination, victimisation and harassment in the workplace.

The Committee charged with responsibility for matters relating to nomination and remuneration assumed the functions of a diversity committee for the Company effective from 1 July 2012. From FY2013, the Nomination and Remuneration Committee will monitor the performance of the Company against the measurable objectives for achieving diversity set out in the Diversity Policy, in accordance with the Committee's charter.

Female Participation in the Company

At the end of the Reporting Period, the Company had only one employee based outside the corporate office, so the Company is not able to provide any meaningful data on levels of female participation in site-based operations for the Reporting Period.

Women represent 20% of the executive management team included in Key Management Personnel for the Reporting Period, and 43% of the employees of the Company. There are presently no women on the Board of the Company.

Progress towards achievement of measureable objectives

During the Reporting Period, the Company implemented a number of employee benefits designed to attract and retain skilled employees and to optimise their health and wellbeing in a challenging and demanding industry, including:

- flexible hours and working arrangements to accommodate family and living arrangements of male and female employees;
- access to gymnasium facilities;
- encouraging staff to undertake professional development.

The Company has also developed and implemented a remuneration framework and policy around reward and recognition effective from FY2013 (refer to the Remuneration Report for details).

During FY2013, the Company plans to document and adopt a selection and induction process for Directors, in conjunction with conducting an independent Board review. The adoption of an selection and induction process for Directors will provide a framework to assist the Nomination and Remuneration Committee of the Board to identify the mix of skills and diversity of experience and approach required at a the leadership level to guide the Company in its strategic planning and direction, and to identify gaps in the composition of the Board from time to time.

LEADERSHIP.

During the Reporting Period, the Board embarked on a strategic process of upskilling and resourcing the Company for transition from an exploration company to a mining company.

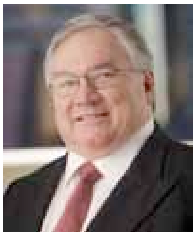
Dr Ray Shaw, Managing Director of the Board since October 2008, stepped down from the position of Managing Director in March 2012 to make way for the appointment of Michael Gray, and in April 2012 Jeremy Barlow resigned as Chairman of the Board, to provide the Board with the opportunity to capitalise on the leadership of experienced coal mining identity John Pegler as Chairman. The appointment of Michael Gray as Managing Director and of John Pegler as Chairman during the Reporting Period reflects the recognition by the Board of the upskilling necessary to ensure the right balance of expertise required to achieve the Company's strategic goal. The Company continues to have access to the experience and expertise of Dr Shaw and Mr Barlow, Dr Shaw in an informal capacity and Mr Barlow as a non-executive Director.

The senior management team of the Company was expanded during the Reporting Period, with the appointment of Tess Lye as Company Secretary in March 2012. Matthew Scott, Company Secretary since March 2009, continues in the role of Chief Financial Officer that he has held since November 2008. Matthew Palmer was appointed to the newly created role of General Manager – Surface Infrastructure and Rachel Gibson was appointed Manager Community and Environment in June 2012, and subsequent to the Reporting Period, Stuart Clarke was appointed as the Company's first Chief Development Officer.

DIRECTORS

The following persons were Directors of the Company during the Reporting Period and up to the date of this Report:

- John Harry Pegler;
- Michael John Gray;
- Jeremy Warde Barlow;
- David Douglas Heydon Graham;
- Robert Karlo Johansen; and
- Park Soon IL.



John Harry Pegler

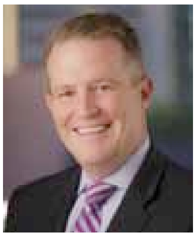
Chairman
Independent Non-Executive Director
BE (Mining), MAusIMM

John Pegler was appointed to the Board of Directors in January 2012 and was appointed Chairman of the Board in April 2012. Mr Pegler is a mining engineer by training, with more than 38 years' experience in open-cut and underground resource development, coal mining and processing operations, international and domestic coal marketing, project management and international procurement. John Pegler has twice served as the President of the Queensland Resources Council (QRC) and is an elected life member of the QRC. Mr Pegler holds the positions of Chairman of the Australian Coal Association (ACA) and Chairman of ACA Low Emission Technologies Limited, is a director of listed companies Energy Resources of Australia Limited and WDS Limited, and is a director of CS Energy Limited.

Directorships in Other Listed Entities:

Energy Resources of Australia Limited (ASX: ERA)

WDS Limited (ASX: WDS)



Michael John Gray

Managing Director
BE (Civil), MBA, GAICD

Michael Gray was appointed Managing Director of the Board of Directors in March 2012. 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. Prior to his appointment as Managing Director, Mr Gray was Chief Executive Officer of Middlemount Coal Pty Ltd where he had overall responsibility for development of the Middlemount project from exploration project to operating mine, the first greenfield coal project developed in Queensland since 2007.

Other career highlights include senior roles with Macarthur Coal Limited as Executive General Manager – Projects and Infrastructure, where Mr Gray was responsible for the overall management of exploration and project feasibility activities, long-term infrastructure requirements and government relations. Before joining Macarthur Coal, Mr Gray held senior project development roles with the Port of Brisbane Corporation and the Queensland Government's Office of the Coordinator-General.

Mr Gray holds a Bachelor of Engineering (Civil) from University of Queensland, a Masters of Business Administration from Deakin University and is a graduate of the Australian Company Directors' Course. Mr Gray was the inaugural winner of the Talbot Family Foundation International Company Directors Scholarship.

Directorships in Other Listed Entities:

Nil

Jeremy Warde Barlow

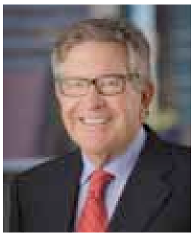
Non-Executive Director

BE, MBA, FAIMM, MAICD

Jeremy Barlow was Chairman of the Board of Directors from October 2008 to April 2012, and remains on the Board as a non-executive Director. A highly-regarded executive with a long and distinguished career in the coal and petroleum industries, Mr Barlow 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. Jeremy Barlow was a founding director of CH4 Gas Limited and upon the merger with Arrow Energy, became a non-executive director of Arrow Energy Limited in August 2006 until its sale in 2010. Mr Barlow was appointed as a non-executive director of Armour Energy Limited in March 2012. Mr Barlow provides diverse technical and commercial expertise to the Board, gained in 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 (ASX: AJQ)



David Douglas Heydon Graham

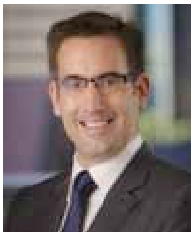
Independent, Non-Executive Director

BCom, BEcon, MBA, FCPA

David Graham was appointed to the Board of Directors in October 2008. With an extensive background with leading financial services and listed companies, Mr Graham has specialised in capital market transactions for organisations including Ord Minnet, Bankers Trust Australia, Bankers Trust International and CitiNational Limited and has served on the boards of 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 (U.S.A.).

Directorships in Other Listed Entities:

Nil



Robert Karlo Johansen

Non-Executive Director

BE (Mining) (Hons), BCom, LLB, CPA, MAusIMM, MAICD

Robert Johansen was appointed to the Board of Directors in October 2008. Mr Johansen has an intimate knowledge of the Company having been responsible for the incorporation, development and operation of Bandanna Coal Pty Ltd and its subsidiaries from inception to 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 a Certified Practising Accountant, Robert Johansen 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

Non-Executive Director

BEng (Mining) (Korea)

Park Soon IL was appointed to the Board of Directors in November 2009. The Managing Director of SAMTAN's Energy and Resources Development Division, Mr Park is 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 the Company.

Directorships in Other Listed Entities:

Nil

COMPANY SECRETARY

Tess Lye was appointed Company Secretary on 14 March 2012, holding the position at the end of the Reporting Period and as at the date of this Report. Details of Mrs Lye's qualifications and experience are set out in the Senior Management section of the Report.

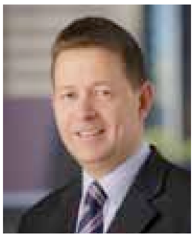
LEADERSHIP CONTINUED.

SENIOR MANAGEMENT

The following persons comprised the senior management of the Company as at the end of the Reporting Period:

- Michael Gray, Managing Director;
- Matthew Scott, Chief Financial Officer;
- Tess Lye, General Counsel and Company Secretary;
- David Campbell, General Manager – Exploration and Dingo West Project;
- Peter Binnie, General Manager – Underground Development;
- Matthew Palmer, General Manager – Surface Infrastructure;
- Rachel Gibson, Manager Community and Environment.

In July 2012, Stuart Clarke was appointed Chief Development Officer and joined the Company's senior management team.



Matthew Scott

Chief Financial Officer

BCom, CA

Matthew Scott has been the Chief Financial Officer since 2008 and was the Company Secretary from early 2009 to March 2012. A chartered accountant with more than twenty years accounting and commercial experience, since commencing his professional career with PricewaterhouseCoopers Mr Scott has held a number of commercial positions, including more than fifteen years in the coal industry in Queensland in senior commercial roles with Foxleigh Mining Pty Ltd and Whitehaven Coal.

Mr Scott is an alternate director for Michael Gray on the board of WICET Holdings Pty Ltd, and is a member of the Wiggins Island Export Terminal Finance Committee and the Risk and Audit Committee.

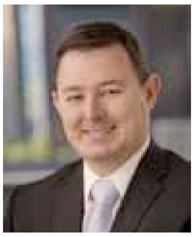
Tess Lye

General Counsel and Company Secretary

BA, LLB, LLM, GAICD

Tess Lye has been General Counsel and Company Secretary of the Company since March 2012. Prior to joining the Company, Mrs Lye held the role of General Manager – Governance and Legal with Macarthur Coal Limited, managing the corporate compliance, legal and internal audit functions of the business, whilst gaining significant experience in corporate advisory, mining operations, mining project development, coal exploration and joint venture management.

Prior to joining the mining sector, Tess Lye was a corporate lawyer with the National Australia Bank, a solicitor with McCullough Robertson Lawyers and a senior commercial manager with the Department of Treasury and Finance, Victoria.



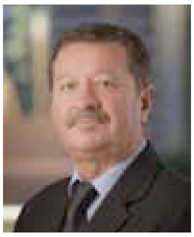
Stuart Clarke

Chief Development Officer

Assoc Dip Applied Science (Surveying)

Stuart Clarke joined the Company in July 2012 as Chief Development Officer. Prior to his appointment, since 2006 Mr Clarke had undertaken a number of management roles with Peabody Energy, most recently as Manager of Strategic Planning and previously in roles including Manager of Projects and Manager of Continuous Improvement.

Stuart Clarke has worked in both open cut and underground coal mines for both mine owners (Peabody Energy, BMA, QCT Resources) and contractors (Roche Mining, Thiess), with operational and corporate experience across mine planning and engineering, mine development, mine management, project development, resource optimisation, project management, government approvals and business development.



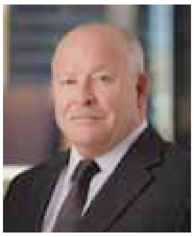
David Campbell

General Manager – Exploration and Dingo West Project

BSc, FAusIMM

David Campbell manages the Company's exploration activities and the development of the Dingo West Project.

With over 30 years of experience in the coal industry, Mr Campbell has held diverse technical positions in exploration and mining geology, engineering, and coal quality including Senior Geologist with New Hope Coal, Senior Mining Engineer with Bulga Coal, Senior Mining Consultant with SRK and Vice President – Exploration with Waratah Coal and in mine management and project development with roles including General Manager Baralaba Coal, Senior Project Engineer – New Acland Coal and Site Manager – Roche/Coppabella.



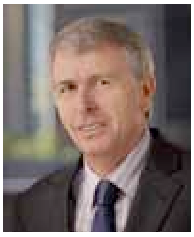
Peter Binnie

General Manager – Underground Development

Certified Electrical Engineering Manager and Electrical Fitter Mechanic

Peter Binnie manages the development of underground infrastructure for the Company's Springsure Creek Project. For most of the Reporting Period, Mr Binnie also had responsibility for development of surface infrastructure for the Springsure Creek Project.

With more than 35 years of industry experience, Mr Binnie has worked in project management, mechanical and electrical engineering in the coal and metals sector. Prior to joining the Company, Mr Binnie was Vice President - Project Development for Waratah Coal and had previously held the role of Engineering Manager for Carborough Downs Coal Management and as Project Development Manager for Xstrata's Macarthur River mine.



Matthew Palmer

General Manager – Surface Infrastructure

BE Civil (1st Class Hons), MIE Aust, RPEQ, NZCE, MIPENZ

Matthew Palmer joined the Company in June 2012 as the General Manager – Surface Infrastructure, assuming responsibility for developing surface infrastructure for the Springsure Creek Project.

Mr Palmer has more than 18 years of experience consulting to the Australian coal industry in a wide range of projects dealing specifically with infrastructure matters including haulroads, water supplies, creek diversions, dams, villages, industrial and other infrastructure. Matthew Palmer's consulting services have been delivered in modes ranging from pure design and detailing to full project management of the works including approvals and dealing with statutory authorities and other stakeholders. Projects have included Burton Coal, Ensham, North Goonyella, Foxleigh, Cameby Downs and Wandoan. The balance of Mr Palmer's experience over in excess of 35 years covers a wide range of engineering projects in Australia, New Zealand, Malaysia and Papua New Guinea.

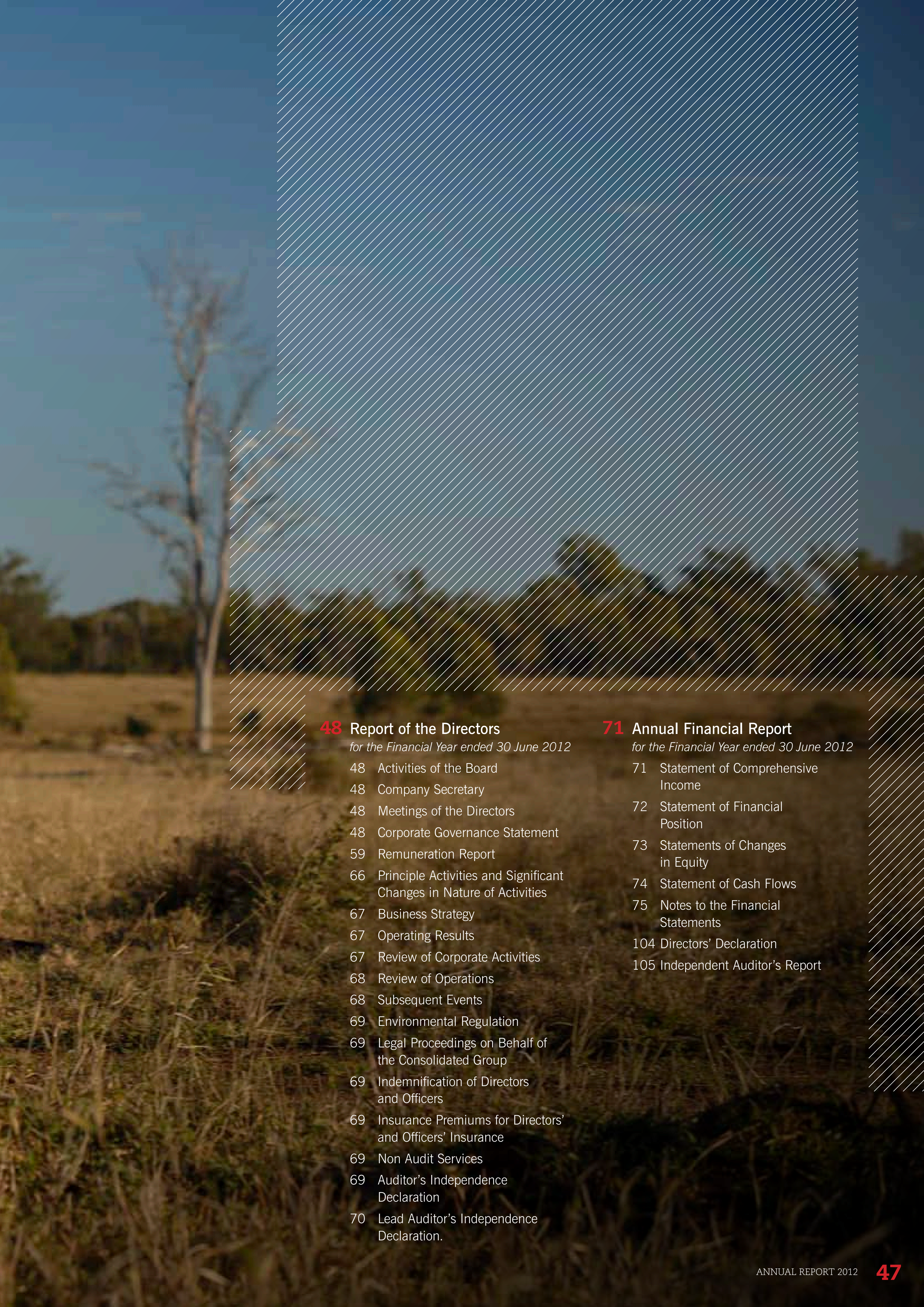
Rachel Gibson

Manager – Community and Environment

Bsc (honours), Post Grad Dip Human Geography (SIA)

Rachel Gibson joined the Company in June 2012 as the Manager Community and Environment. Ms Gibson has more than 13 years experience in community engagement and environmental management. Rachel Gibson's experience includes eight years conducting social impact assessments and community consultation programs for resource and large infrastructure projects in urban, rural and remote Queensland. Prior to joining the Company, Ms Gibson undertook community relations for Macarthur Coal and Peabody Energy Australia.

FINANCIAL REPORTS 2012.



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REPORT OF THE DIRECTORS.

1. ACTIVITIES OF THE BOARD

The Directors of the Company during or subsequent to the Reporting Period are:

Name of Director	Appointment Date	Period in Office (rounded down in years)	Non-Executive	Independent	Retiring and seeking re-election at 2012 AGM[1]
John Pegler (Chairman)	1 January 2012	<1 year	Yes	Yes	Yes
Michael Gray (Managing Director)	5 March 2012	<1 year	No	No	Not applicable
Jeremy Barlow	3 October 2008	3 years	Yes	No	No
David Graham	3 October 2008	3 years	Yes	Yes	Yes
Robert Johansen	3 October 2008	3 years	Yes	No	No
Park Soon IL	19 November 2009	2 years	Yes	No	No
Ray Shaw[2]	7 May 2007	4 years	No	No	-

1 *In accordance with the Company's Constitution and the ASX Listing Rules.*

2 *Former Managing Director resigned effective 5 March 2012.*

2. COMPANY SECRETARY

Tess Lye was appointed Company Secretary on 14 March 2012. The Company Secretary is responsible for supporting the Board of Directors to discharge its functions in accordance with the Company's corporate governance framework.

3. MEETINGS OF THE DIRECTORS

The number of meetings of the Board of Directors and of the various Committees of the Board, and the respective attendance of Directors and Committee members during the Reporting Period are set out in the table below.

Name of Director	Directors' Meetings		Audit Committee		Remuneration Committee		Risk Management Committee	
	A	B	A	B	A	B	A	B
John Pegler	6	6	-	-	-	-	0	0
Michael Gray	4	4	-	-	-	-	0	0
Jeremy Barlow	14	14	-	-	1	1	0	0
David Graham	14	13	2	2	1	1	0	0
Robert Johansen	14	14	2	2	1	1	0	0
Mr Park Soon IL	14	7	-	-	-	-	0	0
Dr Ray Shaw	10	10	1	1	-	-	0	0

'A' represents number of meetings eligible to attend

'B' represents number of meetings attended

– not a member of the relevant Committee

4. CORPORATE GOVERNANCE STATEMENT

This Corporate Governance Statement provides an overview of the Company's governance practices for the year ended 30 June 2012, and reports against the ASX Corporate Governance Principles and Recommendations (2nd Edition) as amended in 2010 (ASX Principles). Compliance of the Company's corporate governance practices with and departures from the ASX Principles are summarised on pages 57 and 58.

During the Reporting Period, the Company increased its compliance with ASX Principle 2 (Structure the Board to Add Value), Principle 4 (Safeguard Integrity in Financial Reporting) and Principle 8 (Remunerate Fairly and Responsibly).

The policies and charters referred to in this Statement are available on the Company's web site www.bandannaenergy.com.au, unless noted in this Statement that the policy or charter is an internal document.

4.1 Roles and Responsibilities of the Board and Management

Principle 1 – Lay Solid Foundations for Management and Oversight

1.1	The Company has established the functions reserved to the Board and those delegated to senior executives.
1.2	The Company has disclosed its process for evaluating the performance of senior executives.
1.3	The Company has provided the information indicated in the guide to reporting on Principle 1.

4.1.1 Roles of the Board and Senior Management

The Board conducts its activities under a Corporate Governance Charter that sets out the functions, powers and responsibilities of the Board.

The responsibilities of the Board include to:

- set the strategic direction for the Company and monitor progress of those strategies;
- establish policies appropriate for the Company;
- monitor the performance of the Company, the Board and senior management;
- approve the business plan and annual work programmes and budgets;
- authorise and monitor major investment and strategic commitments;
- review and ratify systems for health, safety and environmental management; risk management and internal control;
- monitor codes of conduct and regulatory compliance;
- appoint and monitor performance of the Managing Director;
- report to shareholders, including but not limited to, the financial statements of the Company;
- evaluate the performance of the Board and identify and appoint new Directors to the Board; and
- take responsibility for corporate governance.

The Corporate Governance Charter describes the scope of responsibilities of the Managing Director, discharged under delegated authority from the Board. The scope of responsibilities delegated to the Managing Director is further defined under a Delegation of Authority Policy (internal document) from the Board to the Managing Director, which includes financial and non-financial delegations of authority and the express reservation of certain authorities to the Board.

The Board of the Company comprises six Directors. Information regarding the Directors' experience and expertise is set out in the Leadership section of the Report. Two Directors are independent non-executive Directors (including the Chairman), three are non-executive Directors and one is an executive Director (Managing Director). Responsibilities associated with the position of Chief Executive Officer under the Corporate Governance Charter and the ASX Principles are undertaken by the Managing Director.

The number of Directors is specified in the Constitution of the Company as a minimum of three up to a maximum of 10.

4.1.2 Board Committees

The Board was assisted during the Reporting Period by the operation of two Committees – the Audit Committee and the Remuneration Committee. A third Committee – the Risk Management Committee – did not meet during the Reporting Period. Given the composition of members of the Risk Management Committee, being all Directors, any business ordinarily considered by the Risk Management Committee was considered by the Board during the Reporting Period.

During the Reporting Period, the Board approved the reconstitution of the Remuneration Committee as a Nomination and Remuneration Committee, effective from 1 July 2012. The Charter of the Nomination and Remuneration Committee has been amended to reflect the revised scope of responsibilities of the Committee, to include matters relating to nomination of Directors and senior managers of the Company, and acting as the diversity committee for the purposes of the Company's Diversity Policy.

Subsequent to the Reporting Period, the Board established a Transaction Committee, to have oversight of aspects of any transactions involving the sale of project interests. The Transaction Committee was not established on a permanent basis, has no approval authority independent of the Board and does not operate under a charter.

Committees of the Board operating under charters approved by the Board are:

REPORT OF THE DIRECTORS CONTINUED.

Audit Committee

The Charter of the Audit Committee provides for the Audit Committee to consist of two non-executive Directors and an independent Director as Chairperson. The Company Secretary is the secretary of the Audit Committee.

The Committee's primary function is to assist the Board in discharging its responsibility to exercise due care, diligence and skill in relation to the Company by:

- ensuring that the quality of financial controls is appropriate for the business of the Company;
- reviewing the scope and results of external and internal audits;
- monitoring corporate conduct and business ethics, including ongoing compliance with laws and regulations;
- maintaining open lines of communication between the Board, management and the external auditor, thus enabling information and points of view to be freely exchanged;
- reviewing matters of significance affecting the financial welfare of the Company;
- ensuring that systems of accounting and reporting of financial information to shareholders, regulators and the general public are adequate;
- reviewing the Company's internal financial control system;
- considering the appointment of the external auditor and to approve the remuneration and terms of engagement of the external auditor;
- monitoring and reviewing the external auditor's independence, objectivity and effectiveness, taking into consideration relevant professional and regulatory requirements; and
- developing and implementing policy on the engagement of the external auditor to supply consulting services, taking into account relevant ethical guidance regarding the provision of consulting services by the external audit firm.

It is the responsibility of the Audit Committee to assess the adequacy of the Company's internal financial control systems and to ensure that its financial affairs comply with applicable laws, regulations and professional practices.

From April 2012 to the end of the Reporting Period, the members of the Audit Committee were David Graham (independent Chairperson), John Pegler (non-executive Director) and Robert Johansen (non-executive Director), and the composition of the Audit Committee was compliant with the Audit Committee Charter and ASX Principle 4.2.

Nomination and Remuneration Committee

The Charter of the Nomination and Remuneration Committee (NRC) provides for the membership of the NRC to consist of not less than three Directors, with a majority of members being non-executive, independent Directors where available and to be chaired by an independent, non-executive Director. The Company Secretary is the secretary of the Audit Committee.

The Committee's responsibilities in relation to remuneration are reviewing the remuneration policies and practices of the Company and making recommendations to the Board in relation to:

- executive remuneration and incentive plans;
- the remuneration packages for executive Directors and senior management;
- non-executive Director remuneration;
- the Company's recruitment, retention and termination policies and procedures for senior management;
- incentive plans and share allocation schemes;
- superannuation arrangements;
- remuneration of members of Committees; and
- the appointment of remuneration consultants.

The NRC's responsibility in relation to nomination (since 1 July 2012) is to assist the Board in relation to the appointment of Directors and senior management by:

- developing criteria for seeking and reviewing candidates for a position on the Board, including by implementing processes to assess the necessary and desirable skill sets of the Board members including experience, expertise, skills and performance of the Board and the Committees;
- identifying suitable candidates for appointment to the Board or senior management positions;
- reviewing appropriate applications for positions of the Board and recommending individuals for consideration by the Board;
- recommending procedures for adoption by the Board for the proper oversight of the Board and senior management;
- ensuring that such procedures, once adopted, are implemented such that the performance of each member of the Board and of senior management is reviewed and assessed each year in accordance with the procedures;
- annually reviewing the composition of each Committee and present recommendations for Committee memberships to the Board; and
- acting as the Company's diversity committee by annually reviewing the Company's Diversity Policy, monitoring the Company's progress towards achievement of measurable objectives for achieving culture and gender diversity within the Company, reporting to the Board on diversity performance and making recommendations with respect to diversity initiatives.

From April 2012 to the end of the Reporting Period, the members of the NRC were John Pegler (independent Chairperson), David Graham (independent, non-executive Director) and Robert Johansen (non-executive Director), and the composition of the Audit Committee was compliant with the NRC Charter and ASX Principle 8.2.

Risk Management Committee

The Charter of the Risk Management Committee provides for the Risk Management Committee to comprise of not less than three Directors, with a preference for a majority of non-executive Directors where available. Preference is given to the Risk Management Committee being chaired by an independent Director, and the Company Secretary is the secretary of the Risk Management Committee.

The Risk Management Committee's primary corporate governance role is to advise and assist the Board of Directors in assessing risk factors and risk mitigation strategies associated with the execution of projects and the implementation of strategy. The Risk Management Committee monitors the internal and external risk environments of the Company.

The responsibilities of the Risk Management Committee are:

- ensuring the development of an appropriate risk management policy framework that will provide guidance to management in implementing appropriate risk management practices throughout the Company's operations, practices and systems;
- defining and periodically reviewing key business risks as they apply to the Company and clearly identifying all stakeholders;
- ensuring the Company clearly communicates its risk management philosophy, policies and strategies to Directors, management, employees, contractors and appropriate stakeholders;
- ensuring that Directors and management establish a risk aware culture which reflects the Company's risk policies and philosophies;
- reviewing methods of identifying broad areas of risk and setting parameters or guidelines for business risk reviews;
- making informed decisions regarding business risk management, internal control systems, business policies and practices and disclosures; and
- considering capital raising, treasury and market trading activities with particular emphasis on risk treatment strategies, products and levels of authorities.

All Directors of the Company are presently members of the Risk Management Committee. The Risk Management Committee is chaired by non-executive Director Robert Johansen.

4.1.3 Retirement and Rotation of Directors

Retirement and rotation of Directors is governed by the Corporations Act and the Constitution of the Company. Each year, one third of Directors must retire and offer themselves for re-election. Any casual vacancy filled will be subject to shareholder vote at the next Annual General Meeting of the Company.

4.1.4 Share Ownership

Directors are encouraged to own Company shares, but are required to trade in the Company's shares in accordance with the Share Trading Policy and the Corporate Governance Charter.

4.1.5 Board Meetings

The Board holds monthly meetings, plus any extraordinary meetings at such times as may be necessary to address significant matters. Meetings can be held by telephone link. Information provided to the Board includes all material information on performance against key performance indicators, operations, budgets, cash flows, funding requirements, shareholder movements, broker activity in the Company's securities, assets and liabilities, disposals, financial accounts, external audits, internal controls, risk assessments, new venture proposals and health, safety and environmental management reports.

The number of Board meetings (including meetings of Committees) and the number of meetings attended by each of the Directors of the Company during the Financial Year ended 30 June 2012 are set out in the Directors' Report.

4.1.6 Senior Executive Performance

Performance reviews are undertaken on an annual basis in accordance with the Company's Remuneration Policy. The Company's Remuneration Policy is set out in the Remuneration Report. Under the Delegation of Authority Policy from the Board to the Managing Director, the Board has expressly reserved to itself the authority to approve remuneration for the Managing Director and senior executives.

4.2 Structuring the Board to Add Value

Principle 2 – Structure the Board to Add Value	
2.1	A majority of the Board are independent Directors.
2.2	The Chair is an independent Director.
2.3	The roles of Chair and Chief Executive Officer are not exercised by the same individual.
2.4	The Board has established a Nomination Committee.
2.5	The Company has disclosed the process for evaluating the performance of the Board, its committees and individual Directors.
2.6	The Company has provided the information indicated in the guide to reporting on Principle 2.

REPORT OF THE DIRECTORS CONTINUED.

4.2.1 Independence of Directors

The Board considers that a Director is independent if that Director complies with the following criteria:

- apart from Director's fees and shareholdings, independent Directors should not have any business dealings which could materially affect their independent judgment;
- must not have been in an executive capacity in the Company in the last three years;
- must not have been in an advisory capacity to the Company in the last three years;
- must not be a significant customer or supplier for the Company;
- must not be appointed through a special relationship with another Board member;
- must not owe allegiance to a particular group of shareholders which gives rise to a potential conflict of interest;
- must not hold conflicting cross directorships; and
- must not be a substantial shareholder or a nominee of a substantial shareholder (as defined under Section 9 of the Corporations Act).

Of a total of six current Directors, having regard to the independence criteria set out above, two Directors are considered independent (John Pegler and David Graham) and four are considered not to be independent (Jeremy Barlow, Robert Johansen, Park Soon IL and Michael Gray).

The Board strives to achieve compliance with the ASX Principles, including Principle 2.1. In FY2013 the Board, through the NRC, is developing a process for the selection and induction of Directors, and an independent review of the effectiveness of the Board (including a skills gap analysis) will be undertaken. Gaps in the experience, expertise and diversity of the Board will be identified and, together with independence considerations, will inform any decision by the Board to appoint new Directors.

Notwithstanding that currently the majority of Directors are not independent, the Board considers that all Directors exercise independent judgment in decision-making by the Board, and have a strong commitment to good governance practices. The Directors take seriously their responsibilities to disclose relevant interests in the Company and to avoid conflicts of interests. Disclosure of interests by Directors is a standing agenda item at Board meetings.

4.2.2 Facilitating Independent Decision Making by the Board

Each Director has the right to seek independent professional advice at the Company's expense after consultation with the Chairman. Once received, the advice is to be made immediately available to all Board members.

The Company has, and meets the expenses of, a policy of Directors' and Officers' insurance.

4.2.3 Chair of the Board

John Pegler was appointed as an independent, non-executive Director of the Company effective from 1 January 2012 and was appointed as Chairman of the Board in April 2012, on the resignation of Jeremy Barlow as Chairman of the Board.

The appointment of John Pegler as Chairman of the Board brought the Company into compliance with ASX Principle 2.2 during the Reporting Period.

The Corporate Governance Charter provides that the Chairperson is responsible for leadership of the Board, for efficient organisation and conduct of the Board's function and the briefing of all Directors in relation to issues arising at Board meetings. The Chairperson is also responsible for shareholder communication and arranging Board performance evaluation.

The functions of Chief Executive Officer are interchangeable with those of Managing Director under the Corporate Governance Charter. The roles of Chairperson and Managing Director are not exercised by the same individual.

4.2.4 Board Performance Evaluation

A Board Meeting Evaluation is included as a standing item of business at the close of monthly meetings of the Board. The purpose of this evaluation is, amongst other things, to assess the effectiveness of the conduct of Board meetings, the quality and timeliness of Board papers, the levels of contribution and engagement by Directors in the meeting, the extent to which the Board and management understood and performed their respective roles in the meeting and the extent to which the Board kept its focus on strategic issues during the meeting.

The Board regularly assesses the functions of Committees. During the Reporting Period, such an assessment resulted in a review of the role of the Remuneration Committee to include matters of nomination and diversity, conducting the business of risk management at a Board level and, subsequent to the Reporting Period, establishing the Transaction Committee.

External reviews of Board performance are typically undertaken every few years. An independent review of Board performance and effectiveness will be conducted in FY2013.

4.3 Promotion of Ethical and Responsible Decision-Making

Principle 3 – Promote Ethical and Responsible Decision-Making

3.1	The Company has established a code of conduct and has disclosed the code or a summary of the code.
3.2	The Company has established a policy concerning diversity and disclosed the policy or a summary of that policy. The policy includes requirements for the Board to establish measureable objectives for achieving gender diversity for the Board to assess annually both the objectives and progress in achieving them.
3.3	The Company has disclosed in its annual report the measureable objectives for achieving gender diversity set by the Board in accordance with the diversity policy and progress towards achieving them.
3.4	The Company has disclosed in its annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the Board.
3.5	The Company has provided the information indicated in the guide to reporting on Principle 3.

4.3.1 Code of Conduct and Ethics Policy

The Board has adopted a Corporate Code of Conduct, documented and published as part of the Company's Corporate Governance Charter. The Corporate Code of Conduct sets out the conduct expectations for the Board, management and employees of the Company when dealing with each other, shareholders and the broader community.

Specific requirements as to how the Company, through its Board, management and employees, will conduct itself in relation to compliance with the law, employment practices, engagement with the community and responsibilities to individuals, confidentiality, fair trading, conflicts of interest and compliance with and review of the Corporate Code of Conduct, are set out in the Corporate Code of Conduct.

The Corporate Governance Charter also incorporates a Corporate Ethics Policy that sets out the rules binding the Directors of the Company in respect of their legal duties as officers of the Company, their obligations to make disclosures to the ASX and the market generally, and their dealing in shares of the Company. The Corporate Ethics Policy places obligations on Directors in relation to a range of legal and ethical duties, including avoiding and declaring conflicts of interest, disclosure of material personal interests in the affairs of the Company, common directorships, transparency and accountability in the provision of services to the Company, notification of a Director's interests in the Company to the ASX and share trading.

4.3.2 Diversity Policy

The Company's Diversity Policy, adopted in June 2012, sets out the high level principles upon which the Company will seek to achieve cultural, age and gender diversity; principles that will guide and inform decision making across the business in areas such as the recruitment and retention of staff, workforce planning, work arrangements, accommodation facilities and access to training and development. The Diversity Policy sets out the Company's commitment to monitor and measure its progress in achieving cultural, age and gender diversity through the measurable objectives. The scope of the Diversity Policy is not limited to principles for achieving gender diversity.

The success of the Company and its projects relies on a skilled and strong leadership team and workforce. The challenge of attracting and retaining staff to regional sites of an emerging coal producer reinforces the importance of implementing flexible recruitment and retention strategies for workers. The timing of the adoption of the Diversity Policy meets the requirements of the ASX Principles while being an integral part of the development of the Company's human resource strategy.

The Company has a leadership team committed to diversity, and no entrenched recruitment or cultural practices that prevent it from delivering on diversity policy objectives. As mine workforce plans are developed, the Company has the opportunity to set targets for achieving meaningful objectives to maximise opportunities for people of all ages and from diverse cultural and social backgrounds to be a part of the Company's operations. A member of the Queensland Resources Council (QRC), the Company is committed to the QRC's leading practice principles and the actions identified by the QRC as leading practice in creating an environment that is conducive to retaining female employees.[1]

The Diversity Policy, the measurable objectives of the Diversity Policy, and the proposed initiatives for achieving the objectives, will be reviewed annually by the Company.

The measurable objectives of the Diversity Policy focus on:

- development of a remuneration framework and policy around reward and recognition;
- development of recruitment and selection processes that promote diversity and maximise the pool of potential candidates for particular roles;
- providing training and development opportunities, flexible work, accommodation and salary arrangements; and
- leading a no-tolerance approach to discrimination, victimisation and harassment in the workplace.

1 *Leading Practice Principles for the Attraction and Retention of Women in the Minerals and Energy Sector. SIxth Edition. Queensland Resources Council, March 2012*

REPORT OF THE DIRECTORS CONTINUED.

The Nomination and Remuneration Committee has, effective from 1 July 2012, assumed the functions of a diversity committee for the Company. As the diversity committee, the Nomination and Remuneration Committee monitors the performance of the Company against the measurable objectives for achieving diversity set out in the Diversity Policy, in accordance with the Charter of the Nomination and Remuneration Committee.

The Company keeps its stakeholders advised of progress in achieving the measurable objectives for achieving diversity set out in the Diversity Policy on no less than an annual basis. Progress towards achieving the measureable objectives made during the Reporting Period, and proposed initiatives for the Financial Year ending 30 June 2013, is summarised in the Report. In addition to reporting on achievement of measurable objectives, the Company addresses any guidance on diversity reporting on Principle 3 (Ethical and Responsible Decision Making) of the ASX Principles in this Statement and explains any departures from the ASX Principles in relation to gender diversity.

Female Participation in the Company

As part of the work being undertaken by the Company to develop its human resources strategy, employee bands are being developed as the organisational structure is reviewed. From FY2013, reporting in relation to levels of female participation in the Company will be based on employee bands adopted by the Company. For the purposes of the Reporting Period, the Company has provided data in relation to women included in Key Management Personnel (KMP) for the Reporting Period.

As at 30 June 2012, the proportion of women employed by the Company was as follows:

Level	Proportion of Women as Percentage (%)
Board (not including the Managing Director)	0%
Senior Executive Management (including Managing Director)	20%
Company	43% (Corporate 46%, Site-based 0%)

4.4 Safeguarding Integrity in Financial Reporting

	Principle 4 – Safeguard Integrity in Financial Reporting
4.1	The Board has established an audit committee.
4.2	The audit committee has been structured so that it: • consists only of non-executive Directors • consists of a majority of independent Directors • is chaired by an independent chair, who is not chair of the Board • has at least three members
4.3	The audit committee has a formal charter.
4.4	The Company has provided the information indicated in the guide to reporting on Principle 4.

4.4.1 Audit Committee

The Audit Committee of the Board exercised its functions during the Reporting Period in accordance with the Charter of the Audit Committee.

Since March 2012, the Audit Committee has consisted of only non-executive Directors (David Graham, John Pegler and Robert Johansen), has had a majority of independent Directors as members (David Graham, John Pegler), has been chaired by an independent chair (David Graham) and has had at least three members (John Pegler, David Graham and Robert Johansen). At the end of the Reporting Period, the composition of the Audit Committee was compliant with the Charter of the Audit Committee Charter and ASX Principle 4.2.

A detailed summary of the roles and responsibilities of the Audit Committee is set out in Section 4.1.2 of this Statement.

4.4.2 External Audit

The responsibilities of the Audit Committee include consideration of the appointment of the external auditor, approval the remuneration and terms of engagement of the external auditor, monitoring and reviewing the external auditor's independence, objectivity and effectiveness and developing and implementing policy on the engagement of the external auditor to supply consultancy services, taking into account relevant ethical guidance regarding the provision of consultancy services by the external audit firm. The Board is responsible for the initial appointment of the external auditor and the appointment of a new external auditor when any vacancy arises. Any appointment made by the Board must be ratified by shareholders at the next annual general meeting of the Company.

The external auditor attends meetings of the Audit Committee at the invitation of the Audit Committee, and presents the outcomes of external audits of the Company.

4.5 Making Timely and Balanced Disclosures

Principle 5 – Make Timely and Balanced Disclosure	
5.1	The Company has established written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and ensure accountability at senior executive level for that compliance and disclosed those policies or a summary of those policies.
5.2	The Company has provided the information indicated in the guide to reporting on Principle 5.

4.5.1 Continuous Disclosure

The Company's continuous disclosure policy is incorporated into the Corporate Governance Charter. The policy reflects the disclosure requirements of the ASX Listing Rules, provides procedural guidance and allocates responsibilities in relation to:

- overseeing and coordinating disclosure;
- information collection;
- releasing information to the ASX;
- acting as spokesperson for the Company;
- authorising disclosures in advance;
- maintaining released material;
- inclusion of information on the Company's web site;
- handling rumours, leaks and inadvertent disclosures;
- reviewing discussions with analysts, brokers and institutional investors; and
- reviewing draft analyst reports on the Company.

It is a standing item of business at the conclusion of each Board meeting for the Board and senior management present to assess whether any matters arose in the course of the meeting requiring disclosure under the ASX Listing Rules.

4.5.2 Trading in Company Securities by Directors and Employees

The Company encourages its Directors and employees to become shareholders in the Company.

The Company's Trading Policy as disclosed to the ASX, sets out the procedure for trading in securities of the Company by the Directors and employees. The Trading Policy provides that a Director or employee or any associate must not deal in securities of the Company during a prohibited period, being a blackout period or any period where any matter exists which could constitute inside information in relation to the Company.

The permissions and restrictions upon Directors in relation to dealing in securities of the Company under the Trading Policy are reinforced under the Corporate Governance Charter.

Refer to the Remuneration Report for details of shares held by Directors and to the Financial Report for details of shares held by all KMP.

4.6 Respecting the Rights of Shareholders

Principle 6 – Respect the Rights of Shareholders	
6.1	The Company has a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclosed the policy or a summary of the policy.
6.2	The Company has provided the information indicated in the guide to reporting on Principle 6.

4.6.1 Shareholder Communications

The Board is responsible for establishing and maintaining communications and relations between the Company and third parties, including its shareholders and the ASX. Day-to-day communication with shareholders and the ASX is delegated to the Managing Director and the Company Secretary, to ensure compliance with the ASX Listing Rules and the Company's continuous disclosure policy.

The Company's continuous disclosure policy forms the basis of the Company's commitment to timely and relevant communication to all shareholders.

Shareholders are provided with regular communication through the following channels:

- the Annual Report and notices of shareholder meetings;
- for those shareholders electing not to be mailed a copy of the Annual Report, a copy can be viewed on the Company's web site;
- quarterly reports reviewing the operations, activities and financial position of the Company;
- all documents that are released to the ASX are made available on the Company's web site; and
- any interviews with Boardroom Radio or interview transcripts are posted onto the Company's web site.

REPORT OF THE DIRECTORS CONTINUED.

4.7 Recognising and Managing Risk

Principle 7 – Recognise and Manage Risk

7.1	The Company has established policies for the oversight and management of material business risks and disclosed a summary of those policies.
7.2	The Board requires management to design and implement the risk management and internal control system to manage the Company's material business risks and report to it on whether those risks are being managed effectively. The Board has disclosed that management has reported to it as to the effectiveness of the Company's management of its material business risks.
7.3	The Board has disclosed whether it has received assurance from the Chief Executive Officer (or equivalent) and the Chief Financial Officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.
7.4	The Company has provided the information indicated in the guide to reporting on Principle 7.

4.7.1 Risk Management Policy

The Charter of the Risk Management Committee provides the framework for the oversight and management of material business risks of the Company.

4.7.2 Risk Management Processes

The Risk Management Committee has approved a risk matrix (internal document) that allows management to assess the impact on the Company of any specific risk materialising. The risk management processes require the assessment of both the likelihood and consequence of financial and non-financial risks, and that material business risks be highlighted to the Risk Management Committee at least every six months.

During the Reporting Period, the Board performed the functions of the Risk Management Committee. Management reported to the Board on material business risks facing the Company and the proposed strategies to manage those risks; strategies endorsed by the Board through various resolutions of the Board, principally in relation to delegated authorities, budgets and key performance indicators.

4.7.3 Management Representations

The Managing Director and the Chief Financial Officer declare in writing to the Board that the financial reporting risk management and associated compliance and controls have been assessed and found to be operating effectively, prior to the Directors' approval of the release of the annual and six monthly accounts. This representation is made after enquiry of, and representation by, appropriate levels of management and after consideration of the proposed management representation by the Audit Committee.

The Board has received assurances in writing from the Managing Director and Chief Financial Officer that, in respect of the Reporting Period, financial reporting risks and associated internal controls are operating effectively in all material respects.

4.8 Remunerate Fairly and Responsibly

Principle 8 – Remunerate Fairly and Responsibly

8.1	The Board has established a remuneration committee.
8.2	The remuneration committee is structured so that it: consists of a majority of independent directors is chaired by an independent chair has at least three members
8.3	The Company clearly distinguishes the structure of non-executive directors' remuneration from that of executive directors and senior executives.
8.4	The Company has provided the information indicated in the guide to reporting on Principle 8.

4.8.1 Remuneration Committee

The Remuneration Committee of the Board exercised its functions during the Reporting Period in accordance with the (now superseded) Charter of the Remuneration Committee. Subsequent to the Reporting Period, the Remuneration Committee was reconstituted to become the Nomination and Remuneration Committee, with associated changes to the roles and responsibilities of the Remuneration Committee effective from 1 July 2012.

Since April 2012, the Remuneration Committee consisted of a majority of independent directors (John Pegler and David Graham), was chaired by an independent chair (John Pegler) and had at least three members (John Pegler, David Graham and Robert Johansen). The composition of the Remuneration Committee as at the end of the Reporting Period is the composition of the Nomination and Remuneration Committee as at the date of this Report.

A detailed summary of the roles and responsibilities of the Nomination and Remuneration Committee is set out in Section 4.1.2 of this Statement.

4.8.2 Distinction between Remuneration Structures

The Company clearly distinguishes the structure of non-executive Directors' remuneration from that of executive Directors and senior executives. The policy for and components of senior executive remuneration and of non-executive Director remuneration as at 30 June 2012 is set out in Section 2 of the Remuneration Report. The policy and components of senior executive remuneration from 1 July 2012 is set out in Section 5 of the Remuneration Report. The policy and components of non-executive Director remuneration will be reviewed during FY2013.

ASX Principles – Statement of Compliance and Departures

RECOMMENDATION		COMPLIANT FOR THE WHOLE OF THE REPORTING PERIOD	COMPLIANT AS AT 30 JUNE 2012	SECTION REFERENCE
Principle 1 – Lay Solid Foundations for Management and Oversight				
1.1	The Company has established the functions reserved to the Board and those delegated to senior executives.	Yes	Yes	CGS 1.1
1.2	The Company has disclosed its process for evaluating the performance of senior executives.	Yes	Yes	CGS 1.6 Remuneration Report
1.3	The Company has provided the information indicated in the guide to reporting on Principle 1.	Yes		CGS1.1, CGS 1.6 Remuneration Report
Principle 2 – Structure the Board to Add Value				
2.1	A majority of the Board are independent Directors.	No	No	CGS 2.1
2.2	The Chair is an independent Director.	No	Yes	CGS 2.3
2.3	The roles of Chair and Chief Executive Officer are not exercised by the same individual.	Yes	Yes	CGS 2.3
2.4	The Board has established a Nomination Committee.	No	Yes	CGS 1.2 CGS 2.4
2.5	The Company has disclosed the process for evaluating the performance of the Board, its committees and individual Directors.	Yes	Yes	CGS 2.4
2.6	The Company has provided the information indicated in the guide to reporting on Principle 2.	Yes		CGS 1.2, 2.1, 2.3, 2.4
Principle 3 – Promote Ethical and Responsible Decision-Making				
3.1	The Company has established a code of conduct and has disclosed the code or a summary of the code.	Yes	Yes	CSG 3.1
3.2	The Company has established a policy concerning diversity and disclosed the policy or a summary of that policy. The policy includes requirements for the Board to establish measureable objectives for achieving gender diversity for the Board to assess annually both the objectives and progress in achieving them.	Yes	Yes	CGS 3.2 People and Diversity
3.3	The Company has disclosed in its annual report the measureable objectives for achieving gender diversity set by the Board in accordance with the diversity policy and progress towards achieving them.	Yes	Yes	CGS 3.2 People and Diversity
3.4	The Company has disclosed in its annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the Board.	Yes	Yes	CGS 3.2 People and Diversity
3.5	The Company has provided the information indicated in the guide to reporting on Principle 3.	Yes		CGS 3.1, 3.2 People and Diversity

REPORT OF THE DIRECTORS CONTINUED.

Principle 4 – Safeguard Integrity in Financial Reporting					
4.1	The Board has established an audit committee.	Yes		Yes	CGS 1.2, 4.1
4.2	The audit committee has been structured so that it: • consists only of non-executive Directors • consists of a majority of independent Directors • is chaired by an independent chair, who is not chair of the Board • has at least three members	No		Yes	CGS 1.2, 4.1
4.3	The audit committee has a formal charter.	Yes		Yes	CGS 1.2, 4.1
4.4	The Company has provided the information indicated in the guide to reporting on Principle 4.		Yes		CGS 1.2, 4.1
Principle 5 – Make Timely and Balanced Disclosure					
5.1	The Company has established written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and ensure accountability at senior executive level for that compliance and disclosed those policies or a summary of those policies.	Yes		Yes	CGS 5.1, 5.2
5.2	The Company has provided the information indicated in the guide to reporting on Principle 5.		Yes		CGS 5.1, 5.2
Principle 6 – Respect the Rights of Shareholders					
6.1	The Company has a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclosed the policy or a summary of the policy.	Yes		Yes	CGS 5.1, 6.1
6.2	The Company has provided the information indicated in the guide to reporting on Principle 6.		Yes		CGS 5.1, 6.1
Principle 7 – Recognise and Manage Risk					
7.1	The Company has established policies for the oversight and management of material business risks and disclosed a summary of those policies.	Yes		Yes	CGS 1.2, 7.1
7.2	The Board requires management to design and implement the risk management and internal control system to manage the Company's material business risks and report to it on whether those risks are being managed effectively. The Board has disclosed that management has reported to it as to the effectiveness of the Company's management of its material business risks.	Yes		Yes	CGS 7.2
7.3	The Board has disclosed whether it has received assurance from the Chief Executive Officer (or equivalent) and the Chief Financial Officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.	Yes		Yes	CGS 7.3
7.4	The Company has provided the information indicated in the guide to reporting on Principle 7.		Yes		CGS 1.2, 7.1, 7.2, 7.3
Principle 8 – Remunerate Fairly and Responsibly					
8.1	The Board has established a remuneration committee.	Yes		Yes	CGS 1.2, 8.1
8.2	The remuneration committee is structured so that it: consists of a majority of independent directors is chaired by an independent chair has at least three members	No		Yes	CGS 1.2, 8,1
8.3	The Company clearly distinguishes the structure of non-executive directors' remuneration from that of executive directors and senior executives.	Yes		Yes	CGS 8.2 Remuneration Report
8.4	The Company has provided the information indicated in the guide to reporting on Principle 8.		Yes		CGS 1.2, 8.1, 8.2 Remuneration Report

The Company's web site www.bandannaenergy.com.au, contains a corporate governance section that includes copies of the Company's corporate governance charters and policies mentioned in this Statement, unless noted to be an internal document.

5. REMUNERATION REPORT (AUDITED)

The Remuneration Report documents the Company's Remuneration Policy and how it aligns the performance indicators for individual employees with the long-term strategic objectives and short-term strategy implementation milestones of the Company. The Remuneration Policy will be separately documented and made available on the Company's web site in FY2013.

The Remuneration Report provides details of the remuneration of Key Management Personnel (KMP) during the Reporting Period.

The information provided in this Remuneration Report has been audited as required by section 308(3C) of the *Corporations Act 2001 (Cth)*.

The structure of the Remuneration Report is as follows:

Subject	Details Provided	Section Reference
Key Management Personnel	Names, Positions and Dates Appointed of KMP to 30 June 2012	5.1
Remuneration Policy during the Reporting Period	Policy for and Components of Executive Remuneration to 30 June 2012 Policy for and Components of non-executive Director Remuneration to 30 June 2012 Directors' Shareholding and Interests in the Company	5.2
Remuneration of KMP	Remuneration Details for the Financial Year ended 30 June 2012	5.3
Employee Share Plans	Summary of Employee Share Plans in place to 30 June 2012	5.4
Remuneration Policy from 1 July 2012	Policy for Executive Remuneration from 1 July 2012 Plans for Review of Policy for non-executive Director Remuneration effective from 1 July 2013	5.5
Remuneration Consultants	Scope of services provided to the Company by remuneration consultants engaged by the NRC Commitee during the Reporting Period	5.6
Performance	Performance of the Consolidated Group since 2008.	5.7

5.1 Key Management Personnel

The Key Management Personnel of the Company are those persons responsible for planning, directing and controlling the activities of the Company during the Reporting Period. The Key Management Personnel during the Reporting Period and referred to in this Remuneration Report are:

- Non-Executive Directors – there were five non-executive Directors during the Reporting Period;
- Executive Directors and senior management (Executives) – as at 30 June 2012 there were five Executives, including Managing Director Michael Gray;
- Former Executives – there is one former Executive, Dr Ray Shaw, included in Key Management Personnel for part of the Reporting Period.

REPORT OF THE DIRECTORS CONTINUED.

Key Management Personnel

Category	Name	Position	Appointment Date
As at 30 June 2012			
Non-Executive Directors	John Pegler	Chairman, Independent, Non-Executive Director	1 January 2012
	Jeremy Barlow	Non-Executive Director	3 October 2008
	David Graham	Independent, Non-Executive Director	3 October 2008
	Robert Johansen	Non-Executive Director	3 October 2008
	Park Soon IL	Non-Executive Director	19 November 2009
Executives	Michael Gray	Managing Director	5 March 2012
	Matthew Scott	Chief Financial Officer Company Secretary	3 November 2008 9 March 2009 Resigned 14 March 2012
	Tess Lye	General Counsel and Company Secretary	14 March 2012
	David Campbell	General Manager – Exploration and Dingo West Project	1 March 2010
	Peter Binnie	General Manager – Underground Development	11 October 2010
Former Executives	Raymond Shaw	Managing Director	7 May 2007 Resigned 5 March 2012

5.2 Remuneration Policy

The Board's policy for determining the nature and amount of remuneration for Executives during the Reporting Period was as follows:

- the remuneration policy developed by the (then) Remuneration Committee and approved by the Board in a previous reporting period continued to apply in the period to 30 June 2012
- the (then) Remuneration Committee reviewed executive personnel packages during the period to 30 June 2012 by reference to the status of the Company's projects, executive performance and comparable information from industry sectors.

Policy for and Components of Executive Remuneration to 30 June 2012

A. Total Fixed Remuneration

Executives receive a base salary (which is based on factors such as length of service and experience), employer superannuation and fringe benefits, and are entitled to participate in any short and long term incentives schemed offered by the Company. All remuneration paid to Key Management Personnel is valued at the cost to the Company and expensed.

B. Short Term Incentive

The short term incentive scheme for Executives in place during the Reporting Period comprised an annual cash bonus payable on the Board's discretion and based on an assessment by the Board of the individual performance of the Executives.

C. Long Term Incentive

The long term incentive (LTI) scheme for Executives in place during the Reporting Period comprised unlisted options granted annually to the Executives (excluding Michael Gray and Tess Lye) with a remuneration value equal to 70% of the base package of the Executive (100% of the base package for Ray Shaw).

The number of options granted is based on the LTI value divided by the option value determined independently by the Black Scholes or Binomial valuation methodology.

The performance conditions applied to the vesting of the options under the terms of the options include:

- exercise price;
- option term to apply over a three year period (two years for Ray Shaw);
- options equating to 50% of the LTI value to vest after the Company's share price reaches a level 50% greater than the exercise price or a level as determined by the Board;
- options equating to 50% of the LTI value to vest after the Company's share price reaches a level 100% greater than the exercise price or a level as determined by the Board,

in addition to any additional vesting conditions or restrictions that may be imposed upon Executives associated with their conditions of employment.

Options granted under the long term incentive scheme do not carry Dividend or voting rights. Each option is entitled to be converted into one ordinary share in the Company.

D. Employment Contracts

The employment terms and conditions of Executives during the Reporting Period are formalised in contracts of employment. All Executives during the Reporting Period, (with the exception of Ray Shaw) are permanent employees of the Company.

Dr Shaw was employed under a fixed two year contract which commenced on 3 October 2008 and expired on 3 October 2010. Dr Shaw's employment contract was renewed for a further year to 3 October 2011 and continued on a monthly basis until Dr Shaw resigned as a Director of the Company effective 5 March 2012.

Terms of employment require that the Company provide Executives (other than the Managing Director) with a minimum of between one and three months' notice prior to termination of employment. Executives may terminate their employment by providing between one to three months' notice. The Managing Director is required to give, and be given, six months notice of termination of employment.

In the event of redundancy, the Managing Director is entitled to a maximum termination payment equivalent to 12 months' salary. Other Executives have termination payment entitlements in the event of redundancy of the equivalent of between one and six months' salary.

Termination payments are not payable on resignation or under the circumstances of unsatisfactory performance.

Policy for and Components of Non-Executive Director Remuneration to 30 June 2012

The fixed remuneration of $100,000 per annum for each non-executive Director and $200,000 per annum for the Chairperson has not been restructured or increased since October 2008. No additional remuneration is paid to non-executive Directors in respect of additional responsibilities associated with membership of Committees. The Chairperson receives an additional fixed remuneration of $100,000 due to the additional responsibilities of the Chairperson.

The maximum aggregate amount of fees that can be paid to non-executive Directors is subject to approval by shareholders at the Annual General Meeting.

The Company's Constitution permits:

- additional fees to be paid to non-executive Directors for additional services;
- non-executive Directors to be reimbursed for expenses properly incurred by them in attending and returning from meetings of the Directors, Committees or general meetings of the Company or otherwise in relation to the Company's business.

In the Reporting Period, non-executive Director Robert Johansen was paid additional fees of $297,662 through Perusal Time Pty Ltd for business development services.

Expenses were reimbursed to non-executive Directors during the Reporting Period.

Directors' Shareholding and Interests in the Company

The number of shares in the Company held during the Reporting Period by Directors, directly or indirectly, are set out below.

	Balance 1 July 2011	Purchases / Sales	Options Exercised	Disposals	Balance 30 June 2012
Directors					
J Pegler	-	-	-	-	-
J Barlow [(1)]	116,523,599	3,000,000	-	-	119,523,599
D Graham	300,000	193,750	-	-	493,750
R Johansen [(1)]	96,957,311	1,000,000	-	-	97,957,311
SI Park [(2)]	-	-	-	-	-
R Shaw	3,822,000	20,000	-	-	3,842,000
M Gray	-	-	-	-	-
	217,602,910	4,213,750	-	-	221,816,660

(1) J Barlow and R Johansen shareholdings include 97,902,311 shares held by entities in which both have an interest.

(2) SI Park is one of three Directors of SAMTAN Aures Pty Ltd which holds 56,383,003 shares in the Company at the end of the Reporting Period.

REPORT OF THE DIRECTORS CONTINUED.

5.3 Remuneration of KMP

The following table of benefits and payments details, in respect to the Reporting Period, the components of remuneration for each member of the Key Management Personnel of the Company.

Table of Benefits and Payments

		Short-term incentives									
	Year	Salary and fees $	Cash Bonus $	Non-monetary $	Total $	Post-employment benefits: Superannuation $	Termination Benefits $	Other long-term employee benefits $	Share-based payments: Options $	Total $	Value of LTI as a proportion of remuneration %
Directors											
John Pegler[(1)]	2012	67,715	-	591	68,306	6,094	-	-	-	74,400	-
	2011	-	-	-	-	-	-	-	-	-	-
Jeremy Barlow[(2)]	2012	161,643	-	-	161,643	14,548	-	-	-	176,191	
	2011	183,486	-	-	183,486	16,514	-	-	-	200,000	-
David Graham	2012	91,743	-	-	91,743	8,257	-	-	-	100,000	
	2011	91,743	-	-	91,743	8,257	-	-	-	100,000	-
Robert Johansen	2012	91,743	-	-	91,743	8,257	-	-	-	100,000	
	2011	91,743	-	-	91,743	8,257	-	-	-	100,000	-
Park Soon IL[(3)]	2012	99,996			99,996	-	-	-	-	99,996	
	2011	99,996	-	-	99,996	-	-	-	-	99,996	-
Ray Shaw[(4)]	2012	381,903		5,934	387,837	29,427	-	-	-	417,264	
	2011	362,385	-	5,841	368,226	32,615	-	-	395,000	795,841	50
Michael Gray[(5)]	2012	149,685	-	2,439	152,124	3,378	-	-	-	155,502	-
	2011	-	-	-	-	-	-	-	-	-	-
Directors	2012	944,433	-	8,964	953,396	69,961	-	-	-	1,023,357	-
	2011	829,353	-	5,841	835,194	65,643	-	-	395,000	1,295,837	-
Executives											
Matthew Scott	2012	354,591	28,899	8,258	391,748	26,009	-	-	302,400	720,157	42
	2011	284,098	-	6,666	290,764	25,569	-	-	228,648	544,981	42
Tess Lye[(6)]	2012	66,930	-	2,623	69,553	78	-	-	-	69,631	-
	2011	-	-	-	-	-	-	-	-	-	-
David Campbell	2012	276,561	22,706	7,115	306,382	22,479	-	-	237,600	566,461	42
	2011	247,706	-	6,666	254,372	22,294	-	-	196,000	472,666	42
Peter Binnie	2012	276,561	22,706	7,115	306,382	22,479	-	-	237,600	566,461	42
	2011	178,640	-	4,821	183,641	16,078	-	-	195,891	395,430	50
Executives	2012	974,642	74,311	25,112	1,074,065	71,045	-	-	777,600	1,922,710	-
	2011	710,444	-	18,153	728,597	63,941	-	-	620,539	1,413,077	-
Total	2012	1,919,075	74,311	34,076	2,027,461	141,006	-	-	777,600	2,946,067	-
	2011	1,539,797	-	23,994	1,563,791	129,584	-	-	1,015,539	2,708,914	-

1 *Appointed Non-Executive Director 1 January 2012; appointed Chairman on 5 April 2012.*

2 *Resigned as Chairman 5 April 2012.*

3 *Fees paid to Samtan Co. Ltd under Services Agreement between Bandanna Energy Limited and Samtan Co. Ltd effective from the date of appointment of Park Soon IL on 19 November 2009.*

4 *Resigned 5 March 2012.*

5 *Appointed 5 March 2012.*

6. *Commenced 12 March 2012 and appointed Company Secretary 14 March 2012. Remuneration on pro-rata basis, 4 days per week.*

Options and Rights Granted

The number of options held during the year by Key Management Personnel are set out below.

	Balance 1 July 2011	Options Granted	Options Exercised	Options Lapsed	Balance 30 June 2012	Total[1] Exercisable 30 June 2012
Directors						
J Pegler	-	-	-	-	-	-
J Barlow	-	-	-	-	-	-
D Graham	-	-	-	-	-	-
R Johansen	-	-	-	-	-	-
SL Park	-	-	-	-	-	-
R Shaw[2]	4,865,000	-	-	-	4,865,000	0
M Gray	-	-	-	-	-	-
Executives						
M Scott	2,914,000	2,308,397	(400,000)	(978,000)	3,844,397	0
T Lye	-	-	-	-	-	-
D Campbell	1,138,000	1,813,740	-	-	2,951,740	0
P Binnie	506,000	1,932,000	-	-	2,438,000	0
	9,423,000	6,054,137	(400,000)	(978,000)	14,099,137	0

(1) Total Exercisable 30 June 2012 takes into account additional vesting conditions or restrictions imposed under conditions of employment.

(2) R Shaw resigned as Director effective 5 March 2012.

All options exercised resulted in the issue of ordinary shares in the Company on a 1:1 basis.

Description of Options/Rights Issued as Remuneration

Details of the options granted as remuneration to KMP listed in the previous table are as follows:

	Grant Date	No. of Options	Expiry Date	Exercise Price	Trigger Price	Value per Option	Value
Directors							
R Shaw	12 Nov 2010	1,103,000	12 Nov 2012	$0.745*	$1.50	$0.179	$197,500
	12 Nov 2010	1,283,000	12 Nov 2012	$0.745*	$2.00	$0.154	$197,500
	12 Nov 2010	1,197,000	12 Nov 2012	$0.745*	$1.00	$0.165	$197,500
	12 Nov 2010	1,282,000	12 Nov 2012	$0.745*	$1.20	$0.154	$197,500
Executives							
M Scott	21 June 2010	538,000	21 June 2013	$0.745*	$1.50	$0.179	$96,250
	21 June 2010	621,000	21 June 2013	$0.745*	$2.00	$0.155	$96,250
	3 Nov 2010	188,000	3 Nov 2013	$0.745*	$1.50	$0.609	$114,492
	3 Nov 2010	189,000	3 Nov 2013	$0.745*	$1.60	$0.604	$114,492
	1 June 2012	2,308,397	1 June 2015	$0.745	$1.10	$0.131	$302,400
D Campbell	1 Mar 2010	409,000	1 Mar 2013	$0.745*	$1.20	$0.214	$87,500
	1 Mar 2010	438,000	1 Mar 2013	$0.745*	$1.60	$0.20	$87,500
	1 Mar 2011	145,000	1 Mar 2014	$1.645*	$2.20	$0.676	$98,000
	1 Mar 2011	146,000	1 Mar 2014	$1.645*	$2.60	$0.671	$98,000
	1 June 2012	1,813,740	1 June 2015	$0.745	$1.10	$0.131	$237,600
P Binnie	11 Oct 2010	245,000	11 Oct 2013	$0.745*	$1.20	$0.399	$97,755
	11 Oct 2010	261,000	11 Oct 2013	$0.745*	$1.60	$0.376	$98,136
	1 Dec 2011	1,932,000	1 Dec 2004	$0.745	$1.10	$0.123	$237,600

REPORT OF THE DIRECTORS CONTINUED.

Notes:

** Exercise Price amended following the 5 for 16 accelerated pro rate entitlement offer undertaken by the Company in August and September 2011. Exercise Price in the previous table reflects the revised Exercise Price.*

- *Option values at grant date were determined using the Black-Scholes and/or Binomial method.*
- *Details relating to service and performance criteria required for vesting have been provided in the table.*

Options

At the date of this Report, the unissued ordinary shares of the Company under option to KMP listed in the previous table are as follows:

Grant Date	Date of Expiry	Exercise Price	Number under Option
1 March 2010	1 March 2013	$0.745*	847,000
21 June 2010	21 June 2013	$0.745*	1,159,000
11 October 2010	11 October 2013	$0.745*	506,000
3 November 2010	3 November 2013	$0.745*	377,000
12 November 2010	12 November 2012	$0.745*	4,865,000
1 March 2011	1 March 2014	$1.645*	291,000
1 December 2011	1 December 2014	$0.745	1,932,000
1 June 2012	1 June 2015	$0.745	4,122,137

Notes:

** Exercise Price amended following the 5 for 16 accelerated pro rate entitlement offer undertaken by the Company in August and September 2011. Exercise Price in the previous table reflects the revised Exercise Price.*

- *Option holders do not have any rights to participate in any issues of shares or other interests in the Company or any other entity.*
- *There have been no unissued shares or interests under option of any controlled entity within the Consolidated Group issued to KMP during or since since the Reporting Period.*

5.4 Employee Share Plans

The Board of the Company adopted an Employee Share Option Plan (ESOP) on 19 August 2010, as a means of rewarding and incentivising the Company's employees. The ESOP was subsequently approved by shareholders of the Company at the Company's Annual General Meeting on 12 November 2010.

Options granted under the ESOP during the Reporting Period are set out in Section 5.3.

5.5 Remuneration Policy from 1 July 2012

In prior reporting periods, the remuneration principles of the Company have been to align senior management objectives with the Company's strategic objectives through the provision of remuneration packages comprising a fixed cash salary component and equity based long-term incentives. The design of management remuneration has been responsibly and carefully undertaken through the development of remuneration packages on a role by role basis, appropriate for a small company with a limited requirement for human resources on a quantitative basis but a requirement for specific skills and experience.

These remuneration principles remain a key part of the Company's remuneration framework. However the Company's increased human resource requirements demands a transparent and consistent framework for employee remuneration.

The Company received a vote in excess of 25% against the 2011 Remuneration Report of the Company at the Annual General Meeting of the Company held in November 2011. In the absence of any comments about the remuneration report received from shareholders at the 2011 AGM, the Company supports improved transparency and reporting on the framework for assessing performance of Key Management Personnel against the key performance indicators designed to achieve the Company's strategic goal.

Employee Remuneration Policy from 1 July 2012

Details of the Company's Remuneration Policy approved by the Board in August 2012, is set out in this section.

The objective of the Company's new Remuneration Policy, is to be a key enabler for the Company in achieving its strategic goal of becoming Australia's next coal producer. It is critical that the remuneration framework ensures retention of current employees and attraction of future employees, as the Company moves through the critical phases of development to production. The employee remuneration framework needs to make the Company competitive in a tight skilled resources market, through an offering of both short and long term incentives and competitive base salaries. The future success of the Company is based on the attraction and retention of the unique talent, who can successfully deliver in a challenging development environment.

The Remuneration Policy, effective from 1 July 2012 (subject to shareholder approval at the 2012 Annual General Meeting), comprises the following elements:

- **Base Salary –** must be determined at a level consistent with role, individual skills and experience, level of responsibility and market comparator
- **Short Term Incentive (STI) –** The purpose of this policy is to provide reward to all levels of employees on an annual basis, based on their performance. The intention of the plan is to drive improved business and individual performance through Key Performance Indicators (KPIs) which have clear linkages to the business strategy. The intention is that these KPIs are measurable and achievable.

The STI as a maximum percentage of total fixed remuneration from the Financial Year ending 30 June 2013 is set out in the following table:

Position	STI	STI Performance Measures	STI Rules
Managing Director	Cash Up to 40% of base salary	Company KPIs 80% Individual 20%	Paid annually after completion of performance review for the Financial Year
Executive Managers	Cash Up to 35% of base salary	Company KPIs 60% Individual 40%	Paid annually after completion of performance review for the Financial Year
Senior Managers	Cash Up to 25% of base salary	Company KPIs 40% Individual KPIs 60%	Paid annually after completion of performance review for the Financial Year
Other Management/ Senior Specialists	Cash Up to 15% of base salary	Company KPIs 20% Individual KPIs 80%	Paid annually after completion of performance review for the Financial Year
Employees	Cash Up to 10% of base salary	Individual KPIs 100% Milestone based	Paid annually after completion of performance review for the Financial Year

- **Long Term Incentive (LTI) –** A LTI is provided to reward performance over a longer period of time and will form part of the remuneration for executive and management who influence and drive the strategic direction of the business. The LTI must be linked to the achievement of key milestones and tenure of service, as the Company moves from exploration, through development to production.

Position	LTI Vehicle	LTI Performance Measures	LTI Qantum	Allocation Methodology, Valuation, Vesting Conditions
Managing Director	Performance Rights	Key Milestones 50% (Board Approved) Service 50% (Employed at Vesting Date)	Up to 60% of base salary	Granted Annually Performance assessed over 3 years
Executive Managers	Performance Rights	Key Milestones 50% (Board Approved) Service 50% (Employed at Vesting Date)	Up to 35% of base salary	Granted Annually Performance assessed over 3 years
Senior Managers	Performance Rights	Key Milestones 50% (Board Approved) Service 50% (Employed at Vesting Date)	Up to 25% of base salary	Granted Annually Performance assessed over 3 years

REPORT OF THE DIRECTORS CONTINUED.

Remuneration for the Managing Director and Executives (as per the two previous tables), including increases in base salaries and awards of incentives based on performance outcomes and market benchmarking, is approved by the Board on the recommendation of the Nomination and Remuneration Committee.

Review of Non-Executive Director Remuneration

With a majority of non-independent, non-executive Directors on the Board, to date the (then) Remuneration Committee and the Board have not considered it to be detrimental to the Company and shareholders that the remuneration of non-executive Directors does not include an equity based component. The Board considers that having a majority of non-independent, non-executive Directors has to date facilitated the alignment of the objectives of the Board with shareholders, without the need to change the remuneration structure for non-executive Directors.

However, as the Company is committed to achieving compliance with ASX Principle 2.1 and achieving a majority of independent directors on the Board, the strategic advantages of aligning the interests of the directors with the interests of the Company through remuneration necessitates a review of the remuneration framework for non-executive Directors of the Company.

An independent review of the structure of remuneration for non-executive Directors will be undertaken during the Financial Year ending 30 June 2013, as well as an assessment of Board performance and effectiveness and the process and criteria for selection of Directors. The reconstituting of the Remuneration Committee to a Nomination and Remuneration Committee effective from 1 July 2012 was the first step in preparing for this review.

The maximum aggregate amount of fees that can be paid to non-executive Directors will continue to be subject to approval by shareholders at the Annual General Meeting of the Company.

5.6 Remuneration Consultants

During the Reporting Period, the (then) Remuneration Committee engaged the services of PricewaterhouseCoopers (PwC) to review and provide recommendations on the design of the Company's remuneration incentive framework, including STI and LTI plan design. PwC made recommendations to the Remuneration Committee in respect of:

- segmentation of workforce and eligibility to participate in incentive schemes;
- STI design – performance review period, form of incentive and calculation;
- LTI design – instruments, quantum, allocation methodology, valuation, performance periods and vesting conditions.

Under the terms of the engagement, PwC provided remuneration recommendations as defined in Section 9B of the Corporations Act and was paid $49,150 for these services.

During the Reporting Period, the Company also engaged PwC to provide corporate advisory services unrelated to remuneration design and PwC was paid $237,353 for these services.

PwC has confirmed that the recommendations were made to the Remuneration Committee free from undue influence by members of the Group's Key Management Personnel.

PwC was engaged by, and reported directly to, the chair of the Remuneration Committee. PwC was permitted to speak to senior management throughout the engagement to understand the Company's organisational structure and the nature of the Company's activities and industry, and to obtain the perspectives of senior management on issues of remuneration and incentives.

The Directors are satisfied that the recommendations were made free from undue influence from any members of the Key Management Personnel.

Subsequent to the Reporting Period, the Company documented the remuneration policy of the Company arising out of the Remuneration Committee's consideration of the recommendations made to it by PwC. The final design of the Company's remuneration policy approved by the Board in August 2012 and effective from 1 July 2012 is not necessarily indicative of the adoption of all recommendations made by PwC to the Remuneration Committee.

5.7 Performance

In considering the performance of the Consolidated Group in terms of creation of shareholder wealth, the Board has had regard to the following performance in respect of the Reporting Period and prior reporting periods since the Group acquired the coal assets of Bandanna Coal Pty Ltd.

	2012	2011	2010	2009	2008
EPS (cents)	0.60	(1.09)	(3.76)	(0.22)	(1.33)
Dividend (cents per share)	-	-	-	-	-
Net Profit / Loss ($000)	3,100	(4,351)	(13,455)	(722)	(2,322)
Share Price* ($)	0.8119	1.7195	0.6786	3.0276	12.0649

**On 16 September 2008, a 1 for 10 consolidation of Enterprise Energy Limited's shares occurred. The 2008 and 2009 share prices have been adjusted to reflect this consolidation.*

End of Remuneration Report.

6. PRINCIPAL ACTIVITIES AND SIGNIFICANT CHANGES IN NATURE OF ACTIVITIES

The principal activities of the Consolidated Group during the Reporting Period were the exploration for coal in the Bowen and Galilee basins in Queensland, preparation for development of the Springsure Creek and Dingo West projects in the Bowen Basin and participation in the SGCPJV.

The Consolidated Group also holds interests in other mineral tenements (bentonite and oil shale), however no activities were undertaken in relation to the mineral tenements during the Reporting Period.

There was no significant change in the nature of the activities of the Consolidated Group during the Reporting Period.

7. BUSINESS STRATEGY

Strategic Planning and Execution

The Company's strategic focus during the Reporting Period was to raise sufficient capital to allow the Company to continue its active exploration and feasibility programmes for the Springsure Creek and Dingo West projects, and to meet funding commitments for critical infrastructure made in relation to the Springsure Creek Project during the first half of the Reporting Period.

The Company was successful in securing the required funding to execute its strategic plan for the Reporting Period, through the entitlement offer in August 2011 and the securing of the Credit Suisse $67.3m bank guarantee facility, reported subsequent to the Reporting Period.

In FY2013, the Company is focused again on execution of strategy around project-based priorities; firstly, to secure required mining and environmental approvals for the Springsure Creek Project and secondly, to secure financing for project development. The FY2013 performance milestones set by the Board are structured around completion of the DFS (to allow the Company to seek equity and debt funding for the project) and securing the critical project approvals for the Springsure Creek Project.

Mineral Resources Rent Tax

The Mineral Resources Rent Tax (MRRT) was enacted on 28 March 2012 commencing on 1 July 2012. The MRRT represents an additional tax on profits generated from the mining operations of coal and iron ore miners in Australia. As at 30 June 2012, Bandanna has not recognised any balances in its financial statements relating to the MRRT as the development decisions relating to the Springsure Creek and Dingo West projects are still being finalised, and the projects are currently at MLA or MLA preparation stage. Following grant of mining leases and confirmation as to the timing of the development of these projects, the impact of the MRRT will be reflected in the Company's financial results.

Carbon Price

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 Consolidated Group. In addition, as the Consolidated 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. Currently the Directors expect that this will not have a significant impact upon the operating costs of the Company, and therefore will not have an impact upon the valuation of assets and/or going concern of the business.

8. OPERATING RESULTS

The consolidated profit after income tax for the Financial Year ended 30 June 2012 was $3,099,998 (2011 $4,803,322 loss after income tax).

No Dividends were paid or declared for payment during the Reporting Period. No recommendation for payment of a Dividend has been made.

9. REVIEW OF CORPORATE ACTIVITIES

Entitlement Offer

On 17 August 2011 Bandanna announced its intention to undertake a capital raising through a 5 for 16 accelerated, non-renounceable, entitlement offer at $1.00 per share. The institutional component of that entitlement offer, which was underwritten by UBS, resulted in gross proceeds of approximately $100 million and the issue of 99,651,448 ordinary shares in the Company. The corresponding retail component of the entitlement offer at $1.00 per share, which closed on 9 September 2011, resulted in a total uptake of 1,134,269 shares. The results of the entitlement offers and the issuing of the total of 100,785,717 ordinary shares in the Company subsequent to the closing of the institutional and retail offers, were disclosed to the ASX in accordance with the ASX Listing Rules.

Proceeds of the entitlement offer have been applied to the development of the Springsure Creek and Dingo West projects, including the provision of bank guarantees for Stage 1 capacity at WICET and associated rail contracts for the Springsure Creek Project.

Strategic Review Process and Third Party Interest

In December 2011, Bandanna formally terminated a strategic review process, which had been instigated in the previous reporting period. The Company has continued to engage with third parties around investment opportunities, particularly in relation to joint venture participation in the Springsure Creek and Dingo West projects, outside of a competitive, formal process. In the latter part of the Reporting Period, discussions continued with a number of third parties in relation to a potential sell down by the Company of a minority interest in the Springsure Creek Project.

Employee Options

During the Reporting Period, the Company issued share options to a number of Key Management Personnel under the Company's Employee Share Option Plan (ESOP) approved by shareholders at the 2010 Annual General Meeting of the Company.

REPORT OF THE DIRECTORS CONTINUED.

During the Reporting Period, a total of 6,054,137 unlisted options to acquire ordinary shares in the Company at $0.745 per share were issued to some employees (Key Management Personnel) and disclosed to the ASX in accordance with the ASX Listing Rules. Details of the options and the relevant options holders are set out in the Remuneration Report.

During the Reporting Period 120,000 unlisted options to acquire ordinary shares in the Company at $1.50 per share were exercised by a former employee of the Company. In accordance with the terms of the options, the shares were allotted following receipt of the option exercise price and disclosed to the ASX in accordance with the ASX Listing Rules.

During the Reporting Period 400,000 unlisted options to acquire ordinary shares in the Company at $0.745 per share were exercised by an employee (Key Management Personnel). In accordance with the terms of the options, the shares were allotted following receipt of the option exercise price and disclosed to the ASX in accordance with the ASX Listing Rules.

As advised to the ASX, 978,000 unlisted options to acquire ordinary shares in the Company at $0.745 per share lapsed during the Reporting Period.

Changes to Board and Senior Management

During the Reporting Period, the following changes to the composition of the Board and senior management team occurred:

1 January 2012	Appointment of John Pegler as a non-executive Director
5 March 2012	Resignation of Ray Shaw as Managing Director
5 March 2012	Appointmentof Michael Gray as Managing Director
14 March 2012	Resignation of Matthew Scott as Company Secretary
14 March 2012	Appointment of Tess Lye as Company Secretary
5 April 2012	Resignation of Jeremy Barlow as Chairman of the Board of Directors
5 April 2012	Appointment of John Pegler as Chairman of the Board of Directors

Matthew Palmer, General Manager – Surface Infrastructure and Rachel Gibson, Manager Community and Environment commenced with the Company in June 2012.

The changes in Directors and the Company Secretary were disclosed to the ASX in accordance with the ASX Listing Rules.

10. REVIEW OF OPERATIONS

The Operations Review and Positioning for Growth sections of the Annual Report provide a detailed summary of the operations of the Consolidated Group during the Reporting Period.

11. SUBSEQUENT EVENTS

The Directors report on the following matters arising subsequent to the end of the Reporting Period. Some matters reported on in this section have been disclosed to the ASX in accordance with the ASX Listing Rules.

Credit Suisse Bank Guarantee Facility

Subsequent to the Reporting Period, the Company announced that it was committing additional funds to advancement of the Springsure Creek Project, following the acceptance of a senior secured debt facility with Credit Suisse for $67.3 million. The Credit Suisse facility releases $50 million cash that the Company has previously used to secure two port and rail bank guarantees for the project. Bandanna intends to apply the available funds wholly to the development of the Springsure Creek Project, and has identified land purchases and long lead time capital equipment commitments for the likely application of the released cash.

Increase in Resources and MLA progress for Springsure Creek Project

In July 2012 the Company confirmed that it was continuing to progress development of the replacement MLA for the Springsure Creek Project during the September quarter, in consultation with key stakeholders.

In August 2012, Bandanna announced an increase in its JORC compliant Resources at Springsure Creek (EPC891) from 490.5Mt to 543.7Mt. This Resource comprises a maiden Measured Resource of 52.8 million tonnes, an indicated Resource of 222.3 million tonnes and Inferred Resource of 268.6 million tonnes. A further 49.6 Mt of Inferred Resource is now identified in the underlying Castor and Aries 3 seams.

Date of 2012 Annual General Meeting

The Company's Annual General Meeting will be held on Thursday 15 November 2012 at 11.00am, at the offices of Hopgood Ganim Lawyers, Level 8, Waterfront Place, 1 Eagle Street, Brisbane, Queensland.

Triumph Creek Train Loadout Facility

In September 2012 the Company finalised agreemants for the development and operation of train loadout infrastructure at Triumph Creek, to be located on portions of Acacia Coal Limited's coal exploration tenement EPC1230. To be designed and operated for multiple users, the Triumph Creek facility will provide loading capacity for the Springsure Creek Project.

The key commercial terms of the arrangement were announced by the Company and Acacia on 12 March 2012 and provide for the Company to make 1Mtpa train loadout capacity available to Acacia, with Acacia having an option for an additional 1Mtpa subject to availability, in return for Acacia's consent to applications for transportation and infrastructure mining leases over portions of EPC1230. The train loadout infrastructure will provide loading capacity for the Springsure Creek Project through to full-scale production.

On 11 September 2012, 20 million options were granted to Acacia Coal Limited under the Development and Operations Agreements for the Springsure Creek train loadout infrastructure. The options to acquire fully paid shares in Bandanna are exercisable at $1.50 over a five year option period, vesting on grant of the infrastructure mining lease for Triumph Creek.

Corporate Matters

Stuart Clarke commenced as Chief Development Officer of the Company in July 2012 and will be considered Key Management Personnel for FY2013.

On 30 August 2012, Bandanna executed a surrender of the office lease for 410 Queen Street, Brisbane, Queensland.

12. ENVIRONMENTAL REGULATION

The Company is subject to significant environmental regulation in respect of its operated and non-operated interests in the Tenements. The Company is committed to achieving a high standard of environmental performance.

The Company's 50% interest in SGCP is managed by Alpha Coal Management Pty Ltd, a wholly owned subsidiary of AMCI (Alpha) Pty Ltd. To the knowledge and belief of the Company, during the Reporting Period the manager of the SGCPJV complied with its statutory environmental management obligations, predominantly under the *Environment Protection Act 1994* (Cth).

The Company became aware of potential non-compliances with some conditions of Environmental Authorities issued for EPC 891 (Springsure Creek) and EPC 881 (Dingo West) during and subsequent to the Reporting Period. These potential non-compliances relate to reporting and rehabilitation. The Company is presently liaising with the Department of Environment and Heritage Protection (DEHP) in this regard, however, has not to date received any confirmation of non-compliance from the DEHP. To the extent that any non-compliance is confirmed by DEHP, the Company will continue working with the DEHP to rectify any confirmed non-compliances.

The Board is not otherwise aware of any breach or potential breach of any environmental regulations as they apply to the Company.

13. LEGAL PROCEEDINGS ON BEHALF OF THE CONSOLIDATED GROUP

No person has applied for leave of Court to bring proceedings on behalf of a member of the Consolidated Group or intervene in any proceedings to which a member of the Consolidated Group is a party for the purpose of taking responsibility on behalf of the relevant company for all or any part of those proceedings.

No member of the Consolidated Group was a party to any such proceedings during the Financial Year.

14. INDEMNIFICATION OF DIRECTORS AND OFFICERS

The Company has given indemnity to the Directors and Officers of the Company against any liabilities incurred by the Directors and Officers that may arise from their position as Directors and Officers of the Company or the Consolidated Group, or from their positions as Directors and Officers of other entities assumed in the course of, and associated with, their role with the Company. No costs were incurred during the Reporting Period pursuant to this indemnity.

15. INSURANCE PREMIUMS FOR DIRECTORS' AND OFFICERS' INSURANCE

During the Reporting Period the Company has incurred insurance premium costs of $105,904 in respect of Directors' and officers' liability insurance.

16. NON AUDIT SERVICES

The Board of Directors, in accordance with advice from the Audit Committee, is satisfied that the provision of consultancy services during the Reporting Period is compatible with the general standard of independence for auditors imposed by the Corporations Act. The Directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

- all consultancy services are reviewed and approved by the Audit Committee prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- the nature of the services provided do not compromise the general principles relating to auditor independence in accordance with APES 110: Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standards Board.

No fees were paid or payable to Grant Thornton for consultancy services provided during the year ended 30 June 2012.

17. AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration for the Financial Year ended 30 June 2012 has been received and can be found on page 70 of the Financial Report.

This Report of the Directors, incorporating the Remuneration Report, is signed in accordance with a resolution of the Board of Directors.

John Pegler
Chairman

Michael Gray
Managing Director

19 September 2012

LEAD AUDITOR'S INDEPENDENCE DECLARATION.

GrantThornton

Grant Thornton Audit Pty Ltd
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Auditor's Independence Declaration
To the Directors of Bandanna Energy Limited

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Bandanna Energy Limited for the year ended 30 June 2012, I declare that, to the best of my knowledge and belief, there have been:

- no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- no contraventions of any applicable code of professional conduct in relation to the audit.

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

Dan Carroll

Daniel J Carroll
Partner - Audit & Assurance

Brisbane, 19 September 2012

STATEMENT OF COMPREHENSIVE INCOME.

for the year ended 30 June 2012

	Note	CONSOLIDATED GROUP 2012 $	2011 $
Continuing operations			
Revenue	2	-	-
Cost of sales		-	-
Gross profit		-	-
Other revenue	2	16,094,216	2,401,441
Employee Benefits Expense	3a	(3,920,203)	(2,764,706)
Share Based Payment Expense	25	(777,600)	(873,170)
Impairment Expense	3c	(4,120,813)	-
Depreciation Expense	3d	(88,285)	(96,240)
Administration Expense	3b	(4,145,425)	(2,653,144)
Finance Cost	3e	(799,124)	(264,369)
Other Expenses		(88,191)	(41,186)
Profit/(loss) before income tax		2,154,575	(4,291,374)
Income tax benefit/(expense)	4	-	-
Profit/(loss) from continuing operations		2,154,575	(4,291,374)
Discontinued operations			
Other revenue	2b	945,634	-
Cost of Sales		(211)	(352)
Gross Profit/(loss)		945,423	(352)
Administration Expense		-	(218)
Impairment Expense		-	-
Gain/(Loss) on Disposal of Assets	11	-	(58,948)
Profit/(loss) from discontinued operations before tax		945,423	(59,518)
Income tax benefit/(expense)	4	-	-
Profit/(loss) for the year		3,099,998	(4,350,892)
Other Comprehensive Income			
Available for Sale Investments:			
– Reclassification from available for sale reserve		(292,960)	-
– Net Valuation Gain/(Loss)		745,390	(452,430)
Total Comprehensive income		3,552,428	(4,803,322)
Earnings per share			
From continuing and discontinued operations			
Basic earnings per share (cents per share)	7	0.60	(1.09)
Diluted earnings per share (cents per share)	7	0.60	(1.09)
From continuing operations			
Basic earnings per share (cents per share)	7	0.42	(1.08)
Diluted earnings per share (cents per share)	7	0.42	(1.08)
From discontinued operations			
Basic earnings per share (cents per share)	7	0.18	(0.01)
Diluted earnings per share (cents per share)	7	0.18	(0.01)

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

STATEMENT OF FINANCIAL POSITION.

As at 30 June 2012

	Note	CONSOLIDATED GROUP 2012 $	2011 $
Assets			
Current assets			
Cash and cash equivalents	8	114,918,459	66,290,757
Trade and other receivables	9	974,118	20,520,149
Inventories	10	106,716	198,196
Assets held for sale	11	41,555,309	-
Other current assets	12	526,008	156,853
Total current assets		158,080,610	87,165,955
Non-current assets			
Trade and other receivables	9	591,643	-
Financial Assets	13	1	1,347,571
Property, plant and equipment	15	9,217,009	343,449
Exploration and evaluation assets	16	43,673,235	18,345,633
Other non-current assets	17	214,877	-
Total non-current assets		53,696,765	20,036,653
Total assets		211,777,375	107,202,608
Liabilities			
Current liabilities			
Trade and other payables	18	4,469,286	2,008,451
Employee benefits	19	189,726	140,097
Other current liabilities	20	242,273	-
Total current liabilities		4,901,285	2,148,548
Non-current liabilities			
Employee benefits	19	9,074	12,140
Total non-current liabilities		9,074	12,140
Total liabilities		4,910,359	2,160,688
Net assets		206,867,016	105,041,920
Equity			
Equity attributable to members of the parent entity:			
Issued capital	21	217,484,381	119,879,506
Reserves		2,523,320	1,403,097
Retained earnings		(13,140,685)	(16,240,683)
Total equity		206,867,016	105,041,920

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

STATEMENT OF CHANGES IN EQUITY.

For the year ended 30 June 2012

	Note	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 year		-	(4,350,892)	-	(452,430)	(4,803,322)
Transactions with owners:						
Contributions of equity	21	79,730,359	-	-	-	79,730,359
Capital raising costs	21	(2,319,628)	-	-	-	(2,319,628)
Dividend paid or provided for		-	-	-	-	-
Options granted		-	-	1,496,939	-	1,496,939
Options exercised/lapsed				(797,810)		(797,810)
Sub-total		77,410,731	(4,350,892)	699,129	(452,430)	73,306,538
Balance at 30 June 2011		119,879,506	(16,240,683)	1,855,527	(452,430)	105,041,920
Total comprehensive income for the year		-	2,807,038	-	745,390	3,552,428
Available for sale investments net valuation-reclassification to profit		-	292,960	-	(292,960)	-
Transactions with owners:						
Contributions of equity	21	101,373,524	-	-	-	101,373,524
Capital raising costs	21	(3,768,649)	-	-	-	(3,768,649)
Dividend paid or provided for			-	-	-	-
Options granted		-	-	777,600	-	777,600
Options exercised/lapsed				(109,807)		(109,807)
Sub-total		97,604,875	3,099,998	667,793	452,430	101,825,096
Balance at 30 June 2012		217,484,381	(13,140,685)	2,523,320	-	206,867,016

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 excercised.

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

STATEMENT OF CASH FLOWS.

For the year ended 30 June 2012

	Note	CONSOLIDATED GROUP 2012 $	2011 $
Cash flows from operating activities			
Receipts from customers		-	-
Payments to suppliers and employees		(8,446,379)	(5,077,762)
Interest received		5,734,843	2,141,123
Interest paid		(494,983)	(77,157)
Net cash provided by (used in) operating activities	24	(3,206,519)	(3,013,796)
Cash flows from investing activities			
Proceeds from sale of tenements		-	149,998
Proceeds from sale of shares		2,745,634	-
Proceeds from rental income		278,173	-
Proceeds from sale of property, plant and equipment		10,517	23,636
Payments for property, plant and equipment		(8,912,576)	(111,458)
Payments for exploration activities		(19,309,154)	(7,831,228)
Payments for investments		(20,117,441)	-
Net cash provided by (used in) investing activities		(45,304,847)	(7,769,052)
Cash flows from financing activities			
Proceeds from issue of shares		100,785,717	76,017,319
Proceeds from options exercised		478,000	3,144,000
Payments for funding of Wiggins Island Coal Export Terminal		(356,000)	(20,110,522)
Payments for Capital raising		(3,768,649)	(2,319,628)
Net cash provided by (used in) financing activities		97,139,068	56,731,169
Net change in cash and cash equivalents held		48,627,702	45,948,321
Cash and cash equivalents at beginning of financial year		66,290,757	20,342,436
Cash and cash equivalents at end of financial year	8	114,918,459	66,290,757

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

NOTES TO THE FINANCIAL STATEMENTS.

for the year ended 30 June 2012

NOTE 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The financial report is a general purpose financial report that has 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 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

Compliance with Australian Accounting Standards ensures that the financial statements and notes of Bandanna Energy Limited and its controlled entities comply with International Financial Reporting Standards (IFRS).

The financial statements were authorised for issue by the Directors on 19 September 2012.

Basis of preparation

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.

Third statement of financial position

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

1. Applies an accounting policy retrospectively,
2. Makes a retrospective restatement of items in its financial statements, or
3. 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 year, 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 annual 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, in conjunction with 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), AASB131 Interests in Joint Ventures and AASB 2011-7 Amendments to Australian Accounting Standards arising from Consolidation and Joint Arrangement Standards.

MRRT

The MRRT is considered for accounting purposes, to be a tax based on income and accordingly current and deferred MRRT expenses will be measured and disclosed on the same basis as income tax expense. Details of the Group's accounting policy in relation to income tax are disclosed in Note 1.

No MRRT expense or deferred tax balances have been recognised in the accounts, on the basis that Bandanna is still in the process of finalising development of its key projects.

Once a development decision is made in relation to these projects, the impact of the MRRT relating to the respective projects will be incorporated into the financial statements, as this will be the point at which it will be possible to reliably estimate the potential impact of the MRRT legislation on the respective Mining Project interests.

New accounting standards for Application in Future Periods

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2012 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below.

- 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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED.

for the year ended 30 June 2012

NOTE 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- 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.
- AASB 13 Fair Value Measurement and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13 (effective 1 January 2013). AASB 13 was released in September 2011. It explains how to measure fair value and aims to enhance fair value disclosures. The Group does not use fair value measurements extensively. It is therefore unlikely that the new rules will have a significant impact on any of the amounts recognised in the financial statements. However, application of the new standard will impact the type of information disclosed in the notes to the financial statements. The Group does not intend to adopt the new standard before its operative date, which means that it would be first applied in the annual reporting period ending 30 June 2014.
- Revised AASB 119 Employee Benefits, AASB 2011-10 Amendments to Australian Accounting Standards arising from AASB 119 (September 2011) and AASB 2011-11 Amendments to AASB 119 (September 2011) arising from Reduced Disclosure Requirements (effective 1 January 2013)
  In September 2011, the AASB released a revised standard on accounting for employee benefits. It requires the recognition of all remeasurements of defined benefit liabilities/assets immediately in other comprehensive income and the calculation of a net interest expense or income by applying the discount rate to the net defined benefit liability or asset. This replaces the expected return on plan assets that is currently included in profit or loss. The standard also introduces a number of additional disclosures for defined benefit liabilities/assets and could affect the timing of the recognition of termination benefits. The amendments will have to be implemented retrospectively. Since Bandanna does not have any defined benefit obligations, the amendments will not have any impact on the Group's financial statements.
- AASB 2011-9 Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income (effective 1 July 2012). In September 2011, the AASB made an amendment to AASB 101 Presentation of Financial Statements which requires entities to separate items presented in other comprehensive income into two groups, based on whether they may be recycled to profit or loss in the future. This will not affect the measurement of any of the items recognised in the balance sheet or the profit or loss in the current period. The Group intends to adopt the new standard from 1 July 2012.
- AASB 2011-4 Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements (effective 1 July 2013) In July 2011 the AASB decided to remove the individual key management personnel (KMP) disclosure requirements from AASB 124 Related Party Disclosures, to achieve consistency with the international equivalent standard and remove a duplication of the requirements with the Corporations Act 2001. While this will reduce the disclosures that are currently required in the notes to the financial statements, it will not affect any of the amounts recognised in the financial statements. The amendments apply from 1 July 2013 and cannot be adopted early. The Corporations Act requirements in relation to remuneration reports will remain unchanged for now, but these requirements are currently subject to review and may also be revised in the near future.

There are no other standards, that are not yet effective and that are expected to have a material impact on the entity, in the current or future reporting periods and on foreseeable future transactions.

a. Principles of Consolidation

A controlled entity is any entity over which Bandanna Energy Limited has the power to govern the financial and operating policies so as to obtain benefits from its activities. In assessing the power to govern, the existence and effect of holdings of actual and potential voting rights are considered.

A list of controlled entities is contained in Note 14 to the financial statements.

As at reporting date, the assets and liabilities of all controlled entities have been incorporated into the consolidated financial statements as well as their results for the year then ended. Where controlled entities have entered (left) the consolidated group during the year, their operating results have been included (excluded) from the date control was obtained (ceased).

All inter-group balances and transactions between entities in the consolidated group, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with those adopted by the parent entity.

Non controlling interests, being that portion of the profit or loss and net assets of subsidiaries attributable to equity interests held by persons outside the Group, are shown separately within the equity section of the consolidated statement of financial position and in the consolidated statement of comprehensive income.

NOTE 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business Combinations

Business combinations occur where control over another business is obtained and results in the consolidation of its assets and liabilities. All business combinations, including those involving entities under common control, are accounted for by applying the purchase method.

The purchase method requires an acquirer of the business to be identified and for the cost of the acquisition and fair values of identifiable assets, liabilities and contingent liabilities to be determined as at acquisition date, being the date that control is obtained. Cost is determined as the aggregate of fair values of assets given, equity issued and liabilities assumed in exchange for control together with costs directly attributable to the business combination.

Goodwill is recognised initially at the excess of cost over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If the fair value of the acquirer's interest is greater than cost, the surplus is immediately recognised in profit or loss.

The accounting policies have been consistently applied by the entities in the consolidated group and are consistent with those in the June 2011 financial report.

b. Income Tax

The income tax expense (income) for the year comprises current income tax expense (income) and deferred tax expense (income). Current and deferred income tax expense (income) is charged or credited directly to other comprehensive income instead of the profit or loss when the tax relates to items that are credited or charged directly to other comprehensive income.

Current tax

Current income tax expense charged to the profit or loss is the tax payable on taxable income calculated using applicable income tax laws enacted, or substantially enacted in Australia, as at reporting date. Current tax liabilities (assets) are therefore measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well as unused tax losses.

Current and deferred income tax expense (income) is charged or credited directly to equity instead of the profit or loss when the tax relates to items that are credited or charged directly to equity.

Deferred tax

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted at reporting date. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries, branches, associates, and joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

Deferred tax assets and liabilities are offset where a legally enforceable right of set-off exists, the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

Tax Consolidation

Bandanna Energy Limited and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under tax consolidation legislation. As a result of Bandanna Energy Limited's acquisition of Bandanna Coal Pty Ltd, Bandanna Coal Pty Ltd and its subsidiaries joined the Bandanna Energy Limited tax consolidated group effective 3 October 2008. Each entity in the Group recognises its own current and deferred tax assets and liabilities. Such taxes are measured using the 'stand-alone taxpayer' approach to allocation. Current tax liabilities (assets) and deferred tax assets arising from unused tax losses and tax credits in the subsidiaries are immediately transferred to the head entity. The Group notified the Tax Office that it had formed an income tax consolidated group to apply from 1 July 2008. The tax consolidated group has entered a tax funding arrangement whereby each company in the Group contributes to the income tax payable by the Group in proportion to their contribution to the Group's taxable income. Differences between the amounts of net tax assets and liabilities derecognised and the net amounts recognised pursuant to the funding arrangement are recognised as either a contribution by, or distribution to the head entity.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED.

for the year ended 30 June 2012

NOTE 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c. Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of manufactured products includes direct materials, direct labour and an appropriate portion of variable and fixed overheads. Overheads are applied on the basis of normal operating capacity. Costs are assigned on the basis of weighted average costs. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

d. Plant and Equipment

Each class of plant and equipment is carried at cost or fair value as indicated less, where applicable, any accumulated depreciation and impairment losses.

Plant and equipment are measured on the cost basis.

The cost of fixed assets constructed within the consolidated group includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation

The depreciable amount of all fixed assets is depreciated on a straight-line basis over the asset's useful life to the consolidated group commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation rates used for each class of depreciable assets are:

Class of Fixed Asset	Depreciation Rate
Plant and equipment	10 – 33%
Furniture & Fittings	5 – 10%
Office Equipment	20 – 33%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the income statement. When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

e. Exploration and Development Expenditure

Exploration, evaluation and development expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

Accumulated costs in relation to an abandoned area are written off in full against profit in the year in which the decision to abandon the area is made.

When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

Costs of site restoration are provided over the life of the facility from when exploration commences and are included in the costs of that stage. Site restoration costs include the dismantling and removal of mining plant, equipment and building structures, waste removal, and rehabilitation of the site in accordance with clauses of the mining permits. Such costs have been determined using estimates of future costs, current legal requirements and technology on an undiscounted basis.

Any changes in the estimates for the costs are accounted on a prospective basis. In determining the costs of site restoration, there is uncertainty regarding the nature and extent of the restoration due to community expectations and future legislation. Accordingly the costs have been determined on the basis that the restoration will be completed within one year of abandoning the site.

Land acquired for the purposes of mining is classified as property.

f. Leases

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

g. Financial Instruments

Recognition and Initial Measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the Company commits itself to either the purchase or sale of the asset (ie trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified 'at fair value through profit or loss', in which case transaction costs are expensed to profit or loss immediately.

NOTE 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Classification and Subsequent Measurement

Finance instruments are subsequently measured at either of fair value, amortised cost using the effective interest rate method, or cost. Fair value represents the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties. Where available, quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted.

Amortised cost is calculated as:

1. the amount at which the financial asset or financial liability is measured at initial recognition;
2. less principal repayments;
3. plus or minus the cumulative amortisation of the difference, if any, between the amount initially recognised and the maturity amount calculated using the effective interest method; and
4. less any reduction for impairment.

The effective interest method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that exactly discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense in profit or loss.

The Group does not designate any interests in subsidiaries, associates or joint venture entities as being subject to the requirements of accounting standards specifically applicable to financial instruments.

Financial assets at fair value through profit or loss

Financial assets are classified at 'fair value through profit or loss' when they are either held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Group's intention to hold these investments to maturity. They are subsequently measured at amortised cost.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either not suitable to be classified into other categories of financial assets due to their nature, or they are designated as such by management. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

Financial liabilities

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost.

Fair Value

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

Impairment

At each reporting date, the Group assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in the income statement.

Financial Guarantees

Where material, financial guarantees issued, which require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due, are recognised as a financial liability at fair value on initial recognition.

The guarantee is subsequently measured at the higher of the best estimate of the obligation and the amount initially recognised less, when appropriate, cumulative amortisation in accordance with AASB 118: Revenue. Where the entity gives guarantees in exchange for a fee, revenue is recognised under AASB 118.

The fair value of financial guarantee contracts has been assessed using a probability weighted discounted cash flow approach. The probability has been based on:

- the likelihood of the guaranteed party defaulting in a year period;
- the proportion of the exposure that is not expected to be recovered due to the guaranteed party defaulting; and
- the maximum loss exposed if the guaranteed party were to default.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED.

for the year ended 30 June 2012

NOTE 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derecognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expired. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

h. Impairment of Assets

At each reporting date, the Group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

i. Foreign Currency Transactions and Balances

Functional and Presentation Currency
The functional currency of each of the Group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

j. Employee Benefits

Provision is made for the Company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits. Those cash flows are discounted using market yields on national government bonds with terms to maturity that match the expected timing of cash flows.

Past services costs are recognised when incurred to the extent that benefits are vested, and are otherwise amortised on a straight-line basis over the vesting period.

Equity-settled Compensation

The Group operates equity-settled share-based payment employee share and option schemes. The fair value of the equity to which employees become entitled is measured at grant date and recognised as an expense over the vesting period, with a corresponding increase to an equity account. The fair value of shares is ascertained as the market bid price. The fair value of options is ascertained using a Black–Scholes or Binomial pricing model which incorporates all market vesting conditions. The number of shares and options expected to vest is reviewed and adjusted at each reporting date such that the amount recognised for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

k. Trade and other receivables

Trade and other receivables are recognised initially at fair value, and subsequently measured at amortised cost using the effective interest method, less provision for impairment. They are presented as current assets, unless collection is not expected for more than 12 months after the reporting date.

l. Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of ten months or less, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the balance sheet.

m. Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year, which are unpaid. The amounts are unsecured and are usually paid within 30 days. Trade and other payables are presented as current liabilities. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

n. Provisions

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

o. Revenue and Other Income

Revenue is measured at the fair value of the consideration received or receivable after taking into account any trade discounts and volume rebates allowed. Any consideration deferred is treated as the provision of finance and is discounted at a rate of interest that is generally accepted in the market for similar arrangements. The difference between the amount initially recognised and the amount ultimately received is interest revenue.

Revenue from the sale of goods is recognised at the point of delivery as this corresponds to the transfer of significant risks and rewards of ownership of the goods and the cessation of all involvement in those goods.

NOTE 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Interest revenue is recognised using the effective interest rate method, which, for floating rate financial assets, is the rate inherent in the instrument. Dividend revenue is recognised when the right to receive a dividend has been established.

Dividends received from associates and joint entities are accounted for in accordance with the equity method of accounting.

Revenue recognition relating to the provision of services is determined with reference to the stage of completion of the transaction at reporting date and where outcome of the contract can be estimated reliably. Stage of completion is determined with reference to the services performed to date as a percentage of total anticipated services to be performed. Where the outcome cannot be estimated reliably, revenue is recognised only to the extent that related expenditure is recoverable. All revenue is stated net of the amount of goods and services tax (GST).

Dividends received from associates and joint venture entities are accounted for in accordance with the equity method of accounting. Revenue recognition relating to the provision of services is determined with reference to the stage of completion of the transaction at reporting date and where outcome of the contract can be estimated reliably. Stage of completion is determined with reference to the services performed to date as a percentage of total anticipated services to be performed. Where the outcome cannot be estimated reliably, revenue is recognised only to the extent that related expenditure is recoverable. All revenue is stated net of the amount of goods and services tax (GST).

p. Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker is responsible for allocating resources and assessing performance of the operating segments.

q. Earnings per share

(i) Basic earnings per share

Basic earnings per share are calculated by dividing:

- the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares; and
- the weighted average number of additional ordinary shares that would have been outstanding, assuming the conversion of all dilutive potential ordinary shares.

r. Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Where any Group company purchases the Company's equity instruments, for example as the result of a share-based payment plan, the consideration paid, including any directly attributable incremental costs is deducted from equity attributable to the owners of Bandanna Energy Limited as treasury shares until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received (net of any directly attributable incremental transaction costs and the related income tax effects) is included in equity attributable to the owners of Bandanna Energy Limited.

s. Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the balance sheet are shown inclusive of GST. Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

t. Comparative Figures

When required by accounting standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

u. Critical Accounting Estimates and Judgments

The Directors evaluate estimates and judgements incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Group.

KEY JUDGEMENTS

v. Exploration and Evaluation Expenditure

The Group capitalises expenditure relating to exploration and evaluation where it is considered likely to be recoverable or where the activities have not reached a stage, which permits a reasonable assessment of the existence of reserves. While there are certain areas of interest from which no reserves have been extracted, the Directors are of the continued belief that such expenditure should not be written off since feasibility studies in such areas have not yet concluded.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED.

for the year ended 30 June 2012

NOTE 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

w. Impairment

The Group considers annually whether there has been any indicators of impairment and then tests whether non-current assets have suffered any impairment, in accordance with the accounting policy stated in note 1(h). Management have exercised their judgement when considering the impairment write-down recognised in relation to the WIPS, reflecting management best estimate of the recoverable amount of the WIPS through sale as at the reporting date.

x. Joint Arrangements

Investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations each investor has, rather than the legal structure of the joint arrangement. Bandanna Energy Limited has assessed the nature of its joint arrangements and has determined them to be a joint operation. Bandanna Energy Limited has recognised its direct right to, and its share of jointly held assets, liabilities, revenues and expenses of joint operations. These have been incorporated in the financial statements under the appropriate headings. Details of the joint operation are set out in Note 29.

NOTE 2. REVENUE

	Note	CONSOLIDATED GROUP 2012 $	CONSOLIDATED GROUP 2011 $
Sales Revenue			
Sales		-	-
Total Sales Revenue		-	-
Other Revenue			
Gain on disposal of assets		-	22,574
Farm-in contribution	29a	4,313,313	-
Rental income		278,173	-
Interest received	2a	11,462,672	2,378,867
Other Income		40,058	-
Total Other Revenue		16,094,216	2,401,441
Total Revenue		16,094,216	2,401,441
a. Interest revenue from			
– financial institutions		6,906,320	2,378,867
– interest recognised on unwinding of WIPS discount	13a	4,484,462	-
– joint operation interest (50%)	29	71,890	-
Total interest revenue		11,462,672	2,378,867
b. Revenue and other income from discontinued operations			
– gain on sale of investment		945,634	-
c. Income from continuing operations and discontinued operations			
Income attributable to members of the parent entity		17,492,280	2,401,441

NOTE 3. EXPENSES

Profit before income tax includes the following specific expenses:

	Note	CONSOLIDATED GROUP 2012 $	2011 $
a. Employee expenses			
Employee benefit expense		2,276,522	1,712,141
Directors fees		549,996	499,996
Superannuation expense		183,821	144,307
Employee expense on-costs		909,864	408,262
Total employee expenses		3,920,203	2,764,706
b. Administrative expenses:			
Accounting, secretarial & tax fees		260,212	119,789
Audit fees	6	56,884	53,399
Consultancy fees		655,336	302,215
Legal fees		534,322	861,967
Listing & compliance costs		314,870	249,059
Insurance		132,335	65,937
Rental expense on operating leases		422,835	169,341
Occupancy costs		8,675	2,622
Other administrative expenses		1,759,956	829,033
Total administrative costs		4,145,425	2,653,362
c. Impairment:			
WIPS write-down to NRV	11	3,781,282	-
Write-down oil shale exploration asset	11	339,531	-
Total impairment		4,120,813	-
d. Depreciation:			
Depreciation expense	16	88,285	96,240
Total depreciation		88,285	96,240
e. Finance costs:			
Interest expense		503,605	181,584
Bank guarantee charges		295,519	82,785
Total finance costs		799,124	264,369

NOTES TO THE FINANCIAL STATEMENTS CONTINUED.

for the year ended 30 June 2012

NOTE 4. INCOME TAX EXPENSE

	Note	CONSOLIDATED GROUP 2012 $	2011 $
a. The components of tax expense comprise			
Current tax		-	-
Deferred tax		-	-
		-	-
b. The prima facie tax on profit before income tax is reconciled to the income tax as follows:			
Prima facie tax payable on profit before income tax at 30% (2011: 30%)		929,999	(1,305,268)
Add:			
Tax effect of:			
– Share options expensed during the year		233,280	261,951
– Impairment expense		1,236,055	17,684
– Amortisation of capital raising costs		(574,443)	
Less:			
– Income tax losses and temporary differences for which deferred tax asset not yet recognised		(1,824,891)	(1,025,633)
Income tax expense		-	-
The applicable weighted average effective tax rates are as follows:		-%	-%

Unrecognised deferred tax balance

On 3 October 2008, Bandanna Energy Limited (formerly Enterprise Energy Limited) acquired 100% of the issued capital of Bandanna Coal Pty Ltd. At the time of this business combination, 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. The Directors have determined that the deferred tax balances do not meet the recognition criteria as at 30 June 2012.

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. INCOME TAX EXPENSE (CONTINUED)

Aggregate amounts of temporary differences and unused tax losses for which no deferred tax balances have been recognised.

	Note	CONSOLIDATED GROUP 2012 $	2011 $
Net unrecognised deferred tax asset at beginning of the year		51,732,452	50,822,274
Total income tax losses for which no deferred tax asset has been recognised in the current year		7,514,618	967,905
Tax charge relating to components of comprehensive income		-	-
Temporary differences for which no deferred tax asset/(liability) has been recognised in the current year		(9,339,509)	(57,727)
Net unrecognised deferred tax asset		49,907,561	51,732,452

NOTE 5. INTERESTS OF KEY MANAGEMENT PERSONNEL

a. The following persons were Directors of Bandanna Energy Limited during the year ended 30 June 2012:

Name	Position
Jeremy Barlow	Director (Non Executive) (ceased Chairman duties on 5 April 2012)
John Pegler	Chairman (Non Executive) (appointed Non Executive Director on 1 January 2012 & appointed Chairman on 5 April 2012)
David Graham	Director (Non Executive)
Robert Johansen	Director (Non Executive)
Dr Ray Shaw	Managing Director (Executive) (ceased Managing Director duties on 5 March 2012)
Michael Gray	Managing Director (Executive) (appointed 5 March 2012)
Park Soon IL	Director (Non Executive)

b. The names and positions held of other Key Management Personnel at any time during the financial year are:

Name	Position
Peter Binnie	General Manager – Underground Development
David Campbell	Manager Exploration
Matthew Scott	Chief Financial Officer (Company secretarial duties ceased 14 March 2012)
Tess Lye	General Counsel & Company Secretary (commenced 12 March 2012, appointed Company Secretary 14 March 2012)

c. Key Management Personnel Remuneration

The Key Management Personnel compensation included within employee expenses is:

	Short-term benefits $	Termination benefits $	Post employment benefit $	Other long-term benefits $	Share based payments $	Total $
2012	2,027,461	-	141,006	-	777,600	2,946,067
2011	1,563,791	-	129,584	-	1,015,539	2,708,914

Further details regarding Key Management Personnel remunerations can be found in the Remuneration Report section of the Directors' Report.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED.

for the year ended 30 June 2012

NOTE 5. INTERESTS OF KEY MANAGEMENT PERSONNEL (CONTINUED)

d. Key Management Personnel Options and Rights Holdings

The number of options held during the year by Directors and Executives are set out below:

	Balance 1 July 2011	Options (Lapsed)/ (Exercised)	Options Granted	Balance 30 June 2012	Total[1] Exercisable 30 June 2012
Directors					
J Pegler	-	-	-	-	-
J Barlow	-	-	-	-	-
D Graham	-	-	-	-	-
R Johansen	-	-	-	-	-
SI Park	-	-	-	-	-
R Shaw[2]	4,865,000	-	-	4,865,000	0
M Gray	-	-	-	-	-
Executives					
P Binnie	506,000	-	1,932,000	2,438,000	0
D Campbell	1,138,000	-	1,813,740	2,951,740	0
M Scott	2,914,000	(1,378,000)	2,308,397	3,844,397	0
T Lye	-	-	-	-	-
M Palmer	-	-	-	-	-
	9,423,000	(1,378,000)	6,054,137	14,099,137	0

(1) Total exercisable 30 June 2012 takes into account additional vesting conditions or restrictions imposed under conditions of employment.

(2) R Shaw resigned as Director effective 5 March 2012.

e. Key Management Personnel Shareholdings

The number of shares in the company held during the year by Directors, directly or indirectly, are set out below:

	Balance 1 July 2011	Options Exercised	(Sales)/ Purchases	Balance 30 June 2012
Directors				
J Barlow[1]	116,523,599	-	3,000,000	119,523,599
D Graham	300,000	-	193,750	493,750
R Johansen[1]	96,957,311	-	1,000,000	97,957,311
SI Park[2]	-	-	-	-
R Shaw[3]	3,822,000	-	20,000	3,842,000
M Gray	-	-	-	-
Executives				
P Binnie	-	-	-	-
D Campbell	-	-	-	-
M Scott	100,000	400,000	(65,000)	435,000
	217,702,910	400,000	4,148,750	222,251,660

(1) J Barlow and R Johansen shareholdings include 97,902,311 shares held by entities in which both have an interest.

(2) SI Park is one of three Directors of SAMTAN Aures Pty Ltd which holds 56,383,003 shares in the Company at the end of the Reporting Period.

(3) R Shaw resigned as Director effective 5 March 2012.

NOTE 6. AUDITOR'S REMUNERATION

	Note	CONSOLIDATED GROUP 2012 $	2011 $
Remuneration of Grant Thornton as the auditor of the parent entity (Bandanna Energy Limited) for:			
– audit and review of the financial statements		56,884	53,399
– consulting services		-	-
		56,884	53,399

NOTE 7. EARNINGS PER SHARE

	Note	CONSOLIDATED GROUP 2012 $	2011 $
a. Net Profit/(Loss)			
Earnings used to calculate basic and diluted, EPS from continuing & discontinued operations		3,099,998	(4,350,892)
Earnings used to calculate basic and diluted, EPS from continuing operations		2,154,575	(4,291,374)
Earnings used to calculate basic and diluted, EPS from discontinued operations		945,423	(59,518)
b. Weighted average number of ordinary shares outstanding during the year used in calculation of basic EPS		512,010,577	398,691,058
Dilutive shares		936,829	
Weighted average number of ordinary shares and potential ordinary shares used as the denominator including diluted earnings per share.		512,947,406	389,694,058

NOTE 8. CASH AND CASH EQUIVALENTS

	Note	CONSOLIDATED GROUP 2012 $	2011 $
Cash at bank and in hand		40,325,945	56,443,875
Short-term bank deposits		74,592,514	9,846,882
		114,918,459	66,290,757

The effective interest rate on short-term bank deposits was 4.57% (2011: 5.15%); these deposits have an average maturity of 258 days.

Guarantees to the amount of $74,592,514 (2011: $9,773,953) are secured by short term deposits. Refer to Note 27.

Reconciliation of cash

Cash at the end of the financial year as shown in the statement of cash flows is reconciled to items in the statement of financial position as follows:

	Note	CONSOLIDATED GROUP 2012 $	2011 $
Cash and equivalents		114,918,459	66,290,757
Bank overdrafts		-	-
		114,918,459	66,290,757

NOTES TO THE FINANCIAL STATEMENTS CONTINUED.

for the year ended 30 June 2012

NOTE 9. TRADE AND OTHER RECEIVABLES

	Note	CONSOLIDATED GROUP 2012 $	CONSOLIDATED GROUP 2011 $
Current			
Other receivable [(1)]		974,118	252,989
Non Current			
WICET receivable[(2)]		591,643	20,267,160
		1,565,761	20,520,149

Due to the short term nature of these receivables, their carrying amount is assumed to be fair value.

(1) *Interest accrued on term deposits.*

(2) *The amounts contributed as at 30 June 2011 under the Capacity Commitment Deed for Wiggins Island Coal Export Terminal (WICET) Stage 1 were applied to the subscription for preference capital at WICET financial close. The balance as at 30 June 2012 represents feasibility funding for expansion stages, which is repayable on financial close of expansion stage WEXP1 if there are sufficient funds available.*

NOTE 10. INVENTORIES

	Note	CONSOLIDATED GROUP 2012 $	CONSOLIDATED GROUP 2011 $
Current			
At net realisable value			
– Stores		106,716	198,196
		106,716	198,196

NOTE 11. ASSETS HELD FOR RESALE

	Note	CONSOLIDATED GROUP 2012 $	2011 $
Assets held for resale		41,555,310	-
Movements in Carrying Amounts			
Movement in the carrying amount for assets held for resale between the beginning and the end of the Financial Year ended 30 June 2012.			
Consolidated Group			
Balance at beginning of the year		-	2,000,000
Transferred from/(to) exploration and evaluation assets	16	-	58,948
Transferred from/(to) Financial Assets	13c	45,336,591	-
Write down to net realisable value	11a	(3,781,282)	-
Assets Sold		-	(2,000,000)
Gain/(Loss) on Disposal of Assets	11b	-	(58,948)
Assets held for resale		41,555,309	-

In June 2012, the Directors of Bandanna Energy Limited decided to pursue the divestment of the Company's Wiggins Island Preference Securities (WIPS).

a. Impairment Losses

The impairment loss recognised in the statement of comprehensive income, relating to assets held for resale at year end was $3,781,282 (2011: $nil). This relates to the revaluation of Wiggins Island Preference Securities (WIPS) to the recoverable amount.

b. Loss on sale of Assets

In 2011, the sale of the oil and gas tenements of Traditional Oil Exploration Pty Ltd was finalised for $2 million, realising a loss on sale of $58,948.

NOTE 12. OTHER ASSETS

	Note	CONSOLIDATED GROUP 2012 $	2011 $
Current			
Security deposits		69,240	89,031
Prepayments		230,274	67,822
Assets held by joint operation	29	226,494	-
		526,008	156,853

NOTES TO THE FINANCIAL STATEMENTS CONTINUED.

for the year ended 30 June 2012

NOTE 13. FINANCIAL ASSETS

	Note	Consolidated Group 2012 $	Consolidated Group 2011 $
Investment in unlisted company at cost	13a	1	1
Investment in listed companies at valuation	13b	-	1,347,570
Other Financial Assets	13c	-	-
Total Financial Assets		1	1,347,571

(a) Bandanna Energy Limited became a shareholder in WICET Holdings Pty Ltd effective 16 July 2009. WICET Holdings Pty Ltd is an industry owned consortium looking to develop the Wiggins Island Coal Export Terminal.

(b) Shares held in Drillseach Energy Limited and Senex Energy Limited were sold during the course of the 2012 financial year.

(c) Movement in carrying amount of Other Financial Assets.

Balance at beginning of year		-	-
Investment during the year – Wiggins Island Preference Equity		40,852,129	-
Unwind of discount on Preference Equity	2	4,484,462	-
Transfer Preference Equity to assets held for sale	11	(45,336,591)	-
Other Financial Assets		-	-

NOTE 14. CONTROLLED ENTITIES

	Country of Incorporation	CONSOLIDATED GROUP Percentage Owned (%)* 2012	CONSOLIDATED GROUP Percentage Owned (%)* 2011
Controlled Entities Consolidated			
Subsidiaries of Bandanna Energy Limited:			
Advocate Holding Pty Ltd	Australia	100	100
Enterprise Energy Pty Ltd	Australia	100	100
Traditional Oil Exploration Pty Ltd	Australia	100	100
Bandanna Coal Pty Ltd	Australia	100	100
Alpha Coal Pty Ltd	Australia	100	100
Arcadia Coal Pty Ltd	Australia	100	100
Bandanna Oil Shale Pty Ltd	Australia	100	100
Carnarvon Coal Pty Ltd	Australia	100	100
Dingo West Coal Pty Ltd	Australia	100	100
DJB Coal Pty Ltd	Australia	100	100
Fernlee Coal Pty Ltd	Australia	100	100
Springsure Creek Coal Pty Ltd	Australia	100	100
Waitara Coal Pty Ltd	Australia	100	100
Bandanna Coal Transport Pty Ltd	Australia	100	100
Springsure Agricultural Holdings Pty Ltd	Australia	100	100

** Percentage of voting power in proportion to ownership.*

NOTE 15. PROPERTY, PLANT AND EQUIPMENT

	Note	CONSOLIDATED GROUP 2012 $	2011 $
Land and Buildings			
Land at cost		8,201,241	-
Buildings at cost		506,600	-
Accumulated depreciation		(435)	-
Total Land and buildings		8,707,406	-
Plant and Equipment			
At cost		600,640	483,641
Accumulated depreciation		(279,168)	(199,579)
Total plant and equipment		321,472	284,062
Furniture and Fittings			
At cost		108,065	69,814
Accumulated depreciation		(13,792)	(11,089)
Total Furniture and fittings		94,273	58,725
Office Equipment			
At cost		3,291	3,291
Accumulated depreciation		(2,861)	(2,629)
Total Office Equipment		430	662
WIP			
At cost		93,428	-
Accumulated depreciation		-	-
Total WIP		93,428	-
		9,217,009	343,449

a. Movements in Carrying Amounts

Movement in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the Financial Year ended 30 June 2012.

	Property, Plant and Equipment $	Furniture & Fittings $	Office Equipment $	WIP $	Total $
Consolidated Group					
Balance at 30 June 2011	284,062	58,725	662	-	343,449
Additions	8,824,841	54,621	-	93,428	8,972,890
Disposals	-	(11,045)	-	-	(11,045)
Depreciation expense	(80,025)	(8,028)	(232)	-	(88,285)
Carrying amount at 30 June 2012	9,028,878	94,273	430	93,428	9,217,009

NOTES TO THE FINANCIAL STATEMENTS CONTINUED.

for the year ended 30 June 2012

NOTE 16. EXPLORATION AND EVALUATION ASSETS

	Note	CONSOLIDATED GROUP 2012 $	2011 $
Costs carried forward in respect of exploration and evaluation expenditure		43,673,235	18,345,633
Movements in Carrying Amounts			
Movement in the carrying amount for exploration and evaluation assets between the beginning and the end of the financial year.			
Consolidated Group			
Balance at the beginning of the year		18,345,633	9,893,151
Amounts capitalised during the year		21,621,104	8,511,430
Amount capitalised during the year – joint operation	29	4,046,029	-
Transferred from/(to) assets held for resale	11	-	(58,948)
Impairment write-down of exploration assets	16a	(339,531)	-
		43,673,235	18,345,633

a. Impairment Losses – Exploration Assets

The impairment loss relating to exploration assets, recognised in the statement of comprehensive income during the year, was $339,531 (2011: $nil). The impairment loss has been recognised on the write-down of capitalised exploration for the oil shale tenements in Bandanna Oil Shale Pty Ltd.

NOTE 17. OTHER NON CURRENT ASSETS

	Note	CONSOLIDATED GROUP 2012 $	2011 $
Non current assets held by joint operation	29	214,877	-
		214,877	-

NOTE 18. TRADE AND OTHER PAYABLES

	Note	CONSOLIDATED GROUP 2012 $	2011 $
Current			
Unsecured liabilities		-	33,114
Trade payables		185,390	424,391
Sundry payables and accrued expenses		4,283,896	1,550,946
		4,469,286	2,008,451

NOTE 19. EMPLOYEE BENEFITS

	Note	CONSOLIDATED GROUP 2012 $	2011 $
Current			
Annual leave		189,726	140,097
		189,726	140,097
Non Current			
Long service leave		9,074	12,140
		9,074	12,140

The current portion of these liabilities represents Bandanna Energy Limited's obligations to which the employee has a current legal entitlement.

A provision has been recognised for employee entitlements relating to long service leave for employees. In calculating the present value of future cash flows in respect of long service leave, the probability of long service leave being taken is based upon historical data. The measurement and recognition criteria, for employee benefits have been included in Note 1.

NOTE 20. OTHER CURRENT LIABILITIES

	Note	CONSOLIDATED GROUP 2012 $	2011 $
Unearned rental revenue		96,250	-
Liabilities held by joint operation	29	146,023	-
		242,273	-

NOTE 21. ISSUED CAPITAL

	Note	CONSOLIDATED GROUP 2012 $	2011 $
528,481,199 (2011: 427,175,482) fully paid ordinary shares		217,484,381	119,879,506
a. Ordinary Shares			
At the beginning of Reporting Period		119,879,506	42,468,775
Shares issued during the Financial Year:			
– Issue of 53,533,323 ordinary fully paid shares at an issue price of $1.42 per share on 21 December 2010		-	76,017,319
– Issue of 99,651,448 ordinary fully paid shares at an issue price of $1.00 per share on 29 August 2011		99,651,448	-
– Issue of 1,134,269 ordinary fully paid shares at an issue price of $1.00 per share on 19 September 2011		1,134,269	-
– Shares issued during the period from exercise of share options		587,807	3,713,040
Cost of capital raising		(3,768,649)	(2,319,628)
At reporting date		217,484,381	119,879,506

NOTES TO THE FINANCIAL STATEMENTS CONTINUED.

for the year ended 30 June 2012

NOTE 21. ISSUED CAPITAL (CONTINUED)

	Note	2012 No.	2011 No.
b. Ordinary Shares			
At the beginning of Reporting Period		427,175,482	369,712,159
Shares issued during the Financial Year:			
– Issue of 53,533,323 ordinary fully paid shares of an issue price of $1.42 per share on 21 December 2010		-	53,533,323
– Issue of 99,651,448 ordinary fully paid shares at an issue price of $1.00 per share on 29 August 2011		99,651,448	-
– Issue of 1,134,269 ordinary fully paid shares at an issue price of $1.00 per share on 19 September 2011		1,134,269	-
– Shares issued during the period from exercise of share options		520,000	3,930,000
At reporting date		528,481,199	427,175,482

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of shares held. On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

	Note	2012 No.	2011 No.
c. Options			
At the beginning of Reporting Period		9,623,000	7,614,000
Options granted during the year:			
– 11 October 2010		-	506,000
– 3 November 2010		-	377,000
– 12 November 2010		-	4,865,000
– 17 January 2011		-	200,000
– 1 March 2011		-	291,000
– 1 December 2011		1,932,000	-
– 1 June 2012		4,122,137	-
Options exercised during the year:			
– 21 October 2010		-	(100,000)
– 15 November 2010		-	(100,000)
– 22 November 2010		-	(150,000)
– 2 December 2010		-	(200,000)
– 22 December 2010		-	(2,470,000)
– 18 March 2010		-	(250,000)
– 14 June 2011		-	(660,000)
– 30 July 2011		(120,000)	-
– 27 October 2011		(400,000)	-
Options lapsed during the year:			
– 24 July 2010		-	(300,000)
– 3 November 2011		(978,000)	-
At reporting date		14,179,137	9,623,000

NOTE 21. ISSUED CAPITAL (CONTINUED)

d. Capital Management

The capital structure of the Consolidated Group comprises the issued share capital and reserves of the Parent Entity, Bandanna Energy Limited. For the Financial Year ended 30 June 2012, the Consolidated Group had no interest bearing liabilities.

There are no externally imposed capital requirements applicable to the Consolidated Group.

The Parent Entity manages the capital of the Consolidated Group to ensure there is sufficient capital to fund the Group's exploration and project evaluation activities and the Group continues as a going concern. The Parent Entity monitors the Consolidated Group's capital requirement by reference to the forecast exploration and evaluation expenditure for its projects and other commitments. The Parent Entity may manage the capital structure of the Consolidated Group to meet these requirements through new share issues and management of debt levels.

NOTE 22. CAPITAL AND LEASING COMMITMENTS

	Note	CONSOLIDATED GROUP 2012 $	2011 $
a. Exploration expenditure commitments relating to tenements			
Payable:			
– not later than 12 months		1,395,394	1,783,000
– between 12 months and five years		852,000	3,192,000
– greater than five years		-	-
Aggregate exploration expenditure contracted for at balance date		2,247,394	4,975,000
b. Operating lease commitments			
Non-cancellable operating leases contracted for but not capitalised in the financial statements. Minimal lease payments payable:			
– not later than 12 months		403,022	166,234
– between 12 months and five years		852,042	458,183
– greater than five years		126,671	-
Aggregate lease expenditure contracted for at balance date		1,381,735	624,417

Items subject to operating leases are property leases. The remaining lease terms range from 6 months to 5 years 5 months. Contingent rental provisions within the lease agreements require the minimum lease payments to be increased by 5% per annum.

The consolidated entity does not have the option to purchase the leased assets at the expiry of the lease period.

c. Leasing arrangements – Non current property asset

One of the Consolidated Group's properties is leased to tenants under long-term operating leases with rentals payable quarterly. Minimum lease payments receivable on lease is as follows:

	2012 $	2011 $
– not later than 12 months	385,000	-
– between 12 months and five years	1,262,853	-
– greater than five years	-	-
	1,647,853	-

NOTES TO THE FINANCIAL STATEMENTS CONTINUED.

for the year ended 30 June 2012

NOTE 23. SEGMENT REPORTING

The segment information provided to the chief operating decision makers, for the Financial Year ended 30 June 2012 is as follows:

	Coal & Minerals $	Total Continuing Operations $	Oil & Gas $	Total Discontinued Operations 2012 $
Consolidated 2012				
Revenue				
Segment Revenue	-	-	-	-
Result				
Segment Result	(8,732,075)	(8,803,964)	(211)	(211)
Income Tax Benefit /(Expense)	-	-	-	-
Profit after Income Tax	(8,732,075)	(8,803,964)	(211)	(211)
Reconciliation of segment result to Group net Profit/(Loss) after Tax				
Unallocated items:				
Interest Revenue	-	11,462,672	-	-
Interest Expense	-	(503,605)	-	-
Profit/(Loss) on sale of assets	-	(528)	1,398,064	1,398,064
Other comprehensive income	-	-	-	-
Net Profit/(Loss) after Tax	(8,732,075)	2,154,575	1,397,853	1,397,853
Assets				
Segment Assets	211,777,375	211,777,375	-	-
Liabilities				
Segment Liabilities	4,901,285	4,910,359	-	-
Other				
Depreciation	88,285	88,285	-	-
Consolidated 2011				
Revenue				
Segment Revenue	-	-	-	-
Result				
Segment Result	(6,511,231)	(6,511,231)	(59,518)	(59,518)
Income Tax Benefit /(Expense)	-	-	-	-
Profit after Income Tax	(6,511,231)	(6,511,231)	(59,518)	(59,518)
Reconciliation of segment result to Group net Profit/(Loss) after Tax				
Unallocated items:				
Interest revenue	-	2,378,867	-	-
Interest Expense	-	(181,584)	-	-
Profit/(Loss) on sale of assets	-	22,574	-	-
Other comprehensive income	-	-	(452,430)	(452,430)
Net Profit/(Loss) after Tax	(6,511,231)	(4,291,374)	(511,948)	(511,948)
Assets				
Segment Assets	105,855,038	105,855,038	1,347,570	1,347,570
Liabilities				
Segment Liabilities	2,160,688	2,160,688	-	-
Other				
Depreciation	96,240	96,240	-	-

NOTE 23. SEGMENT REPORTING (CONTINUED)

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 at reporting date represent the investments in listed companies 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.

NOTE 24. CASH FLOW INFORMATION

		CONSOLIDATED GROUP	
	Note	2012 $	2011 $
Reconciliation of Cash Flow from Operations with Profit / (Loss) after Income Tax			
Profit/(loss) after income tax:		3,099,998	(4,350,892)
Non-cash flows in profit:			
– Depreciation	3d	88,285	96,240
– Impairment	3c	4,120,813	-
– Non-cash gain on sale of oil & gas assets		-	58,948
– Non-cash loss on sale of assets		528	-
– Share based payment expenses		777,600	873,170
– Joint operation farmin		(4,313,313)	-
– Joint operation net share of profit	2	(28,064)	-
– Investment Income	29	(1,676,237)	-
– Reclassification of gain on available for sale reserve		452,430	-
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries			
– Increase/(decrease) in trade debtors and other receivables		(5,622,750)	463,731
– Increase/(decrease) in other assets		142,660	1,680
– Increase/(decrease) in inventories		(91,480)	(38,848)
– (Increase)/decrease in trade creditors and accruals		(110,426)	(486,019)
– (Increase)/decrease in employee benefits		(46,563)	368,194
Cash Flow from Operations		(3,206,519)	(3,013,796)

NOTES TO THE FINANCIAL STATEMENTS CONTINUED.

for the year ended 30 June 2012

NOTE 25. SHARE-BASED PAYMENTS

The following Share based payment arrangements existed at 30 June 2012.

1,103,000 unlisted share options exercisable at $0.745 once the Company's share price has increased to at least $1.50 at any time between12 November 2010 and 12 November 2012.

1,283,000 unlisted share options exercisable at $0.745 once the Company's share price has increased to at least $2.00 at any time between 12 November 2010 and 12 November 2012.

1,197,000 unlisted share options exercisable at $0.745 once the Company's share price has increased to at least $1.00 at any time between 12 November 2010 and 12 November 2012.

1,282,000 unlisted share options exercisable at $0.745 once the Company's share price has increased to at least $1.20 at any time between 12 November 2010 and 12 November 2012.

409,000 unlisted share options granted during the year, exercisable at $0.745 once the Company's share price has increased to at least $1.20 at any time between 1 March 2010 and 1 March 2013.

438,000 unlisted share options granted during the year, exercisable at $0.745 once the Company's share price has increased to at least $1.60 at any time between 1 March 2010 and 1 March 2013.

538,000 unlisted share options granted during the year, exercisable at $0.745 once the Company's share price has increased to at least $1.50 at any time between 21 June 2010 and 21 June 2013.

621,000 unlisted share options granted during the year, exercisable at $0.745 once the Company's share price has increased to at least $2.00 at any time between 21 June 2010 and 21 June 2013.

245,000 unlisted share options granted during the year, exercisable at $0.745 once the Company's share price has increased to at least $1.20 at any time between 11 October 2010 and 11 October 2013.

261,000 unlisted share options granted during the year, exercisable at $0.745 once the Company's share price has increased to at least $1.60 at any time between 11 October 2010 and 11 October 2013.

188,000 unlisted share options granted during the year, exercisable at $0.745 once the Company's share price has increased to at least $1.50 any time between 3 November 2010 and 3 November 2013.

189,000 unlisted share options granted during the year, exercisable at $0.745 once the Company's share price has increased to at least $1.60 any time between 3 November 2010 and 3 November 2013.

80,000 unlisted share options granted during the year, exercisable at $1.445 once the Company's share price has increased to at least $2.00 at any time between 17 January 2011 and 17 January 2013.

145,000 unlisted share options granted during the year, exercisable at $1.645 once the Company's share price has increased to at least $2.20 at any time between 1 March 2011 and 1 March 2014.

146,000 unlisted share options granted during the year, exercisable at $1.645 once the Company's share price has increased to at least $2.60 at any time between 1 March 2011 and 1 March 2014.

1,932,000 unlisted share options granted during the year, exercisable at $0.745 once the Company's share price has increased to at least $1.10 any time between 1 December 2011 and 1 December 2014.

2,308,397 unlisted share options granted during the year, exercisable at $0.745 once the Company's share price has increased to at least $1.10 any time between 1 June 2012 and 1 June 2015.

1,813,740 unlisted share options granted during the year, exercisable at $0.745 once the Company's share price has increased to at least $1.10 any time between 1 June 2012 and 1 June 2015.

Each option entitles the holder to subscribe for ordinary fully paid shares on a 1:1 basis, which will be issued by the Company in consideration for receiving the exercise price of the option. The options hold no voting or Dividend rights and are not transferable.

NOTE 25. SHARE-BASED PAYMENTS (CONTINUED)

The number and weighted average exercise price of share options are as follows:

	PARENT ENTITY			
	2012 Number of Options	2012 Weighted-Average Exercise Price	2011 Number of Options	2011 Weighted-Average Exercise Price
Outstanding at the beginning of the year	9,623,000	0.84	7,614,000	0.85
Granted	6,054,137	0.75	6,239,000	0.86
Forfeited	-	-	-	-
Exercised	(520,000)	0.91	(3,930,000)	0.80
Expired	(978,000)	0.75	(300,000)	2.00
Outstanding at the end of the year	14,179,137	0.77	9,623,000	0.84
Exercisable at the end of the year	7,979,000	0.77	9,477,000	0.83

During the Financial Year ended 30 June 2012, 978,000 options lapsed on 3 November 2011.

The options outstanding at 30 June 2012 had a weighted average exercise price of $0.77 and a weighted average remaining life of 1.45 years. Exercise prices range from $0.75 to $1.65 in respect of options outstanding at 30 June 2012.

The weighted average fair value of the options granted during the year was $0.75.

Fair Values and assumptions in the calculation of fair values are as follows:

Grant Date	Expiry Date	Share price at grant date	Exercise Price	Life of the Option	Expected Share Price Volatility	Risk-free interest rate	Dividend Yield
1 December 2011	1 December 2014	$0.53	$0.75	3 years	70%	3.26%	0%
1 June 2012	1 June 2015	$0.55	$0.75	3 years	70%	2.66%	0%

Historical volatility has been the basis for determining expected share price volatility as it is assumed that this is indicative of future tender. The life of options is based on the historical exercise patterns, which may not eventuate in the future.

Included under Share Based Payment Expense in the Statement of Comprehensive Income is $777,600 (2011 $873,170), and relates in full, to equity share-based payment transactions.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED.

for the year ended 30 June 2012

NOTE 26. CONTINGENT LIABILITIES

As at 30 June 2012, the Consolidated Group had provided:

- a bank guarantee of $52,000,000 under the Take or Pay Agreement with the Wiggins Island Coal Export Terminal;
- a bank guarantee of $15,300,000 under the Wiggins Island Rail Project Deed for the provision of rail infrastructure;
- a bank guarantee of $4,054,800 under an agreement with Gladstone Ports Corporation for the provision of port services;
- a bank guarantee of $1,548,000 under the Interim Funding Agreement with SunWater Ltd;
- a bank guarantee of $890,400 under an agreement with Pacific National Pty Ltd to perform Rail haulage services;
- a bank guarantee of $430,350 under the Feasibility Funding Deed to support Bandanna's share of the feasibility costs for Stage 1 Expansion of Wiggins Island Coal Export Terminal development;
- a bank guarantee of $165,000 under an agreement with Ergon Energy Corporation Ltd to assist with the funding of the preliminary Investigations for a substation and power line connection at Comet; and
- two bank guarantees totalling $203,964 for security in relation to Brisbane office leases.

Included within the cash and cash equivalents balance at 30 June 2012, are term deposits to secure the bank guarantees. Refer to Note 27.

NOTE 27. EVENTS AFTER BALANCE SHEET DATE

On 3 August 2012, Bandanna announced an increase in its JORC compliant Resources at Springsure Creek (EPC891) from 490.5Mt to 543.7Mt. This Resource comprises a maiden Measured Resource of 52.8 million tonnes, an Indicated Resource of 222.3 million tonnes and Inferred Resource of 268.6 million tonnes.

On 30 August 2012, Bandanna executed a surrender of the office lease for 410 Queen Street, Brisbane.

On 11 September 2012, Bandanna announced that it had finalised agreements for the development and operation of train loadout infrastructure for the Springsure Creek Project, to be located on portions of Acacia Coal Limited's coal exploration tenement EPC1230. The key commercial terms of the arrangement were announced by Bandanna and Acacia on 12 March 2012 and provide for Bandanna to make 1Mtpa train loadout capacity available to Acacia, with Acacia having an option for an additional 1Mtpa, subject to availability, in return for Acacia's consent to Bandanna's applications for transportation and infrastructure mining leases over portions of their EPC1230. The train loadout infrastructure will provide loading capacity for the Springsure Creek Project through to full-scale production.

In September 2012, 20 million options were granted to Acacia Coal Limited under the Development and Operations Agreements for the Springsure Creek train loadout infrastructure. The options to acquire fully paid shares in Bandanna are exercisable at $1.50 over five years, vesting on grant of the infrastructure mining lease for Bandanna's Springsure Creek Project.

Subsequent to the Reporting Period, Bandanna announced that it was committing additional funds to the advancement of the Springsure Creek Project, following the acceptance of a senior secured debt facility with Credit Suisse for $67.3 million. The Credit Suisse facility releases $50 million cash that Bandanna has previously used to secure two port and rail guarantees for the project. At the date of this Report, total guarantees provided by Bandanna of $74,592,514 are secured by short term deposits of $24,592,514.

NOTE 28. RELATED PARTY TRANSACTIONS

	Note	CONSOLIDATED GROUP 2012 $	2011 $
a. Transactions with Director/Secretary related entities			
Perusal Time Pty Ltd, owned by Robert Johansen (non-executive Director), provided consultancy services during the year		297,662	122,867

Director related entities DJ Mining Pty Ltd, Global Resource Asset Exchange Pty Ltd, J Barlow Consultants and Perusal Time Pty Ltd are parties to royalty deeds with various entities in the Consolidated Group as disclosed in the prospectus dated 17 September 2008. No royalties were paid to the Director related entities in the Financial Year ended 30 June 2012.

b. Wholly owned group

The wholly owned Group consists of those entities listed in note 14.

Transactions between Bandanna Energy Limited and other entities in the Group consist of the provision of working capital.

NOTE 29. JOINT VENTURES

The Group has a 50% interest in a joint venture, South Galilee Coal Project (SGCP). The SGCP is undertaking exploration, concept and prefeasibility studies of four EPCs in the South Galilee area with joint venture partner AMCI (Alpha) Pty Ltd acting as operational manager.

The following amounts represent the Group's 50% share of the assets, liabilities, income and results of the SGCPJV. They are included in the Statement of Comprehensive Income and Statement of Financial Position.

	Note	CONSOLIDATED GROUP 2012 $	2011 $
Assets:			
– Current Assets	12	226,494	-
– Non Current Exploration and Evaluation Assets	16	4,046,029	-
– Non Current Other Assets	17	214,877	-
		4,487,400	-
Liabilities:			
– Current Liabilities	20	146,023	-
– Non Current Liabilities		-	-
		146,023	-
Net Assets:			
– Income		71,890	-
– Expenses		(43,825)	-
Profit /(loss) after income tax		28,065	-
Proportionate interest in joint venture's commitments		-	-

a. On initial recognition of the joint operation, an initial farm in contribution of $4,313,313 was taken up in the Consolidated Group's Statement of Comprehensive Income.

The Bandanna Group's share of commitments of the SGCP total $1,279,000.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED.

for the year ended 30 June 2012

NOTE 30. FINANCIAL RISK MANAGEMENT

Financial Risk Management Policies

The Group's financial instruments consist mainly of deposits with banks, accounts receivable and payable, and loans to and from subsidiaries. The main purpose of non-derivative financial instruments is to raise finance for the group operations.

Treasury Risk Management

Treasury risk management is addressed by the Risk Management Committee as required, to assist the consolidated group in meeting its financial targets whilst minimising potential adverse effects on financial performance.

Financial Risk Exposures and Management

The main risks the Group is exposed to through its financial instruments are interest rate risk, liquidity risk, credit risk.

Interest rate risk analysis

Interest rate risk is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates. The Consolidated Group's exposure to interest rate risk arises from cash and cash equivalent assets bearing variable interest rates as the consolidated entity intends to hold fixed rate assets to maturity.

The weighted average effective interest rate on these assets is summarised below:

	2012 %	2011 %
Cash and cash equivalents	4.2	4.8

For each % increase/(decrease) in the weighted average effective interest rate, the Profit per annum from continuing operations before tax would increase/(decrease) by $1,149,184 respectively, based on the cash and cash equivalents balance for the year ended 30 June 2012 of $114,918,459.

Liquidity Risk analysis

The Group manages liquidity risk by monitoring forecast cash flows. At the reporting period date, these reports indicate that the Group expected to have sufficient liquid resources to meet its obligations under all reasonably expected circumstances.

For the year ended 30 June 2012, the Group's liabilities have contractual maturities which are summarised below.

	CURRENT		
Consolidated Group	Not later than 1 month $	1 to 3 months $	3 months to 1 year $
Trade Payables	185,389	-	-
Other short term financial liabilities	3,380,458	903,438	-
Total	3,565,847	903,438	-

The above contractual maturities reflect the gross cash flows, which may differ to the carrying values of the liabilities at the reporting period date.

Credit Risk

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets, is carrying the amount, net of any provisions for impairment of those assets, as disclosed in the balance sheet and notes to the financial statements.

Securities are held with recognised banks within Australia.

NOTE 31. BANDANNA ENERGY LIMITED PARENT COMPANY INFORMATION

	PARENT ENTITY 2012 $	PARENT ENTITY 2011 $
Assets		
Current assets	194,816,443	98,049,958
Non-current assets	1,346,780	793,746
Total assets	196,163,223	98,843,704
Liabilities		
Current liabilities	2,130,923	1,343,074
Non-current liabilities	9,074	12,140
Total liabilities	2,139,997	1,355,214
Equity		
Issued capital	219,603,355	121,998,480
Retained earnings	(28,312,059)	(26,574,127)
Share option reserve	2,731,930	2,064,137
Total equity	194,023,226	97,488,490
Financial performance		
Profit for the year	(1,737,932)	(4,273,846)
Other comprehensive income	-	-
Total comprehensive income	(1,737,932)	(4,273,846)

Operating lease commitments, which are non-cancellable are detailed in Note 22b. These operating leases, contracted for by Bandanna Energy Limited, are not capitalised in the financial statements.

DIRECTORS' DECLARATION.

The Directors of the Company declare that:

1) the financial statements and notes, as set out on pages 71 to 103, are in accordance with the *Corporations Act 2001* (Cth) and:
   i) comply with Accounting Standards;
   ii) give a true and fair view of the financial position for the year ended 30 June 2012 and of the performance for the year ended on that date of the Company and Consolidated Group; and
   iii) comply with International Financial Reporting Standards as disclosed in Note 1.
2) In the Directors' 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.

The Directors have been given the declarations by the Managing Director and Chief Financial Officer required under Section 295A of the *Corporations Act 2001* (Cth).

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

John Pegler
Chairman

Michael Gray
Managing Director

19 September 2012

INDEPENDENT AUDITOR'S REPORT.

Grant Thornton Audit Pty Ltd
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ACN 130 913 594

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Independent Auditor's Report
To the Members of Bandanna Energy Limited

We have audited the accompanying financial report of Bandanna Energy Limited (the "Company"), which comprises the consolidated statement of financial position as at 30 June 2012, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the consolidated entity comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

Directors responsibility for the financial report

The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view of the financial report in accordance with Australian Accounting Standards and the Corporations Act 2001. This responsibility includes such internal controls as the Directors determine are necessary to enable the preparation of the financial report to be free from material misstatement, whether due to fraud or error. The Directors also state, in the notes to the financial report, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards which require us to comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error.

INDEPENDENT AUDITOR'S REPORT CONTINUED.

GrantThornton 2

In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

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

Auditor's opinion

In our opinion:

a the financial report of Bandanna Energy Limited is in accordance with the Corporations Act 2001, including:

  i giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of its performance for the year ended on that date; and

  ii complying with Australian Accounting Standards and the Corporations Regulations 2001; and

b the financial report also complies with International Financial Reporting Standards as disclosed in the notes to the financial statements.

Report on the remuneration report

We have audited the remuneration report included within the directors' report for the year ended 30 June 2012. The Directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion on the remuneration report

In our opinion, the remuneration report of Bandanna Energy Limited for the year ended 30 June 2012, complies with section 300A of the Corporations Act 2001.

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

Dan Carroll

Daniel J Carroll
Partner - Audit & Assurance

Brisbane, 19 September 2012

SHAREHOLDER INFORMATION.

CORPORATE DIRECTORY

Bandanna Energy Limited

ABN 34 009 356 665

Stock Exchange:

Bandanna Energy Limited is listed on the Australian Securities Exchange (ASX). The Home Exchange is Sydney.

ASX Code:

BND

Directors:

John Pegler

Michael Gray

Jeremy Barlow

David Graham

Robert Johansen

Park Soon IL

Officer:

Company Secretary, Tess Lye

Contact Details:

Registered Office: Level 4, 260 Queen Street, Brisbane, Queensland 4000

Postal Address: GPO Box 5227, Brisbane, Queensland 4001

Phone: 07 3041 4400

Fax: 07 3041 4444

Email: info@bandannaenergy.com.au

Web site: www.bandannaenergy.com.au

Share Registry:

Computershare Investor Services Pty Limited

Street Address: 117 Victoria Street, West End, Queensland 4101

Postal Address: GPO Box 2975, Melbourne, Victoria 3001

Phone: 1300 850 505 (within Australia) or 61 3 9415 4000 (outside Australia)

Fax: 03 9473 2500

Web site: www-au.computershare.com

Auditors:

Grant Thornton Audit Pty Ltd

Ground Floor, 102 Adelaide Street, Brisbane, Queensland 4000

Phone: 07 3222 0200

CALENDAR OF EVENTS

20 September 2012	Full Year 2012 Results lodged with ASX
31 October 2012	September 2012 Quarterly Report lodged with ASX
15 November 2012	Annual General Meeting, 11.00am, to be held at the offices of Hopgood Ganim Lawyers, Level 8, Waterfront Place, 1 Eagle Street, Brisbane, Queensland, 4000
31 January 2013	December 2012 Quarterly Report lodged with ASX

SHAREHOLDER INFORMATION CONTINUED.

ADDITIONAL SHAREHOLDER INFORMATION

Continuous Disclosure

All documents lodged with the ASX by the Company since 2004 (including all quarterly, half yearly and annual reports) are provided on the Company's web site www.bandannaenergy.com.au. The web site also provides high level information in relation to the Company's coal exploration and development projects, share registry information, share price information, profiles of the Directors and senior management of the Company and corporate governance policies.

Dividend Policy

The Company does not currently have a Dividend policy.

Shareholder Communication

The Company principally communicates with shareholders about the Company, its business and its performance through documents lodged with the ASX, in order to ensure accessibility of information to all shareholders. Presentations made to targeted investor groups that may contain information not previously disclosed to the market (material or otherwise) are lodged with the ASX. At all times, compliance with the disclosure obligations under the ASX Listing Rules forms the basis of the Company's form and timing of communications with shareholders.

The Company receives queries and correspondence from shareholders and, where the query relates to specific shareholding interests, directs the shareholder to the Share Registry. For general queries, the Officer of the Company will manage the response to the query.

Forms

Shareholders may obtain forms regarding their shareholding in the Company directly from the Share Registry. All forms should be submitted directly to the Share Registry.

Feedback

Feedback from shareholders in relation in communications from the Company should be directed to the Officer of the Company.

Voting Rights

Fully paid ordinary shares in the Company carry voting rights of one vote per share. Unlisted options do not carry voting rights.

Restricted Securities

There are no restricted securities on issue.

SHAREHOLDINGS

As at 31 August 2012, the Company has 7,660 shareholders and a total of 528,481,199 ordinary fully paid shares on issue.

Distribution Of Shareholders

As at 31 August 2012, the distribution of shareholders was as follows:

Size of holding	Number of Shareholders	Number of Ordinary Shares
1 – 1,000	2,958	419,367
1,001 – 5,000	1,393	4,090,873
5,001 – 10,000	997	8,090,776
10,001 – 100,000	2,091	67,358,699
100,001 and over	221	48,521,484
	7,660	528,481,199

The number of shareholders holding less than a marketable parcel of shares as at 31 August 2012 was 3,035.

Substantial shareholders

Substantial shareholders as at 31 August 2012 were as follows:

Shareholder	Number of Ordinary Shares	Percentage (%) of Total Issued Shares
DJ MINING PTY LTD	87,845,788	16.62
RESOLVE GEO PTY LTD	76,596,110	14.49
SAMTAN AURES PTY LTD	56,383,003	10.67
J P MORGAN NOMINEES AUSTRALIA LIMITED	33,196,837	6.28

Top 20 shareholders (by volume of ordinary shares)

As at 31 August 2012, the 20 largest shareholders in the Company, by volume of shareholding were as follows:

	Shareholder	Number of Ordinary Shares	Percentage (%) of Total Issued Shares
1.	DJ MINING PTY LTD	87,845,788	16.62
2.	RESOLVE GEO PTY LTD	76,596,110	14.49
3.	SAMTAN AURES PTY LTD	56,383,003	10.67
4.	J P MORGAN NOMINEES AUSTRALIA LIMITED	33,196,837	6.28
5.	UBS WEALTH MANAGEMENT AUSTRALIA NOMINEES PTY LTD	20,776,318	3.93
6.	J BARLOW CONSULTANTS PTY LTD	19,521,287	3.69
7.	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	17,966,443	3.40
8.	NATIONAL NOMINEES LIMITED	17,945,187	3.40
9.	MR NORMAN JOSEPH ZILLMAN	11,366,908	2.15
10.	MATHEW CONSULTING PTY LTD	9,955,846	1.88
11.	MR NORMAN JOSEPH ZILLMAN + MRS LORRAINE JEAN ZILLMAN <BANNERBLOCK SUPER FUND A/C>	9,543,092	1.81
12.	GLOBAL RESOURCE ASSET EXCHANGE PTY LTD	9,056,524	1.71
13.	UBS NOMINEES PTY LTD	7,399,810	1.40
14.	CITICORP NOMINEES PTY LIMITED	4,348,282	0.82
15.	J BARLOW CONSULTANTS PTY LTD <JEREMY BARLOW FAMILY A/C>	2,000,000	0.38
16.	WINCHESTER INVESTMENTS GROUP PTY LIMITED	2,000,000	0.38
17.	DR RAYMOND DOUGLAS SHAW	1,970,000	0.37
18.	DR RAYMOND DOUGLAS SHAW + MS RITA BARBARA JONES <SHAW JONES SUPER FUND A/C>	1,872,000	0.35
19.	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 3	1,812,303	0.34
20.	BNP PARIBAS NOMS PTY LTD <MASTER CUST DRP>	1,723,209	0.33

USE OF CASH

For the Reporting Period, the Consolidated Group used its cash in a manner consistent with business objectives.

SHAREHOLDER INFORMATION CONTINUED.

TENEMENT LISTING

Tenement No.	Tenement Name	Location	% Interest
EPC 1048	South Galilee – Tahi	Galilee Basin, Queensland	50
EPC 1049	South Galilee – Rua	Galilee Basin, Queensland	50
EPC 1179	South Galilee – Toru	Galilee Basin, Queensland	50
EPC 1180	South Galilee – Wha	Galilee Basin, Queensland	50
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
EPM 16553	Mt Bison	Styx Basin, Queensland	100
EPM 16666	Toolabuc	Northern Eromanga Basin, Queensland	100
EPM 16667	Duaringa	Duaringa Basin, Queensland	100
EPM 16668	North Proserpine	Hillsborough Basin, Queensland	100
EPM 17568	Planet Creek	Bowen Basin, Queensland	100
EPM 17932	Planet Creek 2	Bowen Basin, Queensland	100
EPM 17567	Plevna	Eungella District, Queensland	100

GLOSSARY.

Acacia Coal	Acacia Coal Limited
ASX	Australian Securities Exchange
ASX Listing Rules	Rules of the ASX governing ASX listed companies, including rules in relation to admission, quotation, suspension, disclosure and conduct
ASX Principles	Corporate Governance Principles and Recommendations of the ASX Corporate Governance Council with 2010 Amendments, Second Edition.
Bandanna / Bandanna Energy	Bandanna Energy Limited ABN 34 009 356 665
Binomial	Options pricing model
Black-Scholes	Options pricing model
BND	ASX code for Bandanna Energy Limited ABN 34 009 356 665
Board	Board of Directors
CGS	Corporate Governance Statement
CHMP	Cultural Heritage Management Plan
Coal Tenement	A mining lease, exploration permit, or mineral development licence
Committee	A committee of the Board of Directors
Company	Bandanna Energy Limited ABN 34 009 356 665
Consolidated Group	Bandanna Energy Limited ABN 34 009 356 665 and its controlled entities
Corporations Act	*Corporations Act 2001* (Cth)
DEHP	Department of Environment and Heritage Protection
DFS	Definitive Feasibility Study
Director	A non-executive or executive director of Bandanna Energy Limited ABN 34 009 356 665, included as KMP for the Reporting Period
Directors' Report	The Report of the Directors of the Company for the Reporting Period
Dividend	Payment from the Company's profits to shareholders
EIS	Environmental Impact Statement
EMP	Environmental Management Plan
EPBC Act	*Environment Protection and Biodiversity Conservation Act 1999* (Cth)
EPC	Exploration permit for coal
EPM	Exploration permit for minerals
EOI	Expression of Interest
EPS	Earnings per share
ESOP	Employee Share Option Plan
Executives	Senior management of the Company included as KMP for the Reporting Period
FFFA	Feasibility Funding Facility Agreement
Financial Report	Annual Financial Report of the Consolidated Group for the Financial Year ended 30 June 2012
Financial Year	12 months ending 30 June
FY	Financial year
Group	Consolidated Group
Indicated Resource	That part of a Mineral Resource for which tonnage, densities, shape, physical characteristics, grade, and mineral content can be estimated with a high level of confidence
Inferred Resource	That part of a Mineral Resource for which tonnage, grade and mineral content can be estimated with a reasonable level of confidence
JORC / JORC Code	A code prepared by the Joint Ore Reserve Committee which defines criteria for publicly reporting Resources and Reserves

GLOSSARY CONTINUED.

Key Management Personnel	Persons responsible for planning, directing and controlling the activities of the Company at any time during the Reporting Period, being persons holding positions as non-executive Directors, executive Directors, and members of the senior management team having executive level responsibilities
KMP	Key Management Personnel
KPI	Key Performance Indicators
LTI	Long Term Incentive
Measured Resource	That part of a Mineral Resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a high level of confidence
MLA	Mining lease application
MRRT	Mineral Resources Rent Tax
Mt	Million tonnes
Mtpa	Million tonnes per annum
NQBP	Northern Queensland Bulk Ports Authority
NRC	Nomination and Remuneration Committee
Parent Entity	Bandanna Energy Limited ABN 34 009 356 665
PCI Coal	Pulverized coal injection coal
PFS	Prefeasibility Study
Probable Reserves	The economically mineable part of Indicated Coal Resource at the time of reporting as defined in the JORC Code
QRC	Queensland Resources Council
QR National	QR National Limited
Remuneration Report	Remuneration Report of the Company for the Reporting Period, set out in Section 5 of the Directors' Report
Report	The 2012 Annual Report of Bandanna Energy Limited
Reportable Incident	A safety incident required to be reported to the inspector under the *Coal Mining Health and Safety Regulation 2001* (Qld)
Reporting Period	1 July 2011 to 30 June 2012
Reserves	The economically mineable part of Measured or Indicated Coal Resource at the time of reporting as defined in the JORC Code
Resources	The part of the coal deposit for which there is a reasonable prospect for eventual economic extraction as defined in the JORC Code
ROM	Run of mine
SCL Legislation	Strategic Cropping Land Act 2011 (Qld)
SGCP	South Galilee Coal Project
SGCPJV	Unincorporated joint venture in the South Galilee Coal Project between AMCI (Alpha) Pty Ltd (AMCI) and Alpha Coal Pty Ltd (Bandanna)
SIMP	Social Impact Management Plan
Statement	Corporate Governance Statement
STI	Short Term Incentive
Thermal coal	Coal which is combusted to provide heat for steam generation and subsequent power generation
WEXP1	First planned expansion stage of WICET after Stage 1
WEXP2	Second planned expansion stage of WICET after Stage 1
WICET	Wiggins Island Coal Export Terminal

Summary information

This Report contains summary information about the Consolidated Group and its activities current as at the date of this Report. The information in this Report is of general background and/or is intended to comply with specific statutory reporting requirements and does not purport to be complete. This Report should be read in conjunction with Bandanna's other periodic and continuous disclosure announcements lodged with the ASX, which are available at www.asx.com.au.

Not financial product advice

This Report is for information purposes only and is not a prospectus, investment advice or a recommendation to acquire Bandanna Energy Limited (Bandanna) shares. The Report has been prepared without taking into account the objectives, financial situation or needs of individuals. Before making an investment decision prospective investors should consider the appropriateness of the information having regard to their own objectives, financial situation and needs and seek legal and taxation advice appropriate to their jurisdiction. Bandanna is not licensed to provide financial product advice in respect of Bandanna shares. Cooling off rights do not apply to the acquisition of Bandanna shares.

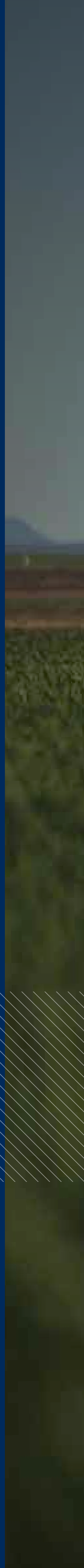
Financial data

All dollar values are in Australian dollars (A$) unless other stated.

Future performance

This Report may contain certain statements and projections provided by or on behalf of Bandanna with respect to anticipated future undertakings. Forward looking words such as, "expect", "should", "could ", "may", "predict", "plan", "will", "believe", "forecast", "estimate", "target" and other similar expressions are intended to identify forward-looking statements within the meaning of securities laws of applicable jurisdictions. Indications of, and guidance on, future earnings and financial position and performance are also forward-looking statements. These forward-looking statements reflect various assumptions by or on behalf of Bandanna. Accordingly, these statements are subject to significant business, economic and competitive uncertainties and contingencies associated with exploration and/or mining which may be beyond the control of Bandanna which could cause actual results or trends to differ materially, including but not limited to price fluctuations, exploration results, ore reserve and mineral resource estimation, environmental risks, general operating risks, commodity, legislative and regulatory changes, project delay, ability to meet additional funding requirements, factors relating to title to properties, native title and aboriginal heritage issues, dependence on key personnel, share price volatility, approvals and cost estimates. Consequently, there can be no assurance that such statements and projections will be realised. Neither Bandanna, or any companies within the Consolidated Group, advisers, consultants, agents or any of their respective officers or employees make any representations as to the accuracy or completeness of any such statement of projections or that any forecasts will be achieved. Such forward-looking statements only speak as to the date of this Report and Bandanna assumes no obligation to update such information other than in accordance with continuous disclosure obligations under the ASX Listing Rules and the Corporations Act 2001 (Cth).

BANDANNA ENERGY



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