
QUARTERLY ACTIVITIES REPORT for Bandanna Energy Limited and wholly owned subsidiaries ("Bandanna") THREE MONTHS to 30 June 2012

Executive Summary

With critical infrastructure arrangements signed in the March 2012 quarter, during the Reporting Period Bandanna Energy Limited (ASX:BND) directed its focus on further progress of the definitive feasibility study for the Springsure Creek coal project, addressing community and other stakeholder project interests and enhancing management and human resources to assist the Company in execution of its strategy to become Australia's next coal producer.

Key activities for the Reporting Period, with the strategic objective of bringing the underground Springsure Creek coal project into production in the second half of 2014, include:

- further consolidating the expertise and experience of Bandanna's leadership team, with the appointment of independent, non-executive director John Pegler as Chairman of the Board and the appointment of Stuart Clarke as Chief Development Officer
- finalising Cultural Heritage Management Plans with the indigenous Karingbal People for Springsure Creek and Arcturus
- confirming a 50% increase in the JORC compliant Reserve for Springsure Creek (EPC891) to 153.5Mt
- preparation for submission of a replacement mining lease application for the Springsure Creek coal project in the September quarter
- continuing definitive feasibility studies and preparation of the draft EIS for the Springsure Creek and Dingo West coal projects
- continuing discussions with a number of third parties in relation to a potential sell down by Bandanna of a minority interest in the Springsure Creek coal 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 coal project.

Activities in the Reporting Period

In the December 2011 quarter, Bandanna announced its participation in the Wiggins Island Rail Project (WIRP) agreement with QR National, which, together with its allocation of 4Mtpa in WICET Stage 1

announced in the September 2011 quarter and the rail haulage agreement with Pacific National announced in the March 2012 quarter, completes the requirements for the integrated rail movement of 4Mtpa of coal from Springsure Creek to port.

During the Reporting Period the Company announced that the Queensland Competition Authority (QCA) had approved the arrangements for the construction of the Wiggins Island Rail Project. The WIRP agreement for the construction of rail capacity for haulage to WICET between QR Network Pty Ltd and a consortium of coal companies, including Bandanna, was subject to approval by the QCA and financial close for WICET. Both conditions have now been satisfied.

Construction of Wiggins Island Coal Export Terminal Stage 1 progressed during the Reporting Period, with commencement of dredging to complement existing land based works. The project remains on track for completion in the second half of 2012.

2. CORPORATE ACTIVITIES

Activities in the Reporting Period

Third Party Interest in Project Participation – Funding Strategy

During the Reporting Period, discussions continued with a number of third parties in relation to a potential sell down by Bandanna of a minority interest in the Springsure Creek coal project. The Company is focused on and fully funded to complete the definitive feasibility study for Springsure Creek in September 2012, which is expected by Bandanna to advance these sell down discussions.

Resourcing for execution of Development Strategy - Changes to Board of Directors and Executive Management

On 4 April 2012 Bandanna announced that Mr John Pegler, an independent non-executive director appointed to the Board of Bandanna effective 1 January 2012 would assume the role of Chair of the Company from Mr Jeremy Barlow. Mr Barlow remains on the Board as a non-executive director.

The Company announced the appointment of Stuart Clarke as Chief Development Officer on 23 May 2012. Mr Clarke is responsible for overseeing the development of the Springsure Creek Coal project, bringing to Bandanna his significant operational and mine development experience and expertise gained in previous senior project management and planning roles with Peabody Energy, Roche Mining and BMA.

Change in Share Registry

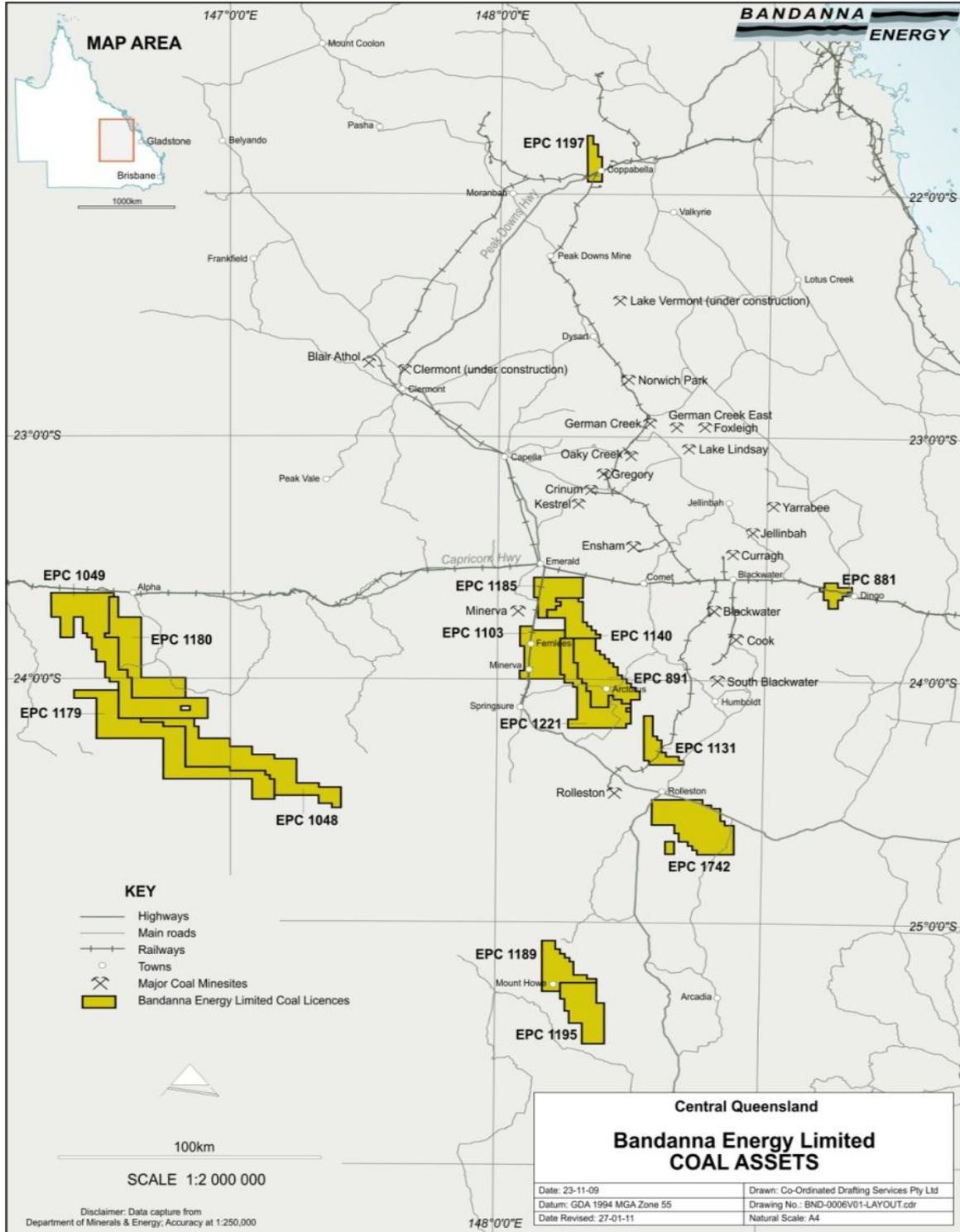
During the Reporting Period the share registry functions of the Company transferred to Computershare Investor Services Pty Limited in Brisbane.

Options

On 4 June 2012 the Company advised that 4,122,137 unlisted options in the Company had been issued under the Employee Share Option Plan. The options are exercisable at \$0.745 once the Company's share price has increased to at least \$1.10 at any time between 1 June 2012 and 1 June 2015.

3. DEVELOPMENT AND EXPLORATION ACTIVITIES

Figure 1 - Location Plan for Bandanna Energy Limited EPC Interests



DEVELOPMENT PROJECTS

SPRINGSURE CREEK – EPC 891

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

EPC 891 is located some 40km south of Emerald and 60km southwest of Blackwater (see *Figure 1*). The Springsure Creek coal project is the priority development project being pursued by Bandanna, with the aim of first production in the second half of 2014 to meet the commencement of shipping from Stage 1 of the Wiggins Island Coal Export Terminal.

Activities in the Reporting Period

On 10 April 2012 the Company announced that it had signed a Cultural Heritage Management Plan (CHMP) with the indigenous Karingbal people, in relation to their traditional lands covering portions of the Springsure Creek coal project. The Karingal CHMP, together with the Kauri CHMP signed in the previous quarter, provides Bandanna with the framework for working with traditional owners to identify and manage cultural heritage during development of the Springsure Creek coal project.

On 26 April 2012 Bandanna announced a 50% increase in the JORC compliant Reserve at the Springsure Creek coal project area, from 102.6Mt to 153.Mt. The increased Reserve is underpinned by a total Resource of 490.5 million tonnes for the Springsure Creek coal project and, together with the corresponding refinement of the mine development plan, is a significant component of the definitive feasibility study (DFS) for the project.

Subsequent to the Reporting Period, the Company advised that drilling has recently been completed on the first of three large diameter (200mm) cores, with all core delivered to the surface with 100% recovery, and featuring a complete and solid Aries 2 Seam of 3.35m thickness with no structural indications other than the occasional bedding plane.

During the Reporting Period, the Company engaged with the Queensland Government regarding a number of technical errors and deficiencies in mining lease application 70461 (MLA). Subsequently, the MLA was rejected by the Mining Registrar, with the support of Bandanna.

On 5 June 2012 Bandanna advised as to the rejection of the MLA and the Company's intention to submit a replacement mining lease application that would address a number of concerns that had been raised in relation to the MLA by community members, the Central Highlands Regional Council and the Queensland Government. A review of the MLA by Bandanna revealed opportunities to reduce the size and extent of the proposed mining lease, and to revise the layout and design of the proposed mine plan. Bandanna is confident that, with these revisions, the replacement mining lease application will improve beneficial co-existence of the proposed underground mine at Springsure Creek with farms and homesteads.

Subsequent to the Reporting Period, Bandanna confirmed that it is continuing to progress development of the replacement mining lease application during the September quarter, in consultation with key stakeholders. The approvals timeline for the Springsure Creek coal project is governed by the assessment process for the EIS, with the draft EIS expected to be released for public review following completion of the DFS.

Significant progress was made on the DFS for the Springsure Creek coal project during the Reporting Period, which is well advanced and on track for completion in September 2012.

Subsequent to the Reporting Period, Bandanna announced that it was committing additional funds to advancement of the Springsure Creek coal 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. Bandanna intends to apply the available funds wholly to the development of the Springsure Creek coal project, and has identified land purchases and long lead time capital equipment commitments for the likely application of the released cash.

DINGO WEST – EPC 881

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

The Dingo West coal project 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 (see *Figure 1*). 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.

The Dingo West coal 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 to the west of the Dingo West coal project.

Activities in the Reporting Period

During the Reporting Period Bandanna continued its drilling programme to provide further pit definition for the Dingo West coal project and preparation of the draft EIS.

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 (see *Figure 1*). The SGCP is well positioned to obtain third party access on the Queensland Government's preferred Galilee Basin rail options.

Activities in the Reporting Period

In the previous quarter the Company had advised that the Joint Venture Manager of the SGCP was 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.

In the Reporting Period Bandanna advised that the proposed T4-T9 Abbot Point expansion process had been abandoned by the Queensland Government, and that the SGCP is negotiating with the Queensland Government for priority access to future expansion terminal capacity.

EXPLORATION PROJECTS

On 10 April 2012 the Company announced that it had signed a Cultural Heritage Management Plan (CHMP) with the indigenous Karingbal people, in relation to their traditional lands covering portions of the Arcturus project.



Mr Michael Gray
Managing Director
31 July 2012

Statement of Compliance

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 was a member of the Australian Institute of Geoscientists and 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.