
QUARTERLY ACTIVITIES REPORT THREE MONTHS to 30 JUNE 2014

Executive summary

During the June 2014 quarter, Bandanna Energy Limited (ASX: BND) continued to make progress towards becoming Australia's next coal producer.

Key milestones and project activities during and subsequent to the quarter have centred upon the Company's Springsure Creek underground thermal coal project (the Project). These milestones and activities included:

- An 86% increase in the Measured Resource at the Project from 74Mt to 138Mt and 113% increase in Indicated Resources from 207Mt to 440Mt (as advised on 26 June 2014)
- Substantial progress with mining lease applications and environmental approvals, including the issue of an environmental approval permit for the Project by the Commonwealth Government
- Continued work with directly and indirectly affected landowners in relation to land acquisition and/or land compensation arrangements and make good agreements for ground water, resulting in two of the six objections to the mining leases being withdrawn
- The appointment of Samsung C&T to produce a lump sum Engineering, Procurement and Construction (EPC) contract for development of the Project
- Continuing discussions with, and due diligence by, a range of parties from potential equity stakeholders to potential debt funders for the Project
- Negotiations with WICET, its advisors and other shippers to amend the commercial terms of WICET agreements to better match a delayed ramp up profile for the Project
- Ongoing negotiations with Credit Suisse AG to restructure the existing Guarantee Facility Agreement.

1. CORPORATE ACTIVITIES

Bandanna Energy continues negotiations with Credit Suisse AG on a restructure of the Guarantee Facility Agreement

On 10 June, 2014, Bandanna requested that its securities be placed into voluntary suspension due to ongoing discussions with Credit Suisse AG concerning the restructure of the terms of the Guarantee Facility Agreement driven by the delays in the grant of mining leases on that facility. The range of possible outcomes of this consultation process may include: no change to the facility, an extension of the facility, a requirement for the provision of additional security which may include additional cash backing or termination of the facility.

Should Credit Suisse decide to withdraw the current Guarantee Facility Agreement prior to Bandanna Energy securing funding for the Springsure Creek Project, Bandanna Energy's ability to continue as a going concern and meet its debts as and when they fall due, will be dependent on the ability to secure alternative funding or to raise equity at that time.

The Company remains in ongoing discussions with Credit Suisse and is unable to determine when these discussions will be finalised but will update the market when it is in a position to do so.

Quarterly cash flow

At 30 June 2014, cash at bank was \$72.4 million, \$22.6 million of which is currently securing bank guarantees.

The quarterly report (Appendix 5B) shows an estimated cash outflow for the quarter ending September 2014, for development activities, of \$16.0 million. These outflows contain substantial extraordinary, non-recurring costs that include payments for land acquisition and compensation, subject to grant of mining leases. The company continues to progress options to secure equity investment in the Project as well as explore debt funding, which will be required to progress development of the Project.

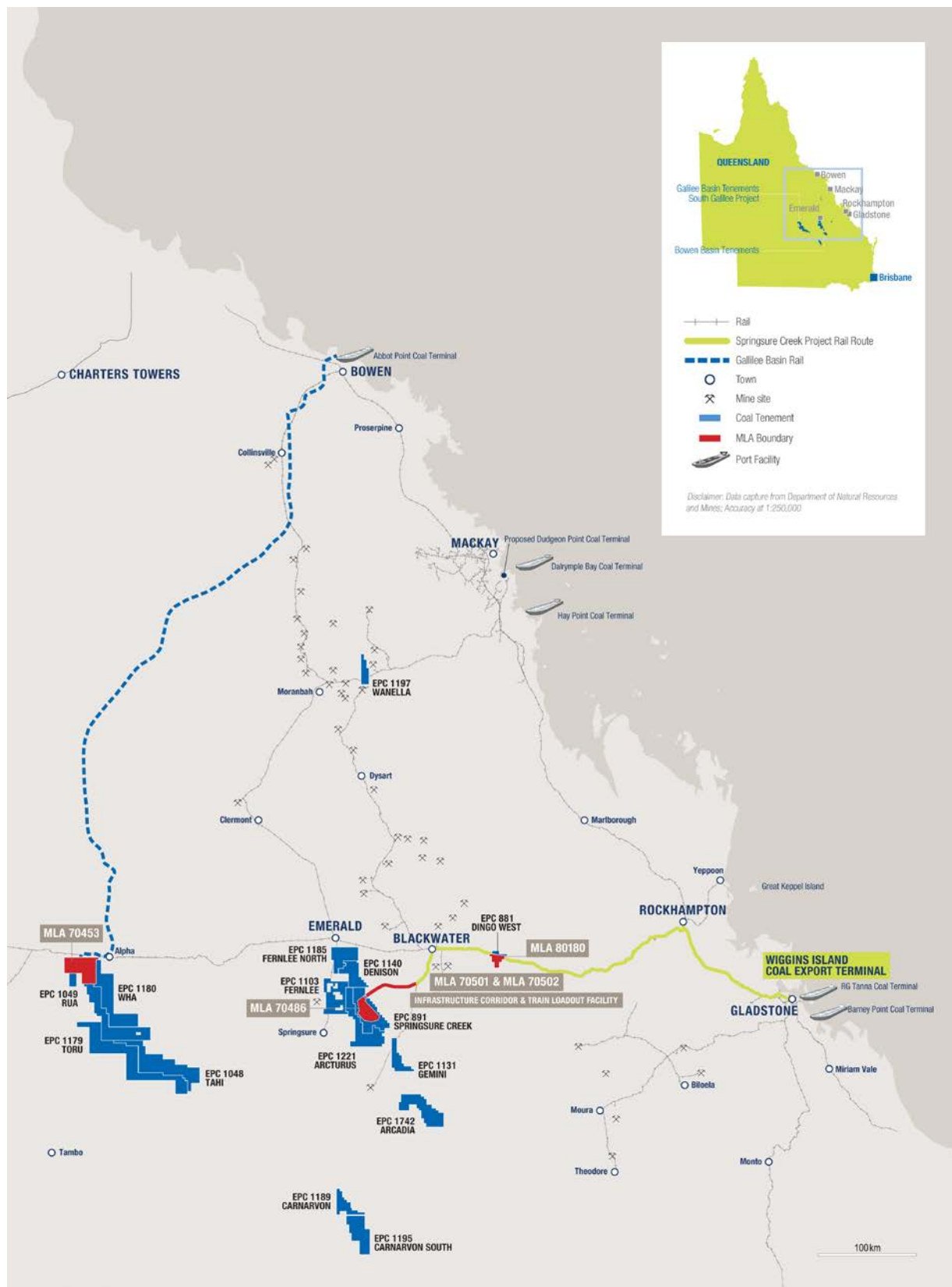
Bandanna Energy and Springsure Creek Coal Pty Ltd are seeking to amend the commercial terms of its agreements with Wiggins Island Coal Export Terminal (WICET) to better match a delayed ramp up profile

During the quarter, Bandanna participated in a process to assist WICET, and its financial advisors, to identify options and risks associated with delayed commencement and delayed ramp-up of total coal flows and revenues from coal handling contracts and to explore potential options for future financial restructuring of WICET.

Bandanna has advised WICET of the uncertainty around the timing of the grant of the mining leases for the Project and that Bandanna is seeking to amend the commercial terms of its agreements with WICET to better match a delayed ramp up profile. Discussions with WICET remain ongoing.

2. PROJECT ACTIVITIES

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



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

The Springsure Creek underground thermal coal project (the 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.

Increase in Resource

During the quarter, Bandanna Energy announced an updated resource for the Springsure Creek Project identifying an overall increase in the Measured Resource from 74 to 138Mt and in Indicated Resources from 207Mt to 440Mt¹. The Total Coal Resources within the Project were estimated at 768Mt.

Commonwealth Government Approval

On 6 June 2014, the Commonwealth Department of the Environment issued its approval permit pursuant to the *Environment Protection and Biodiversity Conservation Act 1999* (Cth) (EPBC Act) for the Project.

The permit covers the mine area, infrastructure corridor and rail loadout. It confirms the authority for the Project to proceed under the provisions of the EPBC Act. The permit also provides conditions under which the Project must be developed and operated. Bandanna Energy has confirmed to the Commonwealth Government that it is satisfied with all the conditions that are included in that permit.

The Project was assessed by the Commonwealth Government in relation to the potential impacts on threatened species and communities, listed migratory species, and water resources including surface water and groundwater. During the notification period for the Commonwealth draft Environmental Impact Statement, no submissions were received by the Government from landowners, community groups or any member of the public.

The approval of the Project Environmental Impact Statement by the Queensland Government in November 2013 and the issue of the Commonwealth Government permit supports the comprehensive environmental impact assessment undertaken by Bandanna Energy and the conclusion of that assessment that there are no negative impacts from the Project that cannot be satisfactorily managed or mitigated.

Substantial progress with Mining Lease Applications

The public notification period for the environmental authority and mining lease applications associated with the Project closed on 22 April 2014. Only six objections were submitted in relation to the Project - three from directly affected landowners, two from remote landowners in relation to groundwater and one from a community group.

As announced on 13 June and 22 July 2014, two of the six objections have subsequently been withdrawn. The withdrawn objections related to the landowners' groundwater concerns. Following discussions and finalisation of 'make good' agreements, those landowners were satisfied that their concerns had been addressed.

Bandanna is continuing to work closely with each of the remaining four objectors to resolve their concerns and progress finalisation of the mining lease application process.

¹ The information in relation to the Resource estimate for the Project is extracted from the original market announcement dated 26 June 2014 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.

Progress towards finalisation of Project capital cost and preparation for Project development

Subsequent to the quarter, Bandanna announced that it had appointed Samsung C&T, a subsidiary of Korea's largest conglomerate, the Samsung Group, to produce a lump sum Engineering, Procurement and Construction (EPC) contract for development of the Project. Samsung C&T will work closely with Bandanna Energy and Ausenco Limited, which is finalising detailed engineering design and contract tenders, to develop within the next three months, a final lump sum EPC Contract for construction of the Project.

Continuing discussions with third parties for an investment in the Project

Bandanna has been progressing discussions with potential joint venture equity investors. On 23 September 2013, Bandanna announced that it had executed a non-binding Heads of Agreement with Korea Midland Power Co. (KOMIPO), a major state-owned Korean electricity generator, in relation to potential equity investment by KOMIPO in the Project and long term coal off-take from the Project. Since then, Bandanna has been working closely with KOMIPO and a consortium of Korean investors to progress Project investment.

On 4 July 2014, Bandanna announced that it is in negotiation with KOMIPO for it to acquire an equity interest in and long term contract for coal offtake from the Project. KOMIPO, Samsung C&T and Bandanna will continue to work together to progress negotiations with other potential Korean investors in relation to opportunities for equity investment and coal offtake and will keep the market informed regarding the progress of those discussions.

DINGO WEST COAL PROJECT – 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 has the potential 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.

The Company is prioritising capital investment in the Springsure Creek Project ahead of Dingo West and has deferred further exploration or feasibility activities for the Project. During the June 2014 quarter, Bandanna engaged with third parties in relation to farm-in or sale opportunities for the project. Those discussions are ongoing.

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

The South Galilee Coal Project (SGCP) is a proposed open-cut and underground coal mining operation located approximately 12 kilometres (km) south-west of the township of Alpha in the Galilee Basin in Central Queensland (see Figure 1). The proposed mine is expected to have an operational period of 33 years, producing 447 million tonnes of coal at up to 19 Million tonnes per annum (Mtpa) of run of mine coal. The group holds a 50% interest in the joint venture, via Alpha Coal Pty Ltd, with AMCI (Alpha) Pty Ltd.

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.

Following receipt of 23 submissions in relation to the Environmental Impact Statement (EIS), with no significant environmental issues identified. The preparation of and submission of additional information to the EIS was completed during the quarter. The Joint Venture Manager continued to engage with proponents in relation to third party rail and port capacity for the project, and to advance stakeholder agreements and mine scheduling.

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Mr Michael Gray
Managing Director
31 July 2014