

QUARTERLY ACTIVITIES REPORT THREE MONTHS to 31 DECEMBER 2013

Executive summary

During the December 2013 quarter, Bandanna Energy Limited (ASX: BND) continued to make substantial progress towards becoming Australia's next coal producer.

Key milestones and project activities during and subsequent to the quarter centered on the strategic objective of bringing the Company's Springsure Creek underground thermal coal project (Project) into production in mid-2015. These milestones and activities included:

- approval from the Queensland Government for the Project's Environmental Impact Statement (EIS), a major milestone advancing the Project into the final regulatory approval stage for the grant of the mining lease for the mine area
- progressing key stakeholder arrangements for the Project in relation to land acquisition or compensation arrangements, negotiating commercial terms for land acquisition and compensation with five landowners covering both the mine site mining lease application (MLA70486) and the infrastructure corridor land (MLA70502)
- undertaking additional drilling at Springsure Creek culminating in an increase in Probable Reserves from 162Mt to 174Mt and an increase in probable marketable reserves from 154Mt to 165Mt (as advised on 29 January 2014)
- continuation of detailed work to optimise planned coal production from the Project under a single longwall, forecast to produce more than 7Mtpa, lowering the Project's estimated FOB operating costs (excluding royalties) from \$65.61/tonne to \$59.80/tonne
- following a competitive tendering process undertaken during the quarter, appointing Ausenco Limited (ASX: AAX) in January 2014 to provide project management and engineering support services for the Project
- continuing discussions with, and due diligence by, selected potential equity stakeholders for an investment in the Project.

At a corporate level, the Company held its Annual General Meeting (AGM) in November 2013 and issued performance rights under its long term incentive plan to the Managing Director in lieu of paying his entitlement to a cash bonus, in accordance with the approval from shareholders given at the 2013 AGM.

Subsequent to the end of the reporting period, Bandanna Energy also advised of the resignation of Mr Park Soon IL from, and the appointment of Mr Gil Yong Ha to, the Board of the Company.

1. CORPORATE ACTIVITIES

Annual General Meeting

Bandanna Energy's AGM was held on Thursday, 14 November 2013. All resolutions put to shareholders at the AGM were carried in accordance with the recommendations of the Directors.

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On 29 November 2013, the Company issued 775,000 performance rights to the Managing Director pursuant to Bandanna's Long Term Incentive Plan (approved by shareholders at the Company's AGM on 15 November 2012) and the approval given by shareholders at the Company's 2013 AGM on 14 November 2013. These performance rights were issued in lieu of his entitlement to a cash bonus.

Resignation and Appointment of Director

Subsequent to the end of the reporting period, on 20 January 2014, Bandanna Energy advised of the resignation of Mr Park Soon IL from the Board, and the appointment of Mr Gil Yong Ha to the Board.

The appointment of Mr Ha to the Board followed nomination by Samtan Co., Ltd. and due consideration of Mr Ha's qualifications and experience by the Board of Bandanna Energy.

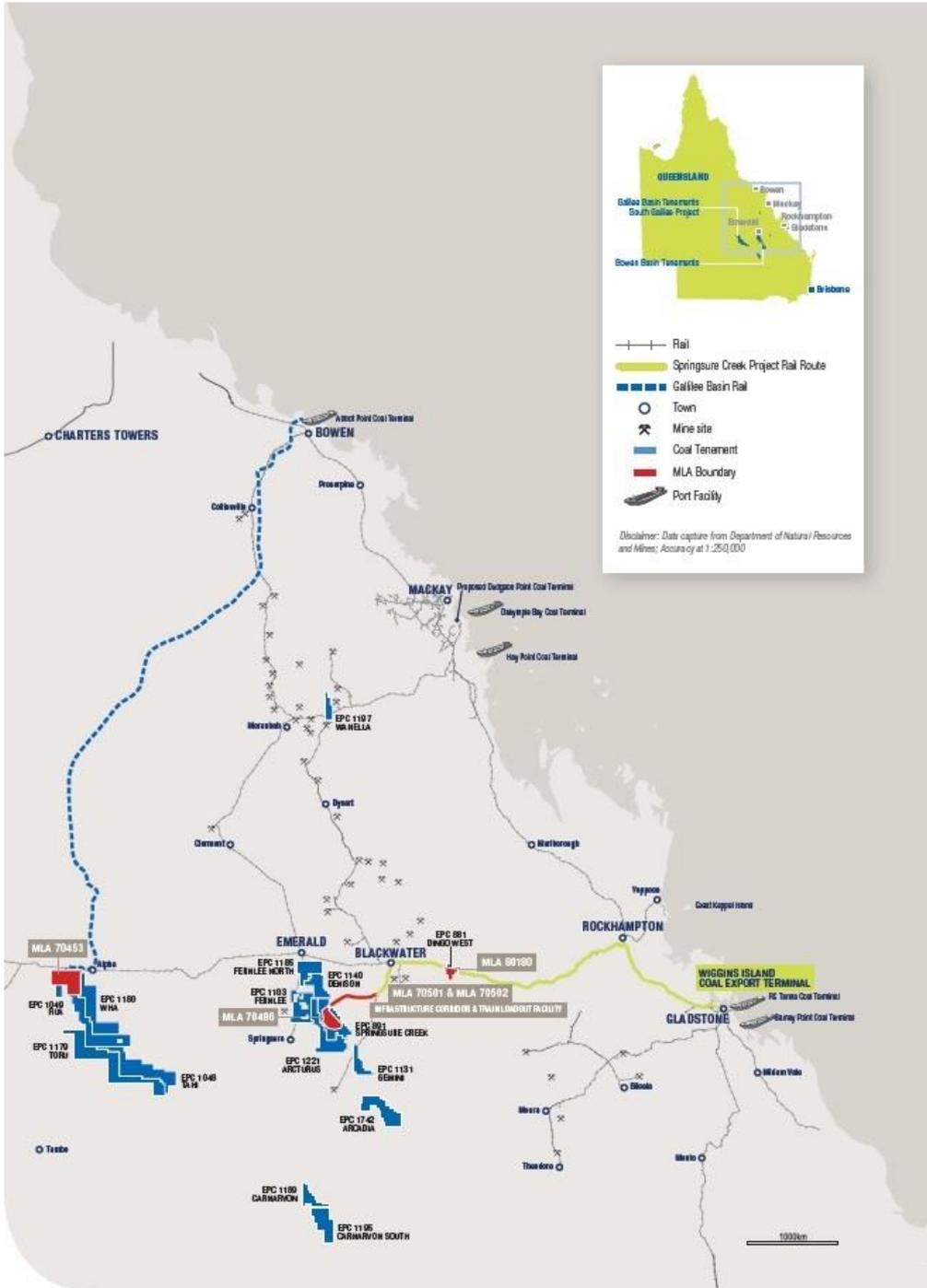
Mr Ha is the head of the corporate strategy division of Samtan Co., Ltd. and is a graduate in Economics from Seoul National University. Mr Ha has more than 20 years of experience in corporate strategy and finance, including in the coal mining sector.

Through its wholly owned subsidiary Samtan Aures Pty Ltd, Korean based Samtan Co., Ltd. is a substantial shareholder in Bandanna Energy Limited. In 2009 Bandanna entered into a share subscription agreement with Samtan Aures Pty Ltd, under which Samtan Aures Pty Ltd was and remains entitled to nominate a person to be appointed as a director of Bandanna Energy.

The Board of Bandanna Energy also supported the appointment of an alternate director for Mr Ha, who is based in Seoul, to maintain the continuity and consistency of participation of Samtan Co., Ltd's nominee director in Board matters. Mr Do hyung Lee of Samtan Co., Ltd. was appointed as alternate director for Mr Ha effective on and from Mr Ha's appointment (20 January 2014).

2. PROJECT ACTIVITIES

Figure 1 – Granted Coal Tenements (EPC) and Mining Lease Applications (MLA)



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DEVELOPMENT PROJECTS

During and subsequent to the December 2013 quarter, the key project development activities of the Company focused on progressing the Springsure Creek Coal Project (Project) including:

- entering the final regulatory approvals phase for the Project following approval by the Queensland Government for the Project's EIS
- achieving substantial progress with landowners in relation to mining lease applications
- optimising mine operating plans
- increasing Probable Reserves
- finalising Project capital cost and preparation for Project development
- continuing discussions with third parties for investment in the Springsure Creek Project.

SPRINGSURE CREEK – EPC 891 (100% owned and operated)

The Springsure Creek underground thermal coal project (Project) is located approx. 40km south of Emerald and 60km southwest of Blackwater (see *Figure 1*). The Project is Bandanna Energy's priority development project, targeting first production in mid-2015.

Final regulatory approval phase

On 8 November 2013, Bandanna Energy announced that the Queensland Government had approved the EIS for the Project, representing a major milestone on the way to its development.

The Project has now moved into the final regulatory approval stage for the grant of the mining lease for the mine area. The Queensland Department of Environment and Heritage Protection is expected to issue the draft environmental authority (EA) for MLA70486 in February 2014, a delay from Bandanna Energy's December 2013 expectation. Consequently, the Company revised the likely timing for the grant of MLA70486 to June 2014.

Substantial progress with landowners in relation to mining lease applications

Following approval of the Springsure Creek EIS in November 2013, Bandanna Energy has been working closely with landowners in relation to the finalisation of land acquisition and/or land compensation arrangements to enable progress of the Project's mining lease applications. The Company continues to make substantial progress with landowners and in January 2014 advised that commercial terms for land acquisition and compensation had been negotiated with five landowners covering both the mine site mining lease application (MLA70486) and the infrastructure corridor land (MLA70502). Bandanna Energy is continuing to progress arrangements with other landowners.

Co-development arrangements with the overlapping gas exploration permit holder have been finalised, while consultation on co-development arrangements with the overlapping petroleum lease holders is well advanced.

Optimising mine operating plans

Since completing the Definitive Feasibility Study (DFS), Bandanna Energy continued detailed work during the reporting period to optimise planned coal production from the Project. Independent external mine planning has confirmed that a single longwall at Springsure Creek is now forecast to produce more than 7Mtpa in line with similar experience at modern high production longwall projects both within Australia and overseas. The forecast improvement in longwall utilisation, and the consequent increase in forecast production, has lowered the Project's estimated FOB operating costs (excluding royalties) to \$59.80/tonne from \$65.61/tonne as outlined in the DFS.

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Increased Probable Reserves

Additional drilling undertaken at Springsure Creek in 2013 has culminated in an increase in Probable Reserves for the Springsure Creek Coal Project.

The latest reserve report, which was lodged with ASX on 29 January 2014, shows an overall increase in Probable Reserves from 162Mt to 174Mt, and an increase in probable marketable reserves from 154Mt to 165Mt.¹ Consistent with Bandanna Energy's most recent Resource statement for the project, the latest report has been undertaken under the new, more rigorous and transparent assessment process of the 2012 edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (JORC Code).

Finalisation of project capital cost and preparation for project development

Following a competitive tendering process during the reporting period, on 29 January 2014 Bandanna Energy announced that, in order to further optimise the design and capital cost schedule for the Project, it had appointed Brisbane-based global, diversified engineering and project management company Ausenco Limited (ASX: AAX) to provide project management advice, engineering support and procurement services. The services will deliver an engineered budget, schedule and execution plan for the Project by 30 June 2014. At completion of the services, Bandanna Energy expects to have in hand competitively tendered and priced packages for all development services aligned with the expected timing for the grant of ML70486. The key deliverable under the agreement with Ausenco will be an enhanced definitive capital value for the Springsure Creek Coal Project as well as providing plans for project management and project execution.

Continuing discussions with third parties for an investment in the Project

Bandanna Energy continued discussions during the quarter with potential joint venture parties in relation to a strategic investment in the Project. In his address to shareholders at the Company's 2013 AGM, Managing Director Michael Gray informed shareholders that joint venture partner discussions were progressing with a number of parties including Asian based electricity generation companies, international investment houses and overseas mining companies. In his presentation, Mr Gray noted that the possible structure of a Project joint venture may involve one or a small number of electricity generators taking a minority stake in return for an off take agreement for a percentage of coal produced from the Project.

Timing of commencement of production and exports

Construction work on development of Stage 1 of WICET and associated rail network upgrades are ongoing. There were no changes during the quarter to the construction schedule advised to the Company by WICET in October 2012, under which WICET aims to allow shipping to commence through the terminal in April 2015.

With approval of the EIS and the timing of Commonwealth environmental approvals factored into the schedule, commencement of production and exports from the Springsure Creek project remains on track for mid-2015, subject to grant of MLA70486 by 30 June 2014, initial project funding in the first half of 2014 and scheduled completion of construction of Wiggins Island Stage 1.

¹ The information in relation to Springsure Creek Reserves is extracted from the original market announcement dated 29 January 2014 that attaches Table 1 and is available to view at www.bandannaenergy.com.au. The Company confirms that it is not aware of any new information or data that materially affects the information included in the original market announcement and that all material assumptions and technical parameters underpinning the estimates in the relevant market announcement continue to apply and have not materially changed. The Company confirms that the form and context in which the Competent Person's findings are presented have not been materially modified from the original market announcement.

DINGO WEST – EPC 881 (100% OWNED AND OPERATED)

The Dingo West Coal Project is located west of the township of Dingo where it occupies a strategic 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 open-cut metallurgical coal project aims 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.

During the December 2013 quarter, Bandanna Energy gave consideration to bringing a farm-in partner into the Dingo West Project, to assist progress of development for first production in early 2016. In the meantime, the Company is prioritising capital investment in the Springsure Creek Project ahead of Dingo West.

SOUTH GALILEE PROJECT – EPCS 1048, 1049, 1179 AND 1180 (50% OWNED)

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, and is a joint venture between Bandanna Energy and AMCI (Alpha) Pty Ltd (AMCI), operated by AMCI. 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 targets 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.

While the EIS is nearing completion and approval, the SGCP remains a longer-term thermal coal prospect given the location and size, with timing of development subject to confirmation of planned Galilee Basin coal rail options and commitment to future expansion of Abbot Point Coal Terminal. In his address to shareholders at the Company's 2013 AGM, Managing Director Michael Gray noted that the Queensland Government's strategy to assist initial development may accelerate the timetable.



Mr Michael Gray
Managing Director
31 January 2014

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