

8 May 2009

ASX RELEASE/MEDIA RELEASE

General Manager
The Company Announcements Office
Australian Stock Exchange Limited
Electronic Lodgement System

Dear Sir,

Dingo West Project EPC 881

Bandanna Energy Limited ("Bandanna"; ASX Code BND) wishes to announce that it has reached an agreement with Custom Mining Dingo Pty Ltd ("CMD" a subsidiary of Macarthur Coal Limited; ASX Code MCC) regarding CMD's withdrawal from the Joint Venture and Farm In Agreement relating to the Dingo West Project in EPC 881. In doing so Bandanna (through its wholly owned subsidiary Dingo West Coal Pty Ltd) will now retain a 100% interest in this Project.

CMD's withdrawal follows its review of exploration results and feasibility investigations which concluded that due to the nature of the farm-in obligations and the complex geology of the site, the project is less attractive than other project development opportunities that Macarthur Coal is currently pursuing. Under the Joint Venture and Farm In Agreement, CMD was required to earn a 70% interest by fully funding the development of a 1.9Mtpa mine. Of an original \$9.65 million exploration budget to be fully funded by CMD under the terms of the Farm In Agreement, approximately \$6.65 million has been spent. Bandanna and CMD have agreed that of the remaining un-spent funds, CMD will pay Bandanna a minimum of \$1.5 million as part of the withdrawal process. In addition to retaining 100% ownership, Bandanna will also take assignment of the 2 Mtpa Wiggins Island Coal Terminal Feasibility Funding Agreement previously negotiated on behalf of the Joint Venture.

Whilst Bandanna has appreciated the involvement of CMD in this Project, CMD's decision to withdraw now clears the way for Bandanna to pursue third party approaches to participate. Following the acquisition of over 20,000 m bore and core hole data, Bandanna has formed the view that the Project should host a viable open cut mine development, albeit on a scale somewhat smaller than that originally contemplated, due to the complex geology. Bandanna has commenced a mining study involving an open cut pit development with conceptual production in the range of 0.5-1.0 Mtpa of ROM coal which is expected to yield a thermal/PCI product. As part of this study the Company is investigating third party tolling for coal preparation and washing of Dingo West product in order to minimise initial CAPEX requirements.

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“Our initial studies indicate that on a reduced scale Dingo West is an attractive opportunity and far better suited to a company of the size and resources of Bandanna”, the Managing Director, Dr Ray Shaw, said.

“We have, through the Joint Venture, obtained an extremely valuable data set including a number of studies and reports by consultants and contractors which will, when amended to incorporate the new scale of the project, provide a springboard for its accelerated development”, Dr Shaw continued.

Yours faithfully,

A handwritten signature in black ink that reads "Matthew Scott". The signature is written in a cursive, flowing style.

Matthew Scott
Company Secretary

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