
QUARTERLY ACTIVITIES REPORT THREE MONTHS to 30 June 2010

The following activities have been conducted by, or on behalf of, the Company and its wholly-owned subsidiaries ("Bandanna") during the three months 1 April 2010 to 30 June 2010 ("Reporting Period").

Highlights

- South Galilee Project declared a project of State Significance by the Queensland Government.
- South Galilee Project Prefeasibility Study and drilling underway as part of a 145 hole program.
- Exploration drilling recommences at Arcturus, EPC 1221, following prolonged wet period.
- Exploration drilling recommences at Springsure Creek, EPC 891, following prolonged wet period.
- Results of the P-TEM survey over PEL 88, ATP 539P and ATP 549P West were received and are now being interpreted.
- Dingo West Seismic Survey completed in Dingo West in EPC 881

1. EXPLORATION ACTIVITIES

During the Reporting Period, the Company operated a number of coal activities as well as oil and gas exploration activities.

1.1 COAL EXPLORATION

Arcturus – EPC 1221

During the Reporting Period, Springsure Creek Coal Pty Ltd (a wholly owned subsidiary of Bandanna Energy Limited) continued the Concept Study for Arcturus where the main target is the Pollux seam. In addition to this Bandanna also completed 13 exploration bore holes totalling almost 1490 m of drilling including 93m of cored holes. Bandanna holds a 100% interest in this tenement which is located approximately 19 km from the Blackwater-Rolleston rail line.

The current program is designed to increase confidence for a shallow thermal resource which may be suitable for mining by open cut or underground methods.

Bandanna announced on 7 August 2009 that it had commenced a Concept Study for the development of its Arcturus Project as a potential open cut thermal mine. The Concept Study is expected to be completed following the completion of a further nine (9) drillholes in the current program.

South Galilee Project – EPCs 1048, 1049, 1179 and 1180

On 18 March 2010 Bandanna announced to the ASX the commencement of a Prefeasibility Study for the development of a thermal coal mine in its most northern Galilee Basin Tenement EPC 1048. The study will look at design and scheduling of mining planning, operations, engineering studies for supply of mine and transport infrastructure and marketing quality and strategy. MB Mining has been contracted to undertake open cut and underground studies of a number of mining scenarios and to provide details on equipment, capital and operating costs as part of a detailed mining method analysis. Aurecon Hatch has been appointed as contractor to work through site infrastructure requirements and complete the overall PFS. Coal quality and processing requirements will be undertaken by A & B Mylec Pty Ltd. Matrixplus is undertaking the environmental studies as part of an Environmental Impact Statement.

During the Reporting Period the Queensland Government has declared that the South Galilee Project is one of State Significance following the submission in March of an Initial Advice Statement to the Queensland Department of Infrastructure and Planning. In addition, during the Reporting Period, the Commonwealth Government determined that the South Galilee Project will be a controlled action requiring approval under the EPBC Act consistent with other projects in the Galilee Basin.

Following the announcement of the Prefeasibility Study commencement, the Joint Venture Partners Bandanna and AMCI (Alpha) Pty Ltd (AMCI) commenced drilling during the Reporting Period of an approved 145 hole drilling program. Due to prolonged wet weather conditions this drilling did not commence until late April. The program is designed to lift the confidence level of the current JORC compliant resources of 922Mt Inferred and 60 Mt Indicated* and to provide vital geotechnical and coal quality information for prefeasibility engineering and design activities. Other holes will test the down dip extension of the known resources where Bandanna has previously announced an Exploration Target of 570 – 960Mt*. This program is fully funded by AMCI as part of its farmin commitments through which it may earn up to 50% interest by funding up to \$25 million for JV activities.

The South Galilee Project is the third major project to be announced in the Galilee Basin. Other Galilee projects are the Waratah/Resource House China First Project and the Hancock Coal Alpha and Kevins Corner Project which include a rail corridor and port facilities at Abbott Point.

The China First Project, located immediately adjacent to the South Galilee Project, is believed to form a substantial part of Clive Palmer's Resource House proposed capital raising and Hong Kong based IPO.

In other developments pertinent to the Galilee Basin it was publicly announced in April that the North Queensland Bulk Port Corporation had nominated BHP and Hancock with preferred developer status for the development of two, 30MTpa capacity, new coal terminals at Abbot Point.

Dingo West EPC 881

Bandanna completed the remaining 18 km of a 53 km 2D seismic survey in June 2010 following its suspension just prior to Christmas 2009, due to the onset of the wet season. Initial processing and interpretation were undertaken during the Reporting Period with a number of provisional bore hole locations identified in areas which appear suitable for open cut development. The additional drilling is planned late 2010 targeting areas already identified as having open cut potential by the seismic survey and previous drilling programs.

Bandanna holds a 100% interest in this project and is the operator.

Springsure Creek EPC 891

During the Reporting Period field operations did not commence until late April due to the prolonged wet season. Only 1 core hole was completed. By the end of the Reporting Period, approximately 245 metres had been drilled and within that approximately 20 meters of core was drilled. The target seam is the Aries 2 seam. An additional 36 holes are planned for this tenement and it is anticipated that the drilling of these holes will be completed before the end of 2010. This forms part of a Concept Study for an integrated underground longwall thermal coal mine and infrastructure.

Previous to this Reporting Period, Bandanna announced an increase in the JORC compliant resources at Springsure Creek to 304.7 Mt*. This resource, comprising Inferred Resources of 270 Mt and Indicated Resources of 34.7 Mt* resulted from the completion of 18 chip and 13 cored boreholes in the prior quarter and the subsequent detailed analysis.

This tenement is held 100% by Springsure Creek Coal Pty Ltd, which is a wholly-owned subsidiary of Bandanna.

Arcadia EPC 1742

No field work was conducted during the Reporting Period.

This tenement is held by Arcadia Coal Pty Ltd, which is a wholly-owned subsidiary of Bandanna.

Gemini EPC 1131

During the Reporting Period 1 core hole that was commenced in the prior quarter was completed and an additional water bore was completed. By the end of the Reporting Period, a total of 20 m had been cored to complete this hole. The expected target seams are the Aries, Castor and the Pollux seams. To date, results have not been received to verify seams and coal quality.

This tenement is held by Springsure Creek Coal Pty Ltd, which is a wholly-owned subsidiary of Bandanna.

Fernlee EPC 1103

No field work was conducted during the Reporting Period.

This tenement is held by Springsure Creek Coal Pty Ltd, which is a wholly-owned subsidiary of Bandanna.

Other Areas

No other field work was conducted during the Reporting Period.

1.2 CONVENTIONAL OIL & GAS EXPLORATION

During the Reporting Period the Company's conventional oil and gas activities were undertaken by its 100% wholly owned subsidiary Traditional Oil.

PEL88 SA (Traditional – 50%), ATP – 539P QLD (Traditional earning 50%), ATP – 549 (West) (Traditional 41.66%)

Results from the P-TEM survey are still undergoing further interpretation. The survey highlighted anomalies across known hydrocarbon accumulations in a number of fields which were benchmarked during the survey. However, not all fields had an obvious anomaly signature. In order to obtain a benchmark several known discovery wells were also overflown. This result provides a baseline to use in other areas away from existing data and areas where we have number of structural prospects and

leads such as PEL 88. Very preliminary interpretation of the limited lines acquired reveal a number of anomalies that certainly require further inspection and follow up work. Recommendations for this will flow once the results have been distributed to the various contributing JV parties for discussion.

PEL – 100, SA

During the year major flooding events stopped exploration and development work across the whole of the Cooper Basin. This Reporting Period has seen a continuation of this and consequently no field activities have been carried out.

Stuart Petroleum has undertaken the processing of the trial inversion seismic technique which has the potential to increase the likelihood of identifying channel-bound stratigraphic traps. Interpretation is underway and results forth coming to the JV parties.

PEL – 88, SA

Earlier in the year, major flooding events stopped exploration and development work across the whole of the Cooper Basin. The Operator Victoria Petroleum has applied, for and been granted, a suspension of operations within the Permit for a period of six months.

Other Areas

No other field work has been carried out during the reporting period.

2. INFRASTRUCTURE

Wiggins Island Export Coal Terminal – Gladstone

During the Reporting Period, Wiggins Island Export Coal Terminal (WICET) continued to undertake the expression of interest process for Stage 1 of Wiggins Island and Bandanna's submission for allocation in Stage 1 continued on foot.

Yours faithfully

A handwritten signature in black ink, appearing to be 'R. D. Shaw', written over a horizontal line.

Dr Raymond D Shaw
Managing Director

*Statement of Compliance

The information compiled in this release from Bandanna Energy Limited, including any relating to resources, is based on information compiled by Gordon Saul, who is a member of the Australian Institute of Geoscientists and who is employed by Resolve Geo Pty Ltd. Gordon Saul has sufficient experience which is relevant to the style of mineralization 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 "Australasian 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.

With respect to exploration target tonnes, these are conceptual in nature. There is insufficient exploration to define a Mineral Resource across the target area (excluding any existing inferred or indicated resources) and it remains uncertain if further exploration will result in the determination of a Mineral Resource across the whole area.

In the case of South Galilee (formerly Alpha) Project the range of exploration target was determined by projecting D1 and D2 seam intersections from the eastern indicated and inferred resource area to the western boundary of EPC 1049. Supported by petroleum holes to the west, a 9966 Ha area has been estimated to contain an average of 5.6m of coal, providing a target tonnage of between 570 and 960 Mt.