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Lodgement of Market Briefing**

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Market Briefing

Bandanna Energy MD on progress of Springsure Creek project and general outlook

Interview with Michael Gray (Managing Director)

In this Market Briefing interview, Michael Gray, Bandanna Energy's Managing Director, discusses the company's flagship Springsure Creek thermal coal project including:

- *progress with the current approvals process, and remaining on track to commence coal production and shipment in the first part of calendar year 2015*
- *secure access to rail and port infrastructure, and associated arrangements*
- *project economics and long term outlook for the coal sector*
- *the company's strong capital position.*

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How is the Springsure Creek thermal coal project progressing? When do you anticipate gaining the necessary government approvals, such as the environmental approval and mining lease, to allow the project to commence?

Michael Gray

Bandanna Energy's Springsure Creek project is progressing well and we remain on track to commence coal production and shipments in the first part of the 2015 calendar year. We have a very substantial high quality coal resource and an operation planned that will be at the lower end of operating mine costs globally. Critically, we also have secure access to rail and port capacity on which construction is well advanced, which is key for any new mine project.

In terms of the government approval process, the public submissions for the Environmental Impact Statement [EIS] closed on 27 March. A total of 49 separate submission were received, a significant proportion of which were from Government agencies. We are currently preparing a Supplementary Report to respond to these submissions and recommended actions by the end of May. From our review of the submissions made, we are confident that the EIS process will be concluded in the quarter ended September 2013.

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Following completion of the EIS, we are also seeking grant of the mining lease and the environmental authority. Other approvals, such as for the infrastructure corridor, are being sought separately.

Based on the progress to date, we are confident about the timeframe to obtain approvals for the mine and infrastructure so that mine construction can commence during the first part of the 2014 calendar year, for first coal production and shipment during the first part of the 2015 calendar year.

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Do recent comments by the Queensland government reported in the Queensland regional press indicate a changed approvals process for Springsure Creek to deal with the Government's Statutory Regional Planning Process and Agricultural Land Protection?

Michael Gray

It's important to reinforce the process that the project is undertaking to avoid any misunderstanding or speculation.

We recently had discussions with the Queensland Government that confirmed that there had been no change to the current approval process, and that there were no additional approvals that would be required for our Springsure Creek project. Bandanna Energy has already recognised the intent of the Statutory Regional Planning initiative of the Queensland Government, and the responsive agricultural land use strategies and protections already adopted by Bandanna are consistent with expected requirements.

We remain confident of the existing project timeframe, and expect to move into production during the first part of the 2015 calendar year.

We have already changed the design of the Springsure Creek project and enhanced the co-existence goals of Bandanna Energy to meet the goal of the Queensland Government's policy to protect strategic cropping land. It is also worth noting that under the Strategic Cropping Land Act, we have already commenced a cropping land assessment, contrary to some speculation that we had been exempted from that process.

In conjunction with the Springsure Creek Agricultural Project we have committed to ensuring that agricultural productivity in the project area is at least maintained if not improved, so the suitability of the land for agricultural use will be protected. Approval of the Springsure Creek project will provide a demonstration of how these mutual goals actually can be achieved. At the same time, Springsure Creek brings much-needed regional investment, upgrades of local roads and facilities, and provides local jobs in the region, not just at the mine. These attractive features favour approval, especially when so few coal projects are proceeding.

We have actively sought to set a new benchmark in Bandanna Energy's co-existence strategy and this initiative is consistent with the Queensland Government's policy settings. We welcome the rigorous Government approval process that is expected to facilitate, rather than obstruct, the project given the collaborative strategy we have adopted.

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Have you considered what the implications may be if there are setbacks in gaining approval given that others in the industry have previously experienced delays in gaining approvals?

Michael Gray

Unlike recent cases where approvals have been delayed due primarily to issues of national environmental significance, the Springsure Creek project is unlikely to be hampered by such issues given the long history of agriculture on that land.

In addition, we believe we are well placed to obtain government approvals for Springsure Creek given the approach we have made in the EIS and with our engagement with Government and the community for the mine to co-exist with crop farming currently being undertaken in the area.

We continue to invest significant resources into ensuring that agricultural production can carry on sustainably on the land, while mining is carried out underground. Research, as well as actual experience in the US, clearly shows that underground mining and agriculture can co-exist sustainably. We have also committed to maintaining agricultural land use on the surface, which is consistent not only with the government's election platform but the feedback we have had from government since then. So we don't see any necessity for delays outside the normal processes.

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A key issue affecting the economics of a mine and the ability to move from exploration to production is access to infrastructure. What infrastructure is required to be put in place for Springsure Creek to become operational?

Michael Gray

Unlike other major coal projects that are proposed, we are fortunate that Springsure Creek is located close to existing rail infrastructure and so is not required to construct major new rail lines to obtain access to market.

We have secured long term access to rail and port capacity but we have the significant advantage that the Springsure Creek Coal Project does not by itself have to fund the capital cost of rail and port infrastructure that would have added billions of dollars to the project cost. The capital cost of the construction of the common user Wiggins Island Coal Export Terminal and the upgrade to the existing Blackwater rail system will be met through long term operational charges.

Springsure Creek is located 38 kilometres from an existing rail line, the Rolleston to Blackwater rail line that will take our coal to Gladstone. In addition, port facilities at Wiggins Island are currently being built, and are around half complete. Bandanna Energy has secure access for 4 million tonnes per annum through this infrastructure.

As a result of key infrastructure requirements being satisfied, the only coal transport infrastructure Bandanna Energy will need to put in place is a private road to link the mine to the Rolleston to Blackwater rail line and a coal load out facility on that line. Agreement has already been reached with Acacia Coal for joint development of the load out facility.

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While you have secure access to rail and port facilities, do they come with take-or-pay arrangements and how do those arrangements work?

Michael Gray

While Bandanna Energy is not funding by itself the capital cost of the major rail and port infrastructure, there is of course a requirement to contract for a minimum amount of coal given the capital costs to providers and long term supply arrangements put in place.

The key take-or-pay requirement is with the common user Wiggins Island Coal Export Terminal Stage 1 development. This obligation commences once Stage 1 of the coal terminal has been built, which is unlikely to be earlier than March 2015. Our life of mine average annual take-or-pay obligation for the port and rail for 4 Mtpa is approximately \$28.60 per tonne (port \$11.80 / tonne, above and below rail \$16.80 / tonne) for each year except the first year of operation. In the first year the port and below rail obligations are approximately halved to allow for ramp up of the port's capacity.

Our expected production profile will see Bandanna Energy meet our required obligations. Construction of the Wiggins Island Coal Export Terminal is a major complex project. Further delays in completion of the port and rail infrastructure would delay coal deliveries, but would also delay the requirement for Bandanna Energy to meet its take or pay obligations.

Given the capital cost of the first longwall and Stage 1 of Springsure Creek is approximately \$743 million, any take-or-pay obligation that may arise is not likely to be material to the overall capital cost of the project. Even worst-case scenarios could potentially be addressed by negotiating "back-ending" of obligations or even re-selling capacity over various short or longer periods.

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How are your other projects, Dingo West and South Galilee, progressing?

Michael Gray

Our Dingo West and South Galilee projects are at different stages of development.

Dingo West is a shallow, small scale open cut metallurgical coal project located close to a number of producing mines. It is capable of a rapid start up. The approval process for this project is progressing well, and we anticipate receiving EIS and final mine design approvals in the first quarter of 2014, with production expected to commence towards the end of 2014.

South Galilee is a much longer term thermal coal prospect given its size and location. We have always said that given the significant new rail infrastructure required in the Galilee Basin, this project will be developed in parallel with one of the larger projects in the area. The recent announcement by Aurizon and GVK-Hancock that they are investigating a joint \$6 billion, 60Mtpa rail and port project for the Galilee Basin, will likely be the catalyst for the development of a range of coal projects including our South Galilee project.

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The continued strength of the Australian dollar, combined with weaker spot coal prices, has reduced the profitability of Australian coal producers. Has this also affected the economics of Bandanna Energy's projects, in particular Springsure Creek?

Michael Gray

It is important to note that Bandanna Energy does not have current revenue that is affected by short term coal prices. With Springsure Creek planned to move into production in 2015, and then ramping up production as the first and second longwalls are installed, our focus is on the medium and longer term price outlook.

Market projections show a significant expected increase in demand for thermal coal in the Asian region as energy usage increases with growing populations and economic development. There is a lack of new supply globally, with Bandanna Energy's Springsure Creek project being one of the few new mines expected to come on-stream over the next seven or eight years. At the same time, existing producers have to deal with legacy practices as well as mine deeper and further away from the seaboard, meaning that their cost of supply must inevitably increase.

The outlook bodes well for the long term price of coal, irrespective of new energy sources that will only partially meet growing demand requirements. We expect to generate significant value for shareholders from the Springsure Creek project.

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How are the discussions with potential joint venture [JV] partners for the Springsure Creek project progressing?

Michael Gray

The JV discussions for Springsure Creek continue to progress. We have a range of interested parties currently undertaking due diligence on the project including Asian based electricity generation companies that require secure long term supply of the type of coal located at Springsure Creek, international investment houses and overseas mining companies.

One structure being pursued could see one or a small number of generation companies taking a minority stake in the project in return for an offtake agreement for a percentage of coal produced equivalent to their shareholding in the project. Under this scenario, Bandanna Energy would continue to maintain control and operatorship of the mine.

Depending on the price achieved for such an equity investment in the project, the funds raised by Bandanna Energy from this equity sell-down could then cover the company's equity share in the capital expenditure and short term working capital requirements to build the mine.

We want to make sure that we have the right project partner or partners for Springsure Creek given it has a 40 year mine life, so we have been carefully progressing the JV funding discussions.

Given the current low prices in the industry and the number of assets being put up for sale, it is possible that the finalisation of the JV investment may take longer than originally proposed. Notwithstanding this, we believe that due to its high coal quality and size of resource, relatively low capital and operating cost structure, proximity to existing rail lines and secure port capacity and

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advanced state of approvals, Springsure Creek is uniquely positioned to become Australia's next major thermal coal producer.

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What is your current capital position and funding requirements?

Michael Gray

Bandanna Energy is in a strong capital position. As at 31 March 2013, we had approximately \$123 million of cash and investments, excluding land acquired.

Of this \$82 million is cash at bank, of which around \$60 million was available for use and not required as security. In addition, there is \$41 million book value of preference shares [WIPs] in the Wiggins Island Coal Export Terminal. Bandanna is a seller of its WIPs holding at the appropriate time to assist us in meeting our share of the equity contribution to capital expenditure for the Springsure Creek project.

By continuing to carefully manage our current expenditure commitments, including land acquisitions and compensation programs, Bandanna Energy is well funded to meet its operating expenses and proceed through the project assessment and approvals phase for the project.

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Thank you, Michael.

For further information, please contact Bandanna Energy on 07 3041 4400, or visit www.bandannaenergy.com.au

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