
QUARTERLY ACTIVITIES REPORT for Bandanna Energy Limited and wholly owned subsidiaries ("Bandanna") THREE MONTHS to 31 March 2012

Executive Summary

Bandanna Energy Limited (ASX:BND) continues to progress project development activities required to position Bandanna as Australia's next coal producer. Key highlights and milestones for the Reporting Period, confirming Bandanna's ongoing transition from coal explorer to coal producer, include:

The Final Links of the Springsure Creek Coal Supply Chain were secured . . .

- **Rail Loadout** - execution in March 2012 of a binding agreement with Acacia Coal (ASX: AJC) for the sharing of train loadout infrastructure and securing Acacia's consent to Bandanna's application for transportation and infrastructure mining leases over portions of Acacia's EPC1230
- **Rail Haulage** - award in February 2012 of a contract to Pacific National for the haulage of coal from the Springsure Creek Project to the Wiggins Island Coal Terminal,

complementing the infrastructure capacity secured in the previous quarter:

- **Below Rail** - commercial agreement in September 2011 with QR National (ASX: QRN) to proceed with the below rail component for coal haulage to Wiggins Island
- **Shiploading** - agreement executed in September 2011 with WICET, in which Bandanna Energy is a 14% shareholder, for port allocation and shiploading of Springsure Creek coal.

Bandanna Board prepares for Project Development . . .

- appointment of Mr John Pegler, leading coal industry identity, experienced director and former coalmining operations and development executive, current Chair of the Australian Coal Association, as a non-executive director of Bandanna
- appointment of Mr Michael Gray, highly experienced coal development executive as Managing Director of Bandanna, succeeding Dr Ray Shaw
- commencement of Ms Tess Lye, acknowledged project development lawyer and governance specialist as Company Secretary of Bandanna
- ongoing discussions with third parties regarding equity participation in Bandanna's Springsure and Dingo West projects, as part of Bandanna's development funding strategy.
- progression of discussions with a third party to obtain port capacity for the South Galilee Coal Project in the proposed T4-T9 expansion projects at Abbot Point Coal Terminal
- maiden open-cut Reserve for the South Galilee Project.

1. INFRASTRUCTURE

Bandanna is a 14% shareholder in Wiggins Island Coal Export Terminal (WICET) Stage 1, with an allocation of 4Mtpa for the Company's Springsure Creek Project.

Activities in the Reporting Period

As announced on 12 March 2012, Bandanna has entered into a binding agreement with Acacia Coal Limited in relation to access over Acacia's tenement (EPC1230) for the construction of rail spur and loop infrastructure, train loadout facilities and related transport infrastructure. Securing Acacia's consent to Bandanna's application for transportation and mining lease applications over EPC1230, Bandanna has agreed to share train loadout infrastructure providing Acacia with 1Mtpa priority access. This agreement provides Bandanna with an access point to the Bauhinia rail line that, together with the main Blackwater rail line, is subject to an upgrade by QR National under the Wiggins Island Rail Project Deed to provide sufficient rail capacity for the WICET Stage 1 port.

On 23 February 2012, Bandanna announced that, through Springsure Creek Coal Pty Ltd, it had awarded a contract to Asciano's Pacific National (ASX:AIO) for the haulage of 4Mtpa of coal from the Springsure Creek Project to WICET for up to 15 years from mid-2014.

Completion of the rail haulage contract with Pacific National and the agreement with Acacia Coal during the Reporting Period, together with Bandanna's participation in the Wiggins Island Rail Project (WIRP) agreement with QR National and its allocation of 4Mtpa in WICET Stage 1 announced in the previous quarter, completes the requirements for the integrated rail movement of coal from the Springsure Creek Project to port.

As at the end of the Reporting Period, no announcement had been made by WICET as to the allocation of capacity for the expansion of WICET beyond Stage 1.

2. CORPORATE ACTIVITIES

Activities in the Reporting Period

Third Party Interest in Project Participation – Funding Strategy

During the Reporting Period, Bandanna undertook discussions with a number of third parties in relation to potential participation by those parties in Bandanna's Bowen Basin development projects, as part of its long-term project funding strategy.

As advised to the ASX on 25 January 2012 in response to a price query, discussions have involved a number of parties, one of whom has made an indicative, non-binding proposal for project participation. Discussions with this party, and others, are ongoing and Bandanna is confident that through this process it will identify and finalise a strategic partner (or partners) for the joint venture development of its projects. In the meantime, the Company is focused on and fully funded to complete the definitive feasibility study for Springsure Creek, to enable progress towards first production by mid-2014.

Upskilling and Resourcing for Transition - Changes to Board of Directors and Management

In January 2012, John Pegler joined the Board as a non-executive director. John is very well known in the international coal industry. A mining engineer by training, he has worked for 39 years in open-cut and underground resource development, coal mining and processing operations, international and domestic coal marketing, project management and international procurement. After service with BP and Rio Tinto Groups in NSW, Queensland and Indonesia, including roles at Managing Director level of major Queensland mines and most recently as Chief Executive Officer of Central Queensland open-cut coal producer Ensham Resources Pty Ltd, Mr Pegler is the current Chair of the Australian Coal Association.

Subsequent to the end of the Reporting Period, on 4 April 2012 Bandanna announced that Mr Pegler would take over the role of Chair of the Company from Mr Jeremy Barlow. Mr Barlow remains on the Board as a non-executive director.

On 5 March 2012, highly experienced mining executive Michael Gray commenced in the role of Managing Director, replacing Dr Ray Shaw who held the role since the listing of the Company in 2008. Mr Gray has more than 20 years' experience in the planning and development of major mining infrastructure projects, including high-level involvement in resource feasibility and development, project finance, project execution, environmental management and native title issues. Mr Gray was previously Chief Executive Officer of Middlemount Coal Pty Ltd where he had overall responsibility for development of the Middlemount project from exploration to operating mine.

The appointment of Mr Pegler as Chair and Mr Gray as Managing Director reflect the recognition by the Board of the upskilling necessary to ensure the right balance of experience required in the Company's leadership, as Bandanna transitions from coal explorer to becoming Australia's next coal producer.

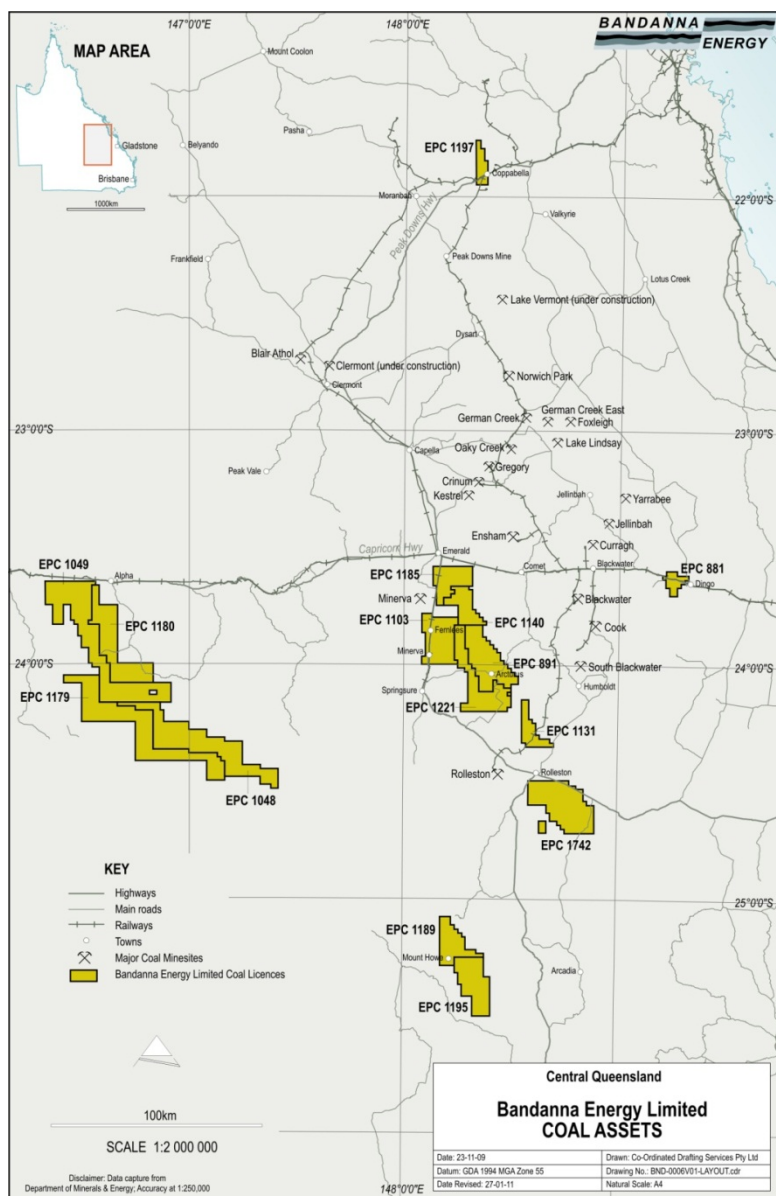
Appointment of Company Secretary and General Counsel

On 14 March 2012, the Company announced the appointment of Ms Tess Lye as Company Secretary and General Counsel. Ms Lye brings a wealth of expertise managing legal and governance affairs within the resources sector, having worked as Corporate Counsel and General Manager – Governance and Legal for Macarthur Coal Limited for several years prior to joining Bandanna.

3. DEVELOPMENT AND EXPLORATION ACTIVITIES

During the Reporting Period, Bandanna undertook exploration, field work and ongoing feasibility and regulatory approval activities to progress development of its coal projects (*Figure 1*), notably in relation to the Springsure Creek and Dingo West Projects and - in its capacity as a participant in a joint venture with AMCI - the South Galilee Coal Project.

Figure 1 - Location Plan for Bandanna Energy Limited EPC Interests



DEVELOPMENT PROJECTS

SPRINGSURE CREEK – EPC 891

Springsure Creek is 100% owned and operated by Springsure Creek Coal Pty Ltd, a wholly owned subsidiary of Bandanna Energy Limited through an interposed subsidiary.

The Springsure Creek Project covers an area of 462km² and is located some 40km south of Emerald and 60km southwest of Blackwater. The project is the priority development project being pursued by Bandanna, with the aim of first production by mid-2014 to meet the commencement of shipping from Stage 1 of the Wiggins Island Coal Export Terminal. Previously Bandanna has announced that the project contained 491Mt of JORC resource and a JORC marketable reserve of 103.4Mt.

Activities in the Reporting Period

Despite significant wet weather during the Reporting Period, Bandanna was able to complete drilling of 6 holes, for a total of 2,034 metres, including 392m of core. This on-going programme is designed to target increased confidence of existing resources with a view to expansion of both resources and reserves to underpin further the ongoing definitive feasibility study for the project. In addition, drilling is also being undertaken to confirm geotechnical assumptions for further optimisation of the mine plan for the project. In late March, with weather conditions improving, two additional rigs were mobilised to site to enable increased drilling to be undertaken in the June quarter.

Subsequent to the end of the Reporting Period, on 26 April 2012 Bandanna announced a 50% increase in the Reserve at the Springsure Creek Project area.

During the Reporting Period, substantial activity was undertaken on the Environmental Impact Study (EIS) for the Springsure Creek project. This activity included field assessments, community consultation, air and noise modelling. Completion of the draft EIS and release for public review and comment is expected within the June Quarter.

On 27 February 2012, Bandanna announced that it had signed a Cultural Heritage Management Plan for the project with the indigenous Kairi People.

Significant progress was made on the definitive feasibility study for the Springsure Creek Project during the Reporting Period. This work included:

- agreement with Acacia Coal (ASX:AJC) in relation to a rail loadout location for the project
- route alignment and assessment for the proposed transport corridor from the proposed Springsure Creek mining lease to the rail loadout location
- equipment assessment and selection for drift and underground development
- finalisation of mining infrastructure area design and layout
- identification of potential site for project accommodation village
- ongoing landowner engagement.

DINGO WEST – EPC 881

Dingo West is 100% owned and operated by Dingo West Coal Pty Ltd, a wholly owned subsidiary of Bandanna Energy Limited through an interposed subsidiary.

Dingo West is located west of the township of Dingo where it occupies a convenient position close to key infrastructure; the main Blackwater-Gladstone rail line and Capricorn Highway traversing the northern part of the lease. The rail distance to the port of Gladstone is 200km. Strategically, a mine at Dingo West would be approximately 60km closer to this port facility than any existing operating mine situated along the Blackwater corridor.

Dingo West Project is expected to produce 1Mtpa of high quality, low volatile PCI coal for the export market. Importantly, the coal quality data indicates a potential low volatile PCI product similar to those produced by Yarrabee and Jellinbah mines, located slightly to the west of the Dingo West Project. Previously Bandanna announced a JORC Code-compliant Inferred Resource of 91Mt within the tenement.

Activities in the Reporting Period

During the Reporting Period a total of 4,219m of drilling was completed; comprising of 35 drill holes and 2,185m of core. This drilling was focused on further delineation of mineable resources in three target areas for development of satellite open-cut pits. Independent assessment of the resources in these specific potential pit locations by Xenith Consulting is ongoing as part of the definitive feasibility study for the Dingo West Project.

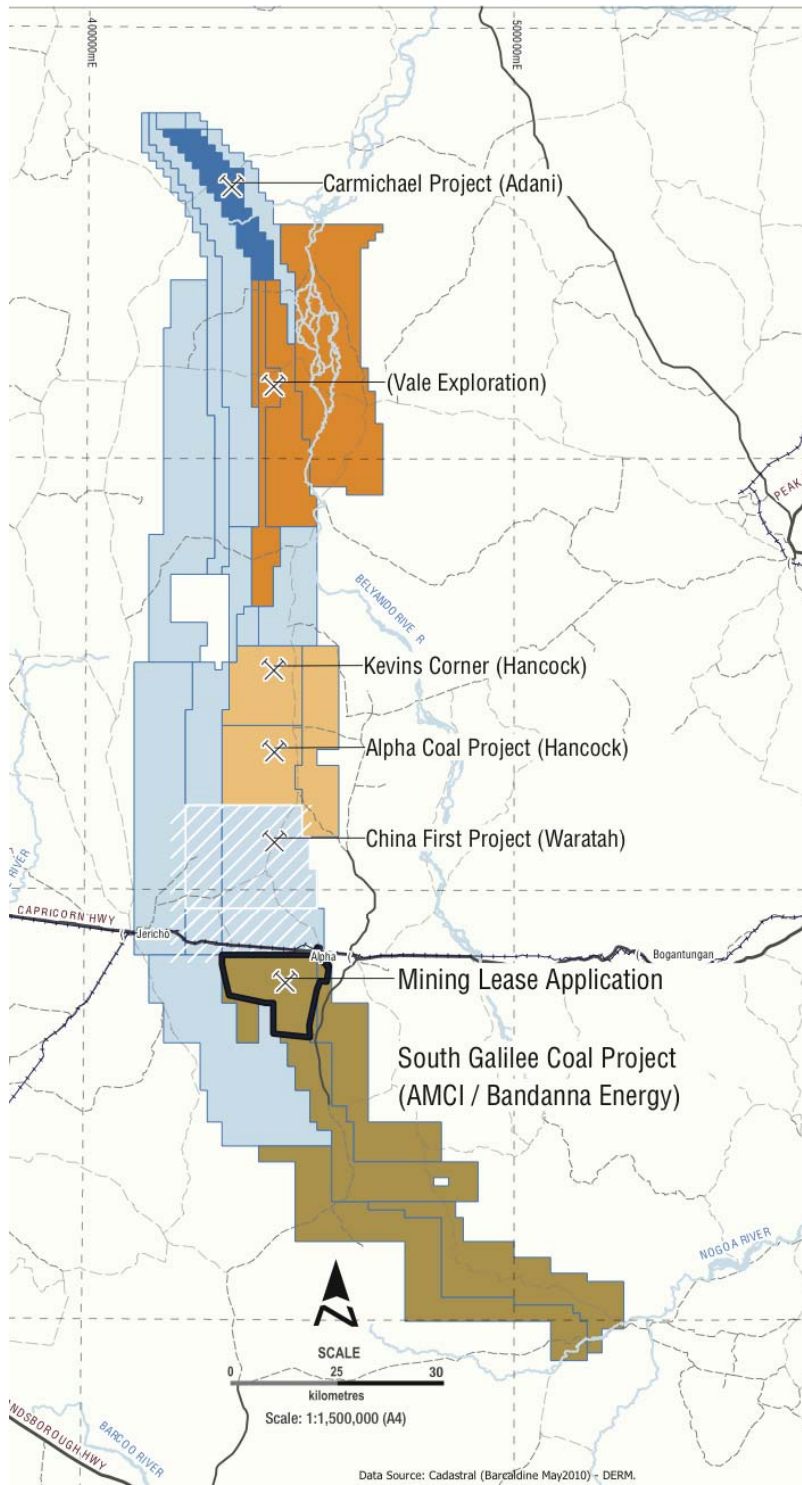
Development of the project will proceed as a controlled action pursuant to the *Environment Protection and Biodiversity Conservation Act 1999* (Cth), and accordingly an Environmental Impact Study (EIS) is being prepared for the project.

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.

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

The South Galilee Coal Project (SGCP) is located to the west of the township of Alpha and covers a combined area of 2,698 km² in the eastern Galilee Basin (*Figure 2*).

Figure 2 - South Galilee Coal Project Location Plan



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

Activities in the Reporting Period

Due to extensive wet weather during the Reporting Period, no onground activity was possible. An exploration program comprising approximately 40 holes is planned to be commenced in the June quarter to obtain additional information for open-cut mine design, exploration of the western extent of the coal resource and a potential resource to the south of the current project area.

On 31 January 2012, the South Galilee Joint Venture announced a Maiden Total Open-Cut Reserve of 274Mt for the project. This Reserve comprises 132Mt of Proven Reserve and 142Mt of Probable Reserve. The Reserve Estimate is based on the Coal Resource Statement prepared in February 2011 and data provided in the Pre-Feasibility Study completed in April 2011. The Reserve Estimates only includes coal within the D1 and D2 seams of the project.

The Joint Venture Manager is continuing discussions with North Queensland Bulk Ports (NQBP) and a third party in relation to securing port capacity within the proposed T4-T9 Abbot Point Expansion for the South Galilee Coal Project. The Joint Venture is confident that sufficient capacity to enable export of production from the project will be able to be secured at one of the new proposed terminals.

EXPLORATION PROJECTS

On 27 February 2012, Bandanna announced that it had signed a Cultural Heritage Management Plan for the Arcturus Project with the indigenous Kairi People.

Due to sustained wet weather and Bandanna's continuing priority to focus on development of the Springsure Creek and Dingo West projects, no field activity was undertaken on Bandanna's other exploration projects during the Reporting Period.

In the upcoming June quarter, drilling and field work will be undertaken within the Arcadia and Arcturus projects to better delineate resource areas and undertake field assessment work to address requirements of the *Strategic Cropping Land Act 2011* (Qld).

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



Mr Michael Gray
Managing Director
30 April 2012

Statement of Compliance

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

The information compiled in this Report relating to the South Galilee Reserves Estimate is based on information compiled by David Prior, who is a member of the Australasian Institute of Mining and Metallurgy and as such qualifies as a Competent Person as defined in the 2004 edition of the JORC Code. David Prior is a consultant working for Echelon Mining Services and was engaged by AMCI Investments to prepare the information. David Prior 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 Dingo West resources is based on information compiled by Gordon Saul, who is a member of the Australian Institute of Geoscientists and is a consultant to Resolve Geo Pty Ltd. Gordon Saul has sufficient experience which is relevant to the style of mineralisation and types of deposit under consideration and to the activity he undertook to qualify as a Competent Person as defined in the 2004 edition of the "Australian Code for reporting of Exploration Results, Mineral Resources and Ore Reserves". Gordon Saul consents to the inclusion in this Report of the matters based on his information and in the form and context in which it appears. Resolve Geo Pty Ltd is a shareholder in Bandanna Energy Limited.

The information compiled in this Report relating to Springsure Creek resources, other than those of the Springton domain (that is the Turkey Creek, Moorooloo and Arcturus domains), is based on information compiled by David Keilar, who is a member of the Australian Institute of Geoscientists and who 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 has previously consented to the inclusion of the matters based on his information in reports of similar form and context. Resolve Geo Pty. Ltd. is a shareholder in Bandanna Energy Limited.

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

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