
QUARTERLY ACTIVITIES REPORT

for Bandanna Energy Limited and wholly owned subsidiaries ("Bandanna")

THREE MONTHS to 30 September 2012

Executive Summary

During the Reporting Period Bandanna Energy Limited (ASX: BND) continued laying the foundations for the development of the Springsure Creek coal project and 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:

- finalisation of agreements with Acacia Coal Limited (ASX: AJC) for the development and operation of the Triumph Creek train loadout infrastructure
- acceptance of a senior secured debt facility with Credit Suisse for \$67.3 million
- completion of consultants' input into the definitive feasibility study
- a significant JORC compliant Resource upgrade including a maiden Measured Resource
- preparation for submission of a replacement mining lease application over part of EPC 891
- continued development of Bandanna's agriculture strategy, with respected agricultural science input, to further improve surface level agriculture production in co-existence with underground coal mining at Springsure Creek
- committing investment to increasing agricultural production through improved irrigation infrastructure at Springsure Creek as part of the co-existence strategy,

together with release of the Company's Financial Reports and Annual Report for the year ended 30 June 2012 and preparation for the Company's Annual General Meeting to be held on 15 November 2012.

The Company notes that during the Reporting Period, there was significant decline in current thermal coal prices. Notwithstanding this decline, Bandanna notes that Wood Mackenzie, one of the world's leading commodity analysts, predicts significant demand growth for the period from 2015 to 2030, leading to increased thermal coal prices in the long term.

Bandanna shares this view of long-term demand and, as outlined in the Company's 2012 Annual Report, remains fully committed to progressing development of the Springsure Creek Project for first coal production in the second half of 2014. First production will coincide with the completion of Stage 1 of the Wiggins Island Coal Export Terminal (WICET).

1. CORPORATE ACTIVITIES

Activities in the Reporting Period

2012 Financial Statements and Annual Report

On 20 September 2012 the Company released its Annual Report and Financial Statements for the year ended 30 June 2012, reporting a consolidated profit after income tax of \$3,099,998. In an announcement made the same day, the Company highlighted the substantial progress the Company had made since 1 July 2011 in progressing towards being Australia's next coal producer, noting the following key highlights:

- strong cash position to enable completion of the definitive feasibility study (DFS), approvals and preliminary capital works
- financial close of WICET Stage 1 confirming Springsure Creek's 14% shareholding and 4Mtpa capacity allocation
- execution of port and rail infrastructure contracts to enable haulage and shipping of product coal
- commencement of construction of WICET Stage 1 in December 2011, with development works on track for completion in the second half of 2014
- DFS on track for completion by the end of September 2012 and independent review during October 2012
- establishment of a management team with extensive recent greenfield development experience
- development of a co-existence strategy to guide continued high productivity cropping within the project area throughout the life of the mine
- substantial progress on completion of the Draft Environmental Impact Statement (EIS), with regulatory approvals on track for sign-off by June 2013
- ongoing discussion with potential customers in relation to coal offtake
- ongoing discussion with potential project partners, with detailed negotiation regarding equity investment in the project to commence following the independent review of the DFS.

Date of Annual General Meeting

On 29 August 2012 the Company confirmed that the Annual General Meeting for 2012 would be held in Brisbane on Thursday 15 November 2012 commencing at 11.00am (Brisbane time). Subsequent to the Reporting Period, the Company released the Notice of Meeting and revised Proxy Form for the Annual General Meeting.

Options

On 12 September 2012 the Company advised that 20 million unlisted options in the Company had been issued to Acacia Coal Limited. The options are exercisable at \$1.50 for five years from the Vesting Date, being a date to be determined in accordance with the Triumph Creek Infrastructure Development Agreement between Acacia Coal Limited and Springsure Creek Coal Pty Ltd dated 11 September 2011. Springsure Creek Coal Pty Ltd is, through an interposed entity, a wholly owned subsidiary of Bandanna Energy Limited. The grant of options to Acacia Coal Limited is part of the commercial terms of the agreements for the development and operation of the Triumph Creek train loadout infrastructure on Acacia's EPC 1230.

2. PROJECT ACTIVITIES

Figure 1 – Granted Coal Tenements (EPCs)



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

DEVELOPMENT PROJECTS

During the Reporting Period, project development activities of the Company focused on the Springsure Creek coal project. Subsequent to the Reporting Period, the Company made an announcement in relation to the South Galilee Coal Project, in which it has a 50% interest.

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 entity.

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.

MLA 70486 was submitted by Springsure Creek Coal Pty Ltd in October 2012. Following completion of external consultants' work for the Definitive Feasibility Study in Sep 2012, the Company is targeting approval of the EIS and grant of the mining lease for the Springsure Creek coal project in the financial year ending 30 June 2013.

Activities in and Subsequent to the Reporting Period

On 2 July 2012 the Company announced that it had accepted a senior secured bank guarantee facility with Credit Suisse for \$67.3 million. The new arrangement with Credit Suisse releases \$50 million cash that Bandanna has previously used to secure guarantees required under the Springsure Creek project's fully contracted port capacity for Stage 1 of the Wiggins Island Coal Terminal and related rail access agreements, to be reinvested into development of the Springsure Creek coal project.

Following the Springsure Creek coal project update on 2 July 2012, advising as to the success of the current exploration programme with drilling complete on the first of three large diameter (200mm) cored holes, on 3 August 2012 Bandanna announced a significant increase in the JORC compliant Resource for the Springsure Creek coal project to 543.7 million tonnes. This included a maiden Measured Resource of 52.8 million tonnes and highlights a significant step up in the geological confidence of the Springsure Creek coal project. The Resources and Reserves 2012 published in the 2012 Annual Report as at 31 August 2012 remain current.

On 12 September 2012 the Company announced that it had finalised full documentation for the development and operation of train loadout infrastructure at Triumph Creek, to be located on portions of Acacia Coal Limited's EPC 1230. To be designed and operated for multiple users, the Triumph Creek facility will provide loading capacity for the Springsure Creek project through to full-scale production. The key commercial terms of the arrangement were announced by Bandanna and Acacia on 12 March 2012.

The agreements with Acacia facilitate finalisation of part of the route of Bandanna's proposed transportation mining lease and the boundaries of the infrastructure mining lease application, with the assurance of consent to those applications from the holder of EPC 1230. The Triumph Creek facility is strategically located adjacent to the northern portion of the Bauhinia Line, operated by QRN. Bandanna is a party to the Wiggins Island Rail Project Deed with QRN for rail access. Bandanna proposes to construct train loadout infrastructure connecting to the Bauhinia Line, through the Blackwater-Gladstone rail corridor to Wiggins Island Coal Export Terminal, where Bandanna has

secured 4 Mtpa export capacity for coal from its Springsure Creek project, from the second half of 2014.

Subsequent to the Reporting Period, Springsure Creek Coal Pty Ltd submitted replacement mining lease application 70486 (MLA 70486), developed following consultation with community members, the Central Highlands Regional Council and the Queensland Government. MLA 70486 provides for underground coal mining activities over parts of EPC 891. Following these consultations, the proposed boundary of MLA 70486 and the layout and design of the proposed revised mine plan for the Springsure Creek Project were adjusted to minimise impacts and to improve beneficial co-existence of underground coal mining and the operation of agricultural farms and homesteads.

Following submission of MLA 70486, Springsure Creek Coal Pty Ltd is on schedule to further progress discussions with potential joint venturers and debt financiers for the project during the December quarter. All design work on the Definitive Feasibility Study (DFS) for the project was completed on schedule in September 2012 and that DFS is now the subject of an independent technical review. The outcomes of the DFS form the key technical and commercial basis of discussions with potential project debt and equity stakeholders.

Following finalisation of the DFS, Springsure Creek Coal Pty Ltd will also be in a position to release for public review the Draft EIS for the Springsure Creek Project by the end of the year. The mining lease application process will progress in parallel with the EIS process.

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 South Galilee Coal Project (SGCP) covers EPC 1048, EPC 1049, EPC 1179 and EPC 1180. The SGCP is a joint venture between Bandanna Energy and AMCI (Alpha) Pty Ltd (AMCI).

Activities in and Subsequent to the Reporting Period

Subsequent to the Reporting Period, Bandanna Energy announced that the Queensland Government has approved the release for public review of the Environmental Impact Statement (EIS) for the South Galilee Coal Project.

The SGCP is proposed to be developed as an open cut and underground mining operation, with an estimated mine life of 33 years. Mine plan development supports an average production rate of 15.2 Mtpa raw coal, yielding an average 13.6 Mtpa of product coal and peaking at 16.6 Mtpa of product coal.

The SGCP joint venture expects that around 1600 people will be required during the two year construction phase of the SGCP, with an operational workforce of 1290 once the mine is in production. The proposed mine includes coal handling infrastructure, a mine water management system, mine access roads, an on-site accommodation village and a rail spur to connect to a common user rail line.



Mr Michael Gray
Managing Director
31 October 2012

Resources and Reserves Statement as at 31 August 2012

Tenement	Project**	Holding Company	BND Share	RESOURCES (MT)				RESERVES (MT)
				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***
		<i>Turkey Creek, Moorooloo and Arcturus domains</i>		<i>152.7</i>	<i>82.0</i>	<i>-</i>		
		<i>Springton domain</i>		<i>115.9</i>	<i>140.3</i>	<i>52.8</i>		
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 Australasian 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.