

24 September 2009

ASX RELEASE

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

Dear Sir,

Directors Report and Annual Financial Report for the year ended 30 June 2009

Bandanna Energy Ltd (Bandanna – ASX code “BND”) is pleased to submit the Directors Report & Annual Financial Report for the year ended 30 June 2009.

Yours faithfully,

BANDANNA ENERGY LIMITED



Matthew Scott
Company Secretary

For personal use only

Financial Report 2009

Bandanna Energy Limited

ABN 34 009 356 665

DIRECTORS' REPORT & ANNUAL FINANCIAL REPORT

for the year ended 30 June 2009

For personal use only

BANDANNA

ENERGY

Bandanna Energy Limited

ABN 34 009 356 665

DIRECTORS' REPORT & ANNUAL FINANCIAL REPORT

for the year ended 30 June 2009

CONTENTS

Report of the Directors	2
Remuneration Report	5
Declaration of Independence by Lead Auditor to the Directors of Bandanna Energy Limited	10
ANNUAL FINANCIAL REPORT FOR YEAR ENDED 30 JUNE 2009	
Income Statement	11
Balance Sheet	12
Statement of Changes in Equity	13
Cashflow Statement	14
Notes to the Financial Statements	15
Directors' Declaration	40
Independent Auditors Report to the Members	41
Corporate Directory	43
Additional Information for Listed Public Companies	44

For personal use only

Report of the directors

The Directors of Bandanna Energy Limited ("Bandanna" or the "Company") present their report, together with the financial statements of the Group, being the Company and its controlled entities ("Consolidated Group"), for the financial year ended 30 June 2009. In order to comply with the provisions of the *Corporations Act 2001*, the directors report as follows:

PRINCIPAL ACTIVITIES AND SIGNIFICANT CHANGES IN NATURE OF ACTIVITIES

The principal activities of the Consolidated Group during the financial year were:

- Exploration for coal ;
- Exploration for oil and gas; and
- Exploration for other minerals (bentonite and oil shale).

There was a significant change in the nature of the Consolidated Group's principal activities during the financial year from oil and gas exploration to coal exploration following the acquisition of Bandanna Coal Pty Ltd.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

The following significant changes in the state of affairs of the parent entity occurred during the financial year:

- On 3 October 2008, Bandanna Energy Limited (formerly Enterprise Energy Limited) acquired 100% of the issued share capital of Bandanna Coal Pty Ltd, for the issue of 3,018,750,000 shares to the shareholders of Bandanna Coal Pty Ltd.

To effect the proposed Transaction, and in accordance with a Heads of Agreement between Enterprise Energy Limited ("Enterprise") and the vendors of Bandanna Coal Pty Ltd made on 2 May 2008, Enterprise entered into a Share Sale Agreement with the vendors of Bandanna Coal Pty Ltd on 2 September 2008 to acquire all of the issued share capital of Bandanna Coal Pty Ltd. Shareholders of Enterprise approved the Transaction at a General Meeting held on 15 September 2008. Following the Transaction, the Company undertook a consolidation of the Company's share capital on a one for ten basis and participated in a capital raising of \$10,000,000. As part of the capital raising Bandanna Energy Limited issued 12,500,000 fully paid shares pursuant to the Company's Prospectus dated 17 September 2008, at an issue price of \$0.80 per share. Following the consolidation and issue of new shares a total of 332,180,143 shares were on issue. Consistent with the change of nature of the business, the Company changed its name from Enterprise to Bandanna Energy Limited after the completion of the Transaction.

As a result of this transaction and application of accounting standard AASB3 Business Combinations, the consolidated accounts now represent a continuation of the accounts of Bandanna Coal Pty Ltd rather than a continuation of the accounts of Bandanna Energy Limited (formerly Enterprise Energy Limited). Accordingly, users of this financial report must be aware that the comparative consolidation numbers are those of Bandanna Coal Pty Ltd and cannot be compared to the consolidated financial results of Bandanna Energy Limited (formerly Enterprise Energy Limited) published in the prior reporting period. In addition, the application of AASB3 Business Combinations results in some differences in disclosure between the consolidated and parent entity results and financial position in the year ended 30 June 2009 due to the timing of the acquisition during the year.

OPERATING RESULTS AND REVIEW OF OPERATIONS FOR THE YEAR

Operating Results

During the Financial Year, Bandanna completed the acquisition of Brisbane-based Bandanna Coal Pty Ltd. As a result of this transaction and the application of the accounting standard AASB3 Business Combinations, the consolidated accounts now represent a continuation of the accounts of Bandanna Coal Pty Ltd rather than a continuation of the accounts of Bandanna Energy Limited (previously Enterprise Energy Limited).

The consolidated operating loss after income tax for the year ended 30 June 2009 was \$721,982 (2008 \$11,006,602 profit after tax).

Review of Operations

During the year, Bandanna undertook the following activities:

Coal & Minerals

- Reacquired 100% interest in Dingo West project following withdrawal of Custom Mining Dingo Pty Ltd (wholly owned subsidiary of Macarthur Coal Limited). In addition, Bandanna took assignment of the 2 Mtpa interest in the Gladstone Ports Corporation Master Terms Deed and Feasibility Funding Facility Agreement for Wiggins Island.
- Announced a maiden resource statement for the Alpha project to ASX on 1 June 2009.
- Announced an updated resource statement for Arcturus project to ASX on 28 May 2009.
- Awarded new coal exploration permits EPC1189 and EPC1195.
- Operated coal exploration activities in its coal exploration permits.
- Awarded EPM 17568 Planet Creek on 9 February 2009 and applied for EPM 17932 Planet Creek 2, both targeting bentonite deposits.
- Operated its oil shale and bentonite interests in EPMs that it holds.

Report of the directors

(continued)

Oil & Gas

- Participated in the Sungai Seismic Survey and drilling of Planet Downs-1 well in ATP539.
- Continued to explore in areas where it holds or is earning an interest.

Corporate

- Completed the acquisition of Bandanna Coal Pty Ltd and controlled subsidiaries on 3 October 2008 as part of a change in the nature of business from junior oil and gas explorer to coal explorer.
- The Company was re quoted on the ASX on 9 October 2008 following the Bandanna Coal Pty Ltd acquisition.
- 1 for 10 consolidation of share capital following the acquisition of Bandanna Coal Pty Ltd.
- Issue of 12,500,000 ordinary shares under a capital raising.
- Majority of Board of Directors changed, reflecting change in nature of business and shareholding.
- Issue of 5,308,000 options to executive management team.
- Set up Brisbane office as the Registered and Principal office of the company and location of management team for coal operations.
- Appointed new Chief Operating Officer and Chief Financial Officer/Company Secretary.

Dividends Paid or Recommended

No dividends were paid or declared for payment during the Financial Year. No recommendation for payment of a dividend has been made.

After Balance Date Events

Bandanna Energy Limited became a shareholder in WICET Holdings Pty Ltd effective 16 July 2009. WICET Holdings Pty Ltd is an industry owned consortium looking to develop the Wiggins Island Coal Terminal.

On 20 July 2009, EPM 17932 Planet Creek 2 was granted to Advocate Holding Pty Ltd (a wholly owned subsidiary of Bandanna Energy Limited).

300,000 options granted to Raymond Douglas Shaw, Managing Director, at an exercise price of \$1.50 expired on 25 July 2009.

On 11 September 2009, the Company lodged an Appendix 3B relating to 59,871,803 fully paid ordinary shares coming out of escrow on 26 September 2009 which will be listed as quotable securities.

On 23 September 2009, the Company announced that it had entered into a Share Subscription Agreement by which it would issue 37,532,016 fully paid ordinary shares to SAMTAN Co of Korea (equating to 10% of Bandanna's fully diluted shares on issue post placement) at an issue price of \$0.60 per share, raising \$22.5 million. Bandanna and SAMTAN have also entered into a Marketing Agreement whereby SAMTAN will have exclusive representation rights for Bandanna's coal delivered into Korea. The arrangement also provides for a right to negotiate the purchase of 20% of Bandanna's coal production at market prices from its

existing Queensland coal tenements (except for Alpha Project). The Agreement is subject to certain conditions precedent being met on or before 18 December 2009.

Future Developments, Prospects and Business Strategies

The Company intends to pursue an active exploration program focusing on its coal assets in the Bowen Basin, including exploration which may be funded via the introduction of joint venture parties into certain tenements including our Dingo West, Arcturus, and Arcadia projects. The Company is also seeking to form strategic alliances with third parties willing to contribute to the development of the Company's existing resources, in particular coal. Given that there has been a significant recovery in the world economic outlook it is anticipated that over the coming year the prospects for forming fundamental joint ventures and alliances will be favourable. These should help facilitate additional sources for funding exploration and development strategies so enabling the Company to become a coal producer in the earliest possible time-frame.

With this in mind the Company is also pursuing rail and port access for its future coal developments.

ENVIRONMENTAL REGULATIONS

The parent entity is subject to significant environmental regulation in respect of its operated and non-operated joint venture interests in the coal, mining and oil and gas activities. Each of the operators in its oil and gas ventures complies with all relevant environmental legislation. Its coal operations in the Alpha Project are operated by AMCI which complies with all relevant environmental legislation. Various subsidiaries of Bandanna operate coal and mineral licences in Queensland and these operations all comply with relevant environmental legislation.

INFORMATION ON THE DIRECTORS

The following persons were Directors of Bandanna Energy Limited during the Financial Year and up to the date of this Report:

- Jeremy Warde Barlow (appointed 3 October 2008)
- Stanley Mark Elliott (resigned 3 October 2008)
- David Douglas Heydon Graham (appointed 3 October 2008)
- Robert Karlo Johansen (appointed 3 October 2008)
- David John Lindh OAM (resigned 3 October 2008)
- Raymond Douglas Shaw
- Norman Joseph Zillman (resigned 3 October 2008)

Report of the directors

(continued)

Details of directors at the date of this report are as follows:

Jeremy Warde Barlow, Non Executive Chairman

Qualifications

Bachelor of Mining Engineering, MBA.
Fellow of the Australasian Institute of Mining and Metallurgy.

Experience

Appointed Chairman 3 October 2008. Board member since 3 October 2008.

Special Responsibilities

Jeremy Barlow is Chairman of the Remuneration Committee and a member of the Risk Management Committee.

Directorships held in other listed entities

Jeremy Barlow was founding director of CH4 Gas Limited and upon its merger with Arrow Energy Limited he became a Non Executive Director of Arrow Energy Limited in August 2006.

Raymond Douglas Shaw, Executive Director

Qualifications

Bachelor of Science (Hons 1) and Ph.D from University of Sydney, Dip. Law (SAB). Member of the Australasian Institute of Mining and Metallurgy and American Society of Petroleum Geologists.

Experience

Board member since 5 May 2007.

Special Responsibilities

Raymond Shaw is Managing Director of Bandanna Energy Limited and a member of the Audit Committee and Risk Management Committee.

Directorships held in other listed entities

Nil

David Douglas Heydon Graham, Non Executive Director

Qualifications

Bachelor of Economics, Bachelor of Commerce and MBA.

Experience

Board member since 3 October 2008.

Special Responsibilities

David Graham is Chairman of the Audit Committee and a member of the Remuneration Committee and Risk Management Committee.

Directorships held in other listed entities

Non Executive Director of Bank of Queensland.

Robert Karlo Johansen, Non Executive Director

Qualifications

Bachelor of Mining Engineering and Bachelor of Commerce and Bachelor of Law from University of Queensland.

Member of the Australasian Institute of Mining and Metallurgy and associate member of the Society of Certified Practising Accountants.

Experience

Board member since 3 October 2008.

Special Responsibilities

Robert Johansen is Chairman of the Risk Management Committee and a member of the Audit Committee and Remuneration Committee.

Directorships held in other listed entities

Nil

Company Secretary

The following person held the position of Company Secretary at the end of the financial year:

Matthew Scott, Bachelor of Commerce, Chartered Accountant

Matthew Scott has worked for Bandanna Energy Limited since 3 November 2008 as Chief Financial Officer. Matthew Scott was appointed Company Secretary on 10 March 2009.

Meetings of Directors

	Directors' Meetings		Audit Committee		Remuneration Committee		Risk Management Committee	
	a	b	a	b	a	b	a	b
Mr Jeremy Barlow	11	11	-	-	1	1	-	-
Dr Mark Elliott	4	3	1	1	-	-	-	-
Mr David Graham	11	11	1	1	1	1	-	-
Mr Robert Johansen	11	11	1	1	1	1	-	-
Mr David Lindh OAM	4	3	-	-	-	-	-	-
Dr Raymond Shaw	15	15	2	2	-	-	-	-
Mr Norman Zillman	4	3	1	1	-	-	-	-

'a' represents number of meetings eligible to attend

'b' represents number of meetings attended

Indemnification

The Company has given indemnity to the Directors and other Officers of the Company against any liabilities incurred by the Directors and Officers that may arise from their position as Directors and Officers of the company. No costs were incurred during the financial year pursuant to this indemnity.

Insurance Premiums

During the financial year, the Company has paid insurance premiums of \$40,000 in respect of directors and officers liability insurance.

REMUNERATION REPORT

Remuneration Policy

The remuneration policy of the Company has been designed to align key management personnel objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long-term incentives based on key performance areas affecting the Consolidated Group's financial results. The Board believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best key management personnel to run and manage the Consolidated Group, as well as create goal congruence between directors, executives and shareholders.

The Board's policy for determining the nature and amount of remuneration for key management personnel of the Consolidated Group is as follows:

- The remuneration policy is to be developed by the Remuneration Committee and approved by the Board after professional advice is sought from independent external consultants.
- All key management personnel receive a base salary (which is based on factors such as length of service and experience), superannuation, fringe benefits, and long term incentives.
- The Remuneration Committee reviews key management personnel packages annually by reference to the Consolidated Group's performance, executive performance and comparable information from industry sectors.

Key management personnel receive a superannuation guarantee contribution of currently 9%, and do not receive any other retirement benefits.

All remuneration paid to key management personnel is valued at the cost to the Company and expensed.

The Board's policy is to remunerate directors at market rates for time, commitment and responsibilities. The Remuneration Committee determines payments to the directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to Non Executive Directors is subject to approval by shareholders at the Annual General Meeting.

Key management personnel are also entitled and encouraged to participate in the employee share and option arrangements to align directors' interests with shareholders' interests.

Options granted under the arrangement do not carry dividend or voting rights. Each option is entitled to be converted into one ordinary share and is valued using the Black-Scholes and/or Monte Carlo methodology.

The employment terms and conditions of key management personnel are formalised in contracts of employment.

Terms of employment require that the relevant group entity provide an executive contracted person with a minimum of three months notice prior to termination of contract. A contracted person deemed employed on a permanent basis may terminate their employment by providing at least three months notice. Termination payments are not payable on resignation or under the circumstances of unsatisfactory performance.

For personal use only

Report of the directors

(continued)

Remuneration Details for the Year Ended 30 June 2009

The following table of benefits and payments details, in respect to the Financial Year, the components of remuneration for each member of the key management personnel of the Consolidated Group.

Table of Benefits and Payments for the Year Ended 30 June 2009

		Short-term benefits			Post-employment benefits	Share-based payments	Value of options as a proportion of remuneration	
		Salary and fees \$	Non-monetary \$	Total \$	Superannuation \$	Options \$	Total \$	%
Directors								
J Barlow ⁽¹⁾	2009	81,957	–	81,957	68,043	–	150,000	–
	2008	–	–	–	–	–	–	–
M Elliott ⁽²⁾	2009	–	–	–	9,538	–	9,538	–
	2008	31,425	–	31,425	2,828	–	34,253	–
D Graham ⁽¹⁾	2009	68,807	–	68,807	6,193	–	75,000	–
	2008	–	–	–	–	–	–	–
R Johansen ⁽¹⁾	2009	68,807	–	68,807	6,193	–	75,000	–
	2008	–	–	–	–	–	–	–
D Lindh ⁽²⁾	2009	–	–	–	17,500	–	17,500	–
	2008	26,909	–	26,909	2,422	–	29,331	–
R Shaw	2009	293,817	6,566	300,383	26,763	388,035	715,181	54
	2008	200,000	–	200,000	18,000	–	218,000	–
N Zillman ⁽²⁾	2009	–	–	–	9,538	–	9,538	–
	2008	31,425	–	31,425	2,828	–	34,253	–
C Armour	2009	–	–	–	–	–	–	–
	2008	11,022	–	11,022	992	–	12,014	–
Directors	2009	513,388	6,566	519,954	143,768	388,035	1,051,757	–
	2008	300,781	–	300,781	27,070	–	327,851	–
Executives								
J Porter ⁽³⁾	2009	138,390	4,551	142,941	12,455	211,580	366,976	58
	2008	–	–	–	–	–	–	–
M Scott ⁽⁴⁾	2009	152,905	4,725	157,630	13,761	199,698	371,089	54
	2008	–	–	–	–	–	–	–
Executives	2009	291,295	9,276	300,571	26,216	411,278	738,065	–
	2008	–	–	–	–	–	–	–
Total	2009	804,683	15,842	820,525	169,984	799,313	1,789,822	–
	2008	300,781	–	300,781	27,070	–	327,851	–

⁽¹⁾ Appointed 3 October 2008

⁽²⁾ Resigned 3 October 2008

⁽³⁾ James Porter, Chief Operating Officer, commenced on 8 December 2008

⁽⁴⁾ Matthew Scott, Chief Financial Officer & Company Secretary, commenced on 3 November 2008

Report of the directors

(continued)

SHAREHOLDINGS

The number of shares in the Company held during the year by directors and executives, directly or indirectly, are set out below.

	Balance 1 July 2008	Options Exercised	Consolidation of Shares [#]	Issue of Shares [^]	Sales/ Purchases [*]	Net Change Other ⁽⁵⁾	Balance 30 June 2009
Directors							
J Barlow ⁽⁶⁾	–	–	–	116,423,599	–	–	116,423,599
M Elliott	1,000,000	–	(900,000)	–	–	(100,000)	–
D Graham	–	–	–	–	250,000	–	250,000
R Johansen ⁽⁶⁾	–	–	–	96,902,311	35,000	–	96,937,311
D Lindh OAM	1,500,000	–	(1,350,000)	–	–	(150,000)	–
R Shaw	10,520,000	3,000,000	(12,168,000)	–	–	–	1,352,000
N Zillman	17,438,773	–	(15,694,896)	37,733,816	–	(39,477,693)	–
	30,458,773	3,000,000	(30,112,896)	251,059,726	285,000	(39,727,693)	214,962,910

[#] Consolidation of Company's share capital on one for ten basis on 3 October 2008.

[^] Issue of shares pursuant to Share Sale Agreement dated 2 September 2008.

^{*} Refers to shares purchased or sold during the Financial Year.

⁽⁵⁾ Net Change Other relates to shareholding at date of resignation 3 October 2008. This shareholding is not reportable as at 30 June 2009 as the relevant persons are no longer directors.

⁽⁶⁾ J Barlow and R Johansen shareholdings include 96,902,311 shares held by entities in which both have an interest.

OPTIONS AND RIGHTS GRANTED

The number of options held during the year by directors and executives are set out below.

	Balance 1 July 2008	Options Granted	Options Exercised	Consolidation of Options ⁽⁷⁾	Balance 30 June 2009	Total Vested 30 June 2009	Total Exercisable 30 June 2009
Directors							
J Barlow	–	–	–	–	–	–	–
D Graham	–	–	–	–	–	–	–
R Johansen	–	–	–	–	–	–	–
R Shaw ⁽⁷⁾	9,000,000	2,470,000	(3,000,000)	(5,400,000)	3,070,000	3,070,000	–
Executives							
J Porter	–	1,460,000	–	–	1,460,000	1,460,000	–
M Scott	–	1,378,000	–	–	1,378,000	1,378,000	–
	9,000,000	5,308,000	(3,000,000)	(5,400,000)	5,908,000	5,908,000	–

⁽⁷⁾ R Shaw's remaining 6,000,000 options from the balance at beginning of the Financial Year were consolidated on a 1 for 10 basis on 3 October 2008 when Bandanna Energy Limited acquired Bandanna Coal Pty Ltd.

All options exercised resulted in the issue of ordinary shares in Bandanna Energy Limited on a 1:1 basis.

Report of the directors

(continued)

Description of Options/Rights Issued as Remuneration

Details of the options granted as remuneration to those directors and executives listed in the previous table are as follows:

	Grant Date	No. of Options	Expiry Date	Exercise Price	Value per Option	Value
R Shaw	25 July 2007	300,000	24 July 2009	\$1.50	\$0.02335	\$7,005
	25 July 2007	300,000	24 July 2010	\$2.00	\$0.02757	\$8,271
	23 Dec 2008	1,200,000	23 Dec 2010	\$0.80	\$0.149	\$178,800
	23 Dec 2008	1,270,000	23 Dec 2010	\$0.80	\$0.141	\$179,070
J Porter	8 Dec 2008	715,000	8 Dec 2011	\$0.80	\$0.149	\$106,535
	8 Dec 2008	745,000	8 Dec 2011	\$0.80	\$0.141	\$105,045
M Scott	3 Nov 2008	675,000	3 Nov 2011	\$0.80	\$0.149	\$100,575
	3 Nov 2008	703,000	3 Nov 2011	\$0.80	\$0.141	\$99,123

Option values at grant date were determined using the Black-Scholes and/or Monte Carlo method.

Details relating to service and performance criteria required for vesting have been provided in the previous table.

Options

At the date of this report, the unissued ordinary shares of Bandanna Energy Limited under option are as follows:

Grant Date	Date of Expiry	Exercise Price	Number under Option
25 July 2007	24 July 2009	\$1.50	300,000
25 July 2007	24 July 2010	\$2.00	300,000
3 November 2008	3 November 2011	\$0.80	1,378,000
8 December 2008	8 December 2011	\$0.80	1,460,000
23 December 2008	23 December 2010	\$0.80	2,470,000
			5,908,000

Option holders do not have any rights to participate in any issues of shares or other interests in the Company or any other entity.

There have been no unissued shares or interests under option of any controlled entity within the Consolidated Group during or since reporting date.

Legal Proceedings on Behalf of Company (or subsidiaries)

No person has applied for leave of Court to bring proceedings on behalf of the Company (or subsidiaries) or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

The Company was not a party to any such proceedings during the Financial Year.

Non audit Services

The Board of Directors, in accordance with advice from the Audit Committee, is satisfied that the provision of non-audit services during the Financial Year is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

- all non-audit services are reviewed and approved by the Audit Committee prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- the nature of the services provided do not compromise the general principles relating to auditor independence in accordance with APES 110: Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standards Board.

Report of the directors

(continued)

The following fees were paid or payable to Grant Thornton for non audit services provided during the year ended 30 June 2009:

	\$
Taxation services	–
Consulting Service	29,850
	29,850

Auditor's Independence Declaration

The lead auditor's independence declaration for the Financial Year ended 30 June 2009 has been received and can be found on page 10 of the Financial Report.

ASIC Class Order 98/100 Rounding of Amounts

The Company is an entity to which ASIC Class Order 98/100 applies and, accordingly, amounts in the financial statements and directors' report have been rounded to the nearest thousand dollars.

This Report of the Directors, incorporating the Remuneration Report, is signed in accordance with a resolution of the Board of Directors.



Mr Jeremy Barlow
Chairman



Dr Raymond Shaw
Managing Director

Dated: 24 September 2009

For personal use only

Auditor's independence declaration



Grant Thornton South Australian Partnership
ABN 27 244 906 724

Level 1
67 Greenhill Rd
Wayville SA 5034
GPO Box 1270
Adelaide SA 5001
DX 275 Adelaide

T 61 8 8372 6666
F 61 8 8372 6677
E info@gtsa.com.au
W www.grantthornton.com.au

TO THE DIRECTORS OF BANDANNA ENERGY LIMITED

In accordance with the requirements of section 307C of the *Corporations Act 2001*, as lead auditor for the audit of Bandanna Energy Limited for the year ended 30 June 2009, I declare that, to the best of my knowledge and belief, there have been:

- a. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b. No contraventions of any applicable code of professional conduct in relation to the audit.

GRANT THORNTON
South Australian Partnership
Chartered Accountants

A handwritten signature in black ink, appearing to read 'S J Gray'.

S J Gray
Partner

Signed at Wayville on this 24th day of September 2009

Grant Thornton Australia Limited is a member firm within Grant Thornton International Ltd. Grant Thornton International Ltd and the member firms are not a worldwide partnership. Grant Thornton Australia Limited, together with its subsidiaries and related entities, delivers its services independently in Australia.

Liability limited by a scheme approved under Professional Standards Legislation

Income statement

for the year ended 30 June 2009

	Note	Consolidated Group		Parent Entity	
		2009 \$	2008 \$	2009 \$	2008 \$
Revenue	2	12,038	–	–	–
Other revenue	2	2,912,205	15,946,946	268,696	84,661
Cost of Sales		(10,327)	–	–	–
Employee benefits expense	3	(1,349,322)	(188,025)	(1,397,780)	(471,026)
Option expense		(788,898)	–	(799,313)	(198,195)
Impairment expense		(9,476)	–	–	(2,104,397)
Depreciation expense		(38,720)	(930)	(44,103)	(25,558)
Administrative expense	3	(1,977,952)	(582,740)	(2,187,006)	(713,366)
Profit/(Loss) before income tax expense		(1,250,452)	15,175,251	(4,159,506)	(3,427,881)
Income tax benefit/(expense)	4	528,470	(4,168,649)	–	–
Profit/(Loss) attributable to members of Bandanna Energy Limited		(721,982)	11,006,602	(4,159,506)	(3,427,881)
Overall Operation					
Basic earnings per share (cents per share)	8	(0.22)	3.65		

The above Income Statement should be read in conjunction with the accompanying notes.

For personal use only

Balance sheet

30 June 2009

	Note	Consolidated Group		Parent Entity	
		2009 \$	2008 \$	2009 \$	2008 \$
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	9	6,115,791	8,972,765	6,115,791	450,683
Trade and other receivables	10	141,221	4,606,295	141,221	26,711
Other assets	11	113,503	61,570	44,433	18,430
TOTAL CURRENT ASSETS		6,370,515	13,640,630	6,301,445	495,824
NON-CURRENT ASSETS					
Trade and other receivables	10	-	-	7,673,354	6,905,878
Financial assets	12	-	-	450,958	450,958
Plant & equipment	14	311,112	1,933	309,736	108,530
Exploration & evaluation assets	15	17,303,354	2,744,702	-	-
Development assets	16	658,912	-	-	-
Other non-current assets	11	-	-	-	363,878
TOTAL NON-CURRENT ASSETS		18,273,378	2,746,635	8,434,048	7,829,244
TOTAL ASSETS		24,643,893	16,387,265	14,735,493	8,325,068
LIABILITIES					
CURRENT LIABILITIES					
Trade and other payables	17	869,943	399,360	506,904	542,812
Current tax liabilities		-	3,860,998	-	-
TOTAL CURRENT LIABILITIES		869,943	4,260,358	506,904	542,812
NON-CURRENT LIABILITIES					
Long term provisions	18	2,583	-	2,583	732
Deferred tax liabilities		-	528,469	-	-
TOTAL NON-CURRENT LIABILITIES		2,583	528,469	2,583	732
TOTAL LIABILITIES		872,526	4,788,827	509,487	543,544
NET ASSETS		23,771,367	11,598,438	14,226,006	7,781,524
EQUITY					
Issued capital	19	21,417,057	2,184,011	23,536,031	13,731,356
Share option reserve		788,898	-	997,508	198,195
Retained earnings		1,565,412	9,414,427	(10,307,533)	(6,148,027)
TOTAL EQUITY		23,771,367	11,598,438	14,226,006	7,781,524

The above Balance Sheet should be read in conjunction with the accompanying notes.

Statement of changes in equity

for the year ended 30 June 2009

	Note	Issued Capital \$	Retained Earnings \$	Share Option Reserve \$	Total \$
Consolidated Group					
Balance at 1 July 2007		2,184,011	8,914,257	–	11,098,268
Profit attributable to members		–	11,006,602	–	11,006,602
Pre acquisition dividends paid		–	(10,506,432)	–	(10,506,432)
Balance at 1 July 2008		2,184,011	9,414,427	–	11,598,438
Profit attributable to members		–	(721,982)	–	(721,982)
Pre acquisition dividends paid		–	(7,127,033)	–	(7,127,033)
Shares issued during the period	19	10,000,000	–	–	10,000,000
Capital raising costs		(391,954)	–	–	(391,954)
Cost of business combination	5	9,625,000	–	–	9,625,000
Options issued to Directors & Executives		–	–	788,898	788,898
Balance at 30 June 2009		21,417,057	1,565,412	788,898	23,771,367
Parent Entity					
Balance at 1 July 2007		13,179,133	(2,720,146)	–	10,458,987
Profit attributable to members		–	(3,427,881)	–	(3,427,881)
Shares issued during the period		552,223	–	–	552,223
Options issued to Directors & Executives		–	–	198,195	198,195
Balance at 1 July 2008		13,731,356	(6,148,027)	198,195	7,781,524
Profit attributable to members		–	(4,159,506)	–	(4,159,506)
Dividends paid		–	–	–	–
Shares issued during the period	19	10,000,000	–	–	10,000,000
Shares issued during the period from exercise of options		240,000	–	–	240,000
Capital raising costs		(435,325)	–	–	(435,325)
Options issued to Directors & Executives		–	–	799,313	799,313
Balance at 30 June 2009		23,536,031	(10,307,533)	997,508	14,226,006

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

For personal use only

Cash flow statement

for the year ended 30 June 2009

	Note	Consolidated Group		Parent Entity	
		2009 \$	2008 \$	2009 \$	2008 \$
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers		12,038	-	-	-
Payments to suppliers and employees		(3,694,964)	(1,254,847)	(2,930,851)	(1,289,633)
Interest received		387,718	628,632	268,696	53,392
Interest paid		-	-	-	(2,242)
Income taxes paid		(3,860,998)	(4,168,649)	-	-
Net cash (used in) operating activities	22	(7,156,206)	(4,794,864)	(2,662,155)	(1,238,483)
CASH FLOWS FROM INVESTING ACTIVITIES					
Payments for plant and equipment		(205,331)	(2,863)	(206,856)	(130,394)
Payments for exploration activities		(5,221,993)	(1,062,425)	-	-
Proceeds from sale of tenements		4,500,000	20,217,979	-	-
Farmin contributions		1,000,000	-	-	-
Loans to related parties		(2,500)	2,500	(696,229)	-
Cash acquired on acquisition of Bandanna Energy Limited		64,581	-	-	-
Business combination costs		(203,440)	-	(576,177)	(103,957)
Farmin settlement		1,524,487	-	-	-
Other income		-	-	1,849	-
Net cash provided by/(used in) investing activities		1,455,804	19,155,191	(1,477,413)	(234,351)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of shares		9,970,461	-	9,804,676	552,223
Dividends paid		(7,127,033)	(10,506,432)	-	-
Net repayment of related party loan		-	-	-	17,594
Net cash provided by/(used in) financing activities		2,843,428	(10,506,432)	9,804,676	569,817
Net increase /(decrease) in cash held		(2,856,974)	3,853,895	5,665,108	(903,017)
Cash and cash equivalents at beginning of financial year		8,972,765	5,118,870	450,683	1,353,700
Cash and cash equivalents at end of financial year	9	6,115,791	8,972,765	6,115,791	450,683

The above Cash Flow Statement should be read in conjunction with the accompanying notes.

Notes to the financial statements

for the year ended 30 June 2009

This financial report includes the consolidated financial statements and notes of Bandanna Energy Limited and controlled entities ('consolidated group' or 'Group'), and the separate financial statements and notes of Bandanna Energy Limited as an individual parent entity ('Parent Entity').

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards. Material accounting policies adopted in the preparation of this financial report are presented below and have been consistently applied unless otherwise stated.

The financial report has been prepared on an accruals basis and is based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

a. Principles of Consolidation

A controlled entity is any entity over which Bandanna Energy Limited has the power to govern the financial and operating policies so as to obtain benefits from its activities. In assessing the power to govern, the existence and effect of holdings of actual and potential voting rights are considered.

A list of controlled entities is contained in Note 13 to the financial statements.

As at reporting date, the assets and liabilities of all controlled entities have been incorporated into the consolidated financial statements as well as their results for the year then ended. Where controlled entities have entered (left) the consolidated group during the year, their operating results have been included (excluded) from the date control was obtained (ceased).

All inter-group balances and transactions between entities in the consolidated group, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with those adopted by the parent entity.

Business Combinations

Business combinations occur where control over another business is obtained and results in the consolidation of its assets and liabilities. All business combinations, including those involving entities under common control, are accounted for by applying the purchase method.

The purchase method requires an acquirer of the business to be identified and for the cost of the acquisition and fair values of identifiable assets, liabilities and contingent liabilities to be determined as at acquisition date, being the date that control is obtained. Cost is determined as the aggregate of fair values of assets given, equity issued and liabilities assumed in exchange for control together with costs directly attributable to the business combination.

Goodwill is recognised initially at the excess of cost over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If the fair value of the acquirer's interest is greater than cost, the surplus is immediately recognised in profit or loss.

Acquisition during the period

During the year, Bandanna Energy Limited completed the acquisition of Brisbane-based Bandanna Coal Pty Ltd. As a result of this transaction and the application of accounting standard AASB3 Business Combinations, the consolidated accounts now represent a continuation of the accounts of Bandanna Coal Pty Ltd rather than a continuation of the accounts of Bandanna Energy Limited (previously Enterprise Energy Limited).

Other than the above, the accounting policies have been consistently applied by the entities in the consolidated group and are consistent with those in the June 2008 financial report.

b. Income Tax

The income tax expense (revenue) for the year comprises current income tax expense (income) and deferred tax expense (income).

Current income tax expense charged to the profit or loss is the tax payable on taxable income calculated using applicable income tax rates enacted, or substantially enacted, as at reporting date. Current tax liabilities (assets) are therefore measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well as unused tax losses.

Current and deferred income tax expense (income) is charged or credited directly to equity instead of the profit or loss when the tax relates to items that are credited or charged directly to equity.

For personal use only

Notes to the financial statements

for the year ended 30 June 2009 (continued)

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted at reporting date. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries, branches, associates, and joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where a legally enforceable right of set-off exists, the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

Tax Consolidation

Bandanna Energy Limited and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under tax consolidation legislation. As a result of Bandanna Energy Limited's acquisition of Bandanna Coal Pty Ltd, Bandanna Coal Pty Ltd and its subsidiaries joined the Bandanna Energy Limited tax consolidated group effective 3 October 2008. Each entity in the Group recognises its own current and deferred tax assets and liabilities. Such taxes are measured using the 'stand-alone taxpayer' approach to allocation. Current tax liabilities (assets) and deferred tax assets arising from unused tax losses and tax credits in the subsidiaries are immediately transferred to the head entity. The Group notified the Tax Office that it had formed an income tax consolidated group to apply from 1 July 2008. The tax consolidated group has entered a tax funding arrangement whereby

each company in the Group contributes to the income tax payable by the Group in proportion to their contribution to the Group's taxable income. Differences between the amounts of net tax assets and liabilities derecognised and the net amounts recognised pursuant to the funding arrangement are recognised as either a contribution by, or distribution to the head entity.

c. Plant and Equipment

Each class of plant and equipment is carried at cost or fair value as indicated less, where applicable, any accumulated depreciation and impairment losses.

Plant and equipment are measured on the cost basis.

The cost of fixed assets constructed within the consolidated group includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation

The depreciable amount of all fixed assets including buildings and capitalised lease assets, but excluding freehold land, is depreciated on a straight-line basis over the asset's useful life to the consolidated group commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation rates used for each class of depreciable assets are:

Class of Fixed Asset	Depreciation Rate
Plant and equipment	10 - 33%
Furniture & Fittings	5 - 10%
Office Equipment	20 - 33%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the income statement. When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

Notes to the financial statements

for the year ended 30 June 2009 (continued)

d. Exploration and Development Expenditure

Exploration, evaluation and development expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

Accumulated costs in relation to an abandoned area are written off in full against profit in the year in which the decision to abandon the area is made.

When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

Costs of site restoration are provided over the life of the facility from when exploration commences and are included in the costs of that stage. Site restoration costs include the dismantling and removal of mining plant, equipment and building structures, waste removal, and rehabilitation of the site in accordance with clauses of the mining permits. Such costs have been determined using estimates of future costs, current legal requirements and technology on an undiscounted basis.

Any changes in the estimates for the costs are accounted on a prospective basis. In determining the costs of site restoration, there is uncertainty regarding the nature and extent of the restoration due to community expectations and future legislation. Accordingly the costs have been determined on the basis that the restoration will be completed within one year of abandoning the site.

e. Leases

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

f. Financial Instruments

Recognition and Initial Measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the Company commits itself to either the purchase or sale of the asset (ie trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified 'at fair value through profit or loss', in which case transaction costs are expensed to profit or loss immediately.

Classification and Subsequent Measurement

Finance instruments are subsequently measured at either of fair value, amortised cost using the effective interest rate method, or cost. *Fair value* represents the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties. Where available, quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted.

Amortised cost is calculated as:

- the amount at which the financial asset or financial liability is measured at initial recognition;
- less principal repayments;
- plus or minus the cumulative amortisation of the difference, if any, between the amount initially recognised and the maturity amount calculated using the effective interest method; and
- less any reduction for impairment.

The *effective interest method* is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that exactly discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense in profit or loss.

The Group does not designate any interests in subsidiaries, associates or joint venture entities as being subject to the requirements of accounting standards specifically applicable to financial instruments.

i. *Financial assets at fair value through profit or loss*

Financial assets are classified at 'fair value through profit or loss' when they are either held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss.

ii. *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost.

iii. *Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Group's intention to hold these investments to maturity. They are subsequently measured at amortised cost.

For personal use only

Notes to the financial statements

for the year ended 30 June 2009 (continued)

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

iv. Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either not suitable to be classified into other categories of financial assets due to their nature, or they are designated as such by management. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

v. Financial liabilities

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost.

Fair Value

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

Impairment

At each reporting date, the Group assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in the income statement.

Financial Guarantees

Where material, financial guarantees issued, which require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due, are recognised as a financial liability at fair value on initial recognition.

The guarantee is subsequently measured at the higher of the best estimate of the obligation and the amount initially recognised less, when appropriate, cumulative amortisation in accordance with AASB 118: Revenue. Where the entity gives guarantees in exchange for a fee, revenue is recognised under AASB 118.

The fair value of financial guarantee contracts has been assessed using a probability weighted discounted cash flow approach.

The probability has been based on:

- the likelihood of the guaranteed party defaulting in a year period;
- the proportion of the exposure that is not expected to be recovered due to the guaranteed party defaulting; and
- the maximum loss exposed if the guaranteed party were to default.

Derecognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expired. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

g. Impairment of Assets

At each reporting date, the Group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

h. Foreign Currency Transactions and Balances Functional and Presentation Currency

The functional currency of each of the Group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

i. Employee Benefits

Provision is made for the Company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits. Those cash flows are discounted using market yields on national government bonds with terms to maturity that match the expected timing of cash flows.

Past services costs are recognised when incurred to the extent that benefits are vested, and are otherwise amortised on a straight-line basis over the vesting period.

Notes to the financial statements

for the year ended 30 June 2009 (continued)

Equity-settled Compensation

The Group operates equity-settled share-based payment employee share and option schemes. The fair value of the equity to which employees become entitled is measured at grant date and recognised as an expense over the vesting period, with a corresponding increase to an equity account. The fair value of shares is ascertained as the market bid price. The fair value of options is ascertained using a Black–Scholes or Monte Carlo pricing model which incorporates all market vesting conditions. The number of shares and options expected to vest is reviewed and adjusted at each reporting date such that the amount recognised for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

j. Provisions

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

k. Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of five months or less, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the balance sheet.

l. Revenue and Other Income

Revenue is measured at the fair value of the consideration received or receivable after taking into account any trade discounts and volume rebates allowed. Any consideration deferred is treated as the provision of finance and is discounted at a rate of interest that is generally accepted in the market for similar arrangements. The difference between the amount initially recognised and the amount ultimately received is interest revenue.

Revenue from the sale of goods is recognised at the point of delivery as this corresponds to the transfer of significant risks and rewards of ownership of the goods and the cessation of all involvement in those goods.

Interest revenue is recognised using the effective interest rate method, which, for floating rate financial assets, is the rate inherent in the instrument. Dividend revenue is recognised when the right to receive a dividend has been established.

Dividends received from associates and joint venture entities are accounted for in accordance with the equity method of accounting.

Revenue recognition relating to the provision of services is determined with reference to the stage of completion of the transaction at reporting date and where outcome of the contract can be estimated reliably. Stage of completion is determined with reference to the services performed to date as a percentage of total anticipated services to be performed. Where the outcome cannot be estimated reliably, revenue is recognised only to the extent that related expenditure is recoverable.

All revenue is stated net of the amount of goods and services tax (GST).

m. Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the balance sheet are shown inclusive of GST.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

n. Comparative Figures

When required by accounting standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

o. Critical Accounting Estimates and Judgments

The directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Group.

Key Judgments

i. *Exploration and Evaluation Expenditure*

The Group capitalises expenditure relating to exploration and evaluation where it is considered likely to be recoverable or where the activities have not reached a stage which permits a reasonable assessment of the existence of reserves. While there are certain areas of interest from which no reserves have been extracted, the directors are of the continued belief that such expenditure should not be written off since feasibility studies in such areas have not yet concluded. Such capitalised expenditure is carried at reporting date at \$17,303,354.

For personal use only

Notes to the financial statements

for the year ended 30 June 2009 (continued)

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

p. New Accounting Standards for Application in Future Periods

The AASB has issued new, revised and amended standards and interpretations that have mandatory application dates for future reporting periods. With the exception of AASB3 Business Combinations and AASB127 Consolidated and Separate Financial Statements, the Group has decided against early adoption of these standards. A discussion of these future requirements and their impact on the group follows:

- AASB 8: Operating Segments and AASB 2007-3: Amendments to Australian Accounting Standards arising from AASB 8 [AASB 5, AASB 6, AASB 102, AASB 107, AASB 119, AASB 127, AASB 134, AASB 136, AASB 1023 & AASB 1038] (applicable for annual reporting periods commencing from 1 January 2009). AASB 8 replaces AASB 114 and requires identification of operating segments on the basis of internal reports that are regularly reviewed by the Group's Board for the purposes of decision making. While the impact of this standard cannot be assessed at this stage, there is the potential for more segments to be identified. Given the lower economic levels at which segments may be defined, and the fact that cash generating units cannot be bigger than operating segments, impairment calculations may be affected. Management does not presently believe impairment will result however.
- AASB 101: Presentation of Financial Statements, AASB 2007-8: Amendments to Australian Accounting Standards arising from AASB 101, and AASB 2007-10: Further Amendments to Australian Accounting Standards arising from AASB 101 (all applicable to annual reporting periods commencing from 1 January 2009). The revised AASB 101 and amendments supersede the previous AASB 101 and redefines the composition of financial statements including the inclusion of a statement of comprehensive income. There will be no measurement or recognition impact on the Group. If an entity has made a prior period adjustment or reclassification, a third balance sheet as at the beginning of the comparative period will be required.
- AASB 123: Borrowing Costs and AASB 2007-6: Amendments to Australian Accounting Standards arising from AASB 123 [AASB 1, AASB 101, AASB 107, AASB 111, AASB 116 & AASB 138 and Interpretations 1 & 12] (applicable for annual reporting periods commencing from 1 January 2009). The revised AASB 123 has removed the option to expense all borrowing costs and will therefore require the capitalisation of all borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. Management has determined that there will be no effect on the Group as a policy of capitalising qualifying borrowing costs has been maintained by the Group.
- AASB 2008-1: Amendments to Australian Accounting Standard – Share-based Payments: Vesting Conditions and Cancellations [AASB 2] (applicable for annual reporting periods commencing from 1 January 2009). This amendment to AASB 2 clarifies that vesting conditions consist of service and performance conditions only. Other elements of a share-based payment transaction should therefore be considered for the purposes of determining fair value. Cancellations are also required to be treated in the same manner whether cancelled by the entity or by another party.
- AASB 2008-2: Amendments to Australian Accounting Standards – Puttable Financial Instruments and Obligations Arising on Liquidation [AASB 7, AASB 101, AASB 132 & AASB 139 & Interpretation 2] (applicable for annual reporting periods commencing from 1 January 2009). These amendments introduce an exception to the definition of a financial liability to classify as equity instruments certain puttable financial instruments and certain other financial instruments that impose an obligation to deliver a pro-rata share of net assets only upon liquidation.
- AASB 2008-5: Amendments to Australian Accounting Standards arising from the Annual Improvements Project (July 2008) (AASB 2008-5) and AASB 2008-6: Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project (July 2008) (AASB 2008-6) detail numerous non-urgent but necessary changes to accounting standards arising from the IASB's annual improvements project. No changes are expected to materially affect the Group.
- AASB 2008-8: Amendments to Australian Accounting Standards – Eligible Hedged Items [AASB 139] (applicable for annual reporting periods commencing from 1 July 2009). This amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation as a hedged item should be applied in particular situations and is not expected to materially affect the Group.
- AASB 2008-13: Amendments to Australian Accounting Standards arising from AASB Interpretation 17 – Distributions of Non-cash Assets to Owners [AASB 5 & AASB 110] (applicable for annual reporting periods commencing from 1 July 2009). This amendment requires that non-current assets held for distribution to owners to be measured at the lower of carrying value and fair value less costs to distribute.

Notes to the financial statements

for the year ended 30 June 2009 (continued)

- AASB Interpretation 15: Agreements for the Construction of Real Estate (applicable for annual reporting periods commencing from 1 January 2009). Under the interpretation, agreements for the construction of real estate shall be accounted for in accordance with AASB 111 where the agreement meets the definition of 'construction contract' per AASB 111 and when the significant risks and rewards of ownership of the work in progress transfer to the buyer continuously as construction progresses. Where the recognition requirements in relation to construction are satisfied but the agreement does not meet the definition of 'construction contract', revenue is to be accounted for in accordance with AASB 118. Management does not believe that this will represent a change of policy to the Group.
- AASB Interpretation 16: Hedges of a Net Investment in a Foreign Operation (applicable for annual reporting periods commencing from 1 October 2008). Interpretation 16 applies to entities that hedge foreign currency risk arising from net investments in foreign operations and that want to adopt hedge accounting.

The interpretation provides clarifying guidance on several issues in accounting for the hedge of a net investment in a foreign operation and is not expected to impact the Group.

- AASB Interpretation 17: Distributions of Non-cash Assets to Owners (applicable for annual reporting periods commencing from 1 July 2009). This guidance applies prospectively only and clarifies that non-cash dividends payable should be measured at the fair value of the net assets to be distributed where the difference between the fair value and carrying value of the assets is recognised in profit or loss.

The Group does not anticipate early adoption of any of the above reporting requirements and does not expect these requirements to have any material effect on the Group's financial statements.

NOTE 2: REVENUE AND OTHER INCOME

	Consolidated Group		Parent Entity	
	2009 \$	2008 \$	2009 \$	2008 \$
Revenue				
Sales revenue				
Sales of oil & gas	12,038	-	-	-
	12,038	-	-	-
Other revenue				
Farm in contribution ⁽¹⁾	1,000,000	-	-	-
Farm in settlement ⁽²⁾	1,524,487	-	-	-
Gain on sale of tenements	-	14,827,642	-	-
Interest received from other persons	387,718	628,633	268,696	53,392
Interest received – unwind of discount	-	490,671	-	-
Other	-	-	-	31,269
	2,912,205	15,946,946	268,696	84,661
Total Revenue	2,924,243	15,946,946	268,696	84,661

⁽¹⁾ Farm In contribution represents the \$1,000,000 initial contribution received by Alpha Coal Pty Ltd (wholly owned subsidiary of Bandanna Energy Limited) from AMCI (Alpha) Pty Ltd under the Farm In and Joint Venture Agreement dated 5 September 2008.

⁽²⁾ Farm In settlement represents the \$1,524,487 received by Dingo West Coal Pty Ltd (wholly owned subsidiary of Bandanna Energy Limited) from Custom Mining Dingo Pty Ltd (CMD) regarding CMD's withdrawal from the Joint Venture and Farm In agreement relating to the Dingo West project.

For personal use only

Notes to the financial statements

for the year ended 30 June 2009 (continued)

NOTE 3: PROFIT FOR THE YEAR

Loss before income tax has been determined after charging the following:

	Consolidated Group		Parent Entity	
	2009 \$	2008 \$	2009 \$	2008 \$
Employee expense				
Employee benefit expense	888,863	112,500	908,529	256,490
Directors fees	290,367	60,000	290,367	41,605
Superannuation expense	100,711	15,525	125,375	136,353
Employee expense on costs	69,381	–	73,509	36,578
Total Employee Expense	1,349,322	188,025	1,397,780	471,026
Administrative expenses				
Accounting, secretarial & tax fees	329,724	121,572	248,296	157,362
Audit fees	50,570	25,000	50,570	25,700
Consultancy fees	305,275	1,575	233,238	24,150
Management fees	232,575	278,980	32,575	–
Business combination costs	94,277	–	683,555	–
Legal fees	277,584	37,980	223,018	61,868
Listing & compliance costs	69,081	–	134,632	24,111
Insurance	31,109	31,322	28,980	17,065
Rental expense on operating leases	124,057	–	131,531	52,046
Occupancy costs	1,749	11,000	1,711	–
Other expenses	461,951	75,311	418,900	351,064
Total Administrative Expenses	1,977,952	582,740	2,187,006	713,366

NOTE 4: INCOME TAX EXPENSE

a. The components of tax expense comprise:

	Consolidated Group		Parent Entity	
	2009 \$	2008 \$	2009 \$	2008 \$
Current tax	–	4,097,827	–	–
Deferred tax	(528,470)	454,846	–	–
Over provision in prior period	–	(384,024)	–	–
	(528,470)	4,168,649	–	–

Notes to the financial statements

for the year ended 30 June 2009 (continued)

NOTE 4: INCOME TAX EXPENSE (CONTINUED)

b. The prima facie tax on profit/(loss) before income tax is reconciled to the income tax as follows:

	Consolidated Group		Parent Entity	
	2009 \$	2008 \$	2009 \$	2008 \$
Net Profit/(Net Loss)	(1,250,452)	15,175,251	(4,159,506)	(3,427,881)
Prima facie tax benefit on profit/(loss) before income tax at 30% (2008: 30%)	(375,136)	4,552,575	(1,247,852)	(1,028,364)
Add:				
Tax effect of:				
– Share options expensed during the year	236,669	–	239,794	59,459
– Impairment expense	2,843	–	–	631,319
– Other non-allowable items	31,336	98	152,473	–
– Tax losses generated on consolidation	(49,391,021)	–	(49,391,021)	–
	(49,495,309)	4,552,673	(50,246,606)	(337,586)
Over provision in prior period	–	(384,024)	–	–
Derecognition of prior year deferred tax balances	(528,470)	–	–	–
Income tax losses for which no deferred tax asset has been recognised	49,495,309	–	50,246,606	337,586
Income tax attributable to the entity	(528,470)	4,168,649	–	–
The applicable weighted average effective tax rates are as follows:	42%	27%	0%	0%

Unrecognised deferred tax balances

At the time the business combination described in Note 5 was effected, Bandanna Coal Pty Ltd and its subsidiaries joined the Bandanna Energy Limited consolidated tax group. As a result of this transaction, tax losses have been generated. These losses have a potential tax benefit in future periods. Given the net deferred tax position results in a significant deferred tax benefit, the directors have determined that the deferred tax balances do not meet the recognition criteria as at 30 June 2009.

The benefit of the net unrecognised deferred tax asset will only be obtained if:

- The Group derives future taxable profit of a nature and of an amount sufficient to enable the benefit to be realised;
- The Group continues to comply with the deductibility imposed by the law; and
- No changes in tax legislation adversely affect the Group in realising the benefit.

Aggregate amounts of temporary differences and unused tax losses for which no deferred tax balances have been recognised

	Consolidated Group		Parent Entity	
	2009 \$	2008 \$	2009 \$	2008 \$
Total income tax benefit arising from unused tax losses for which no deferred tax asset has been recognised	55,300,297	–	55,300,297	4,060,865
Total deductible temporary differences for which no deferred tax asset has been recognised	299,150	–	239,849	–
Total taxable temporary differences for which no deferred tax liability has been recognised	(5,398,374)	–	(9,694)	–
Net unrecognised deferred tax asset	50,201,073	–	55,530,452	4,060,865

For personal use only

Notes to the financial statements

for the year ended 30 June 2009 (continued)

NOTE 5: BUSINESS COMBINATION

On 3 October 2008, Bandanna Energy Limited (formerly Enterprise Energy Limited) acquired 100% of the issued share capital of Bandanna Coal Pty Ltd, for the issue of 3,018,750,000 shares to the shareholders of Bandanna Coal Pty Ltd.

As a result of this transaction, effective control of Bandanna Energy Limited passed to the shareholders of Bandanna Coal Pty Ltd. The transaction is one referred in AASB3 Business Combinations as a reverse acquisition, where the acquirer is Bandanna Coal Pty Ltd (i.e. the entity whose equity interests have been acquired) and Bandanna Energy Limited is seen as the acquiree (i.e. the issuing entity).

As a result of this transaction and the application of AASB3 Business Combinations, the consolidated accounts now represent a continuation of the accounts of Bandanna Coal Pty Ltd rather than a continuation of the accounts of Bandanna Energy Limited (previously Enterprise Energy Limited).

As these accounts represent a continuation of the accounts of Bandanna Coal Pty Ltd, users of this financial report must be aware that the comparative consolidated numbers are those of Bandanna Coal Pty Ltd and in no way compare to the consolidated financial results of Bandanna Energy Limited (formerly Enterprise Energy Limited) published in the prior reporting period. In addition, the application of AASB3 Business Combinations results in some differences in disclosure between the consolidated and parent entity results and financial position in the year ended 30 June 2009 due to the timing of the acquisition during the year.

The fair value of equity instruments has been determined with reference to the Independents Experts Report which was included in the Explanatory Statement dated 7 August 2008.

Cost of Business Combination

Fair value of shares issued \$9,625,000

The assets and liabilities arising from the acquisition are as follows:

	Acquirees carrying amount \$	Fair Value \$
Cash and cash equivalents	64,581	64,581
Trade and other receivable	106,574	106,574
Plant and equipment	104,115	104,115
Exploration assets	6,421,588	9,165,611
Development assets	488,910	697,828
Trade and other payables	(475,069)	(475,069)
Provisions	(38,640)	(38,640)
	6,672,059	9,625,000

NOTE 6: INTERESTS OF KEY MANAGEMENT PERSONNEL

a. The following persons were directors of Bandanna Energy Limited during the year ended 30 June 2009:

Name	Position	
Jeremy Barlow	Chairman (Non Executive)	Appointed 3 October 2008
Mark Elliott	Director (Non Executive)	Resigned 3 October 2008
David Graham	Director (Non Executive)	Appointed 3 October 2008
Robert Johansen	Director (Non Executive)	Appointed 3 October 2008
David Lindh OAM	Director (Non Executive)	Resigned 3 October 2008
Raymond Shaw	Managing Director (Executive)	
Norman Zillman	Director (Non Executive)	Resigned 3 October 2008

Notes to the financial statements

for the year ended 30 June 2009 (continued)

NOTE 6: INTERESTS OF KEY MANAGEMENT PERSONNEL (CONTINUED)

b. Other Key Management Personnel

Names and positions held of other key management personnel in office at any time during the financial year are:

Name	Position	Appointment/Resignation	Employer
James Porter	Chief Operating Officer	Appointed 8 December 2008	Bandanna Energy Limited
Matthew Scott	Chief Financial Officer Company Secretary	Appointed 3 November 2008 Appointed 10 March 2009	Bandanna Energy Limited
Richard Hill	Company Secretary	Appointed 18 August 2008 Resigned 9 March 2009	Richard Hill is a partner of DFK Richard Hill Pty Ltd which provided accounting and company secretarial services to Bandanna Energy Limited.
Richard Collinge	Company Secretary	Resigned 18 August 2008	Richard Collinge is an associate of DFK Richard Hill Pty Ltd.

c. Key Management Personnel Remuneration

The total of remuneration paid to key management personnel of the Company and group during the year are as follows:

	2009 \$	2008 \$
Short term benefits	820,525	300,781
Post employment benefits	169,984	27,070
Share based payments	799,313	-
	1,789,822	327,851

Further details regarding key management personnel remuneration can be found in the Remuneration Report section of the Directors Report.

d. Key Management Personnel Options & Rights holdings

The number of options held during the year by directors and executives are set out below.

	Balance 1 July 2008	Options Exercised	Consolidation of Options ⁽¹⁾	Options Granted	Balance 30 June 2009	Total Vested 30 June 2009	Total Exercisable 30 June 2009
Directors							
J Barlow	-	-	-	-	-	-	-
D Graham	-	-	-	-	-	-	-
R Johansen	-	-	-	-	-	-	-
R Shaw	9,000,000	(3,000,000)	(5,400,000)	2,470,000	3,070,000	3,070,000	-
Executives							
J Porter	-	-	-	1,460,000	1,460,000	1,460,000	-
M Scott	-	-	-	1,378,000	1,378,000	1,378,000	-
	9,000,000	(3,000,000)	(5,400,000)	5,308,000	5,908,000	5,908,000	-

⁽¹⁾ R Shaw's remaining 6,000,000 options from the balance at the beginning of the year were consolidated on a 1 for 10 basis on 3 October 2008 when Bandanna Energy Limited acquired Bandanna Coal Pty Ltd.

For personal use only

Notes to the financial statements

for the year ended 30 June 2009 (continued)

NOTE 6: INTERESTS OF KEY MANAGEMENT PERSONNEL (CONTINUED)

e. Key Management Personnel Shareholdings

The number of shares in the company held during the year by directors and executives, directly or indirectly, are set out below.

	Balance 1 July 2008	Options Exercised	Consolidation of Shares [†]	Issue of Shares [^]	Sales/ Purchases [*]	Net Change Other ⁽⁵⁾	Balance 30 June 2009
Directors							
J Barlow ⁽⁶⁾	–	–	–	116,423,599	–	–	116,423,599
M Elliott	1,000,000	–	(900,000)	–	–	(100,000)	–
D Graham	–	–	–	–	250,000	–	250,000
R Johansen ⁽⁶⁾	–	–	–	96,902,311	35,000	–	96,937,311
D Lindh OAM	1,500,000	–	(1,350,000)	–	–	(150,000)	–
R Shaw	10,520,000	3,000,000	(12,168,000)	–	–	–	1,352,000
N Zillman	17,438,773	–	(15,694,896)	37,733,816	–	(39,477,693)	–
	30,458,773	3,000,000	(30,112,896)	251,059,726	285,000	(39,727,693)	214,962,910

[†] Consolidation of Company's share capital on one for ten basis on 3 October 2008.

[^] Issue of shares pursuant to Share Sale Agreement dated 2 September 2008.

^{*} Refers to shares purchased or sold during the Financial Year.

⁽⁵⁾ Net Change other relates to shareholding at date of resignation 3 October 2008. This shareholding is not reportable as at 30 June 2009 as the relevant persons are no longer directors.

⁽⁶⁾ J Barlow and R Johansen shareholdings include 96,902,311 shares held by entities in which both have an interest.

NOTE 7: AUDITORS' REMUNERATION

	Consolidated Group		Parent Entity	
	2009 \$	2008 \$	2009 \$	2008 \$
Amounts paid or payable to Grant Thornton as auditor of Bandanna Energy Limited (the parent entity) for:				
– auditing or reviewing the financial report	50,570	–	50,570	21,500
– consulting services	29,850	–	29,850	5,000
	80,420	–	80,420	26,500
Amounts paid or payable to PricewaterhouseCoopers as auditor of Bandanna Coal Pty Ltd (the parent entity) for:				
– auditing or reviewing the financial report	–	25,000	–	–
– taxation services	–	121,572	–	–
	–	146,572	–	–

NOTE 8: EARNINGS PER SHARE

	Consolidated Group	
	2009 \$	2008 \$
a. Net Profit/(Loss)	(721,982)	11,006,602
Earnings used to calculate basic EPS	(721,982)	11,006,602
b. Weighted average number of ordinary shares outstanding during the year used in calculation of basic EPS	324,292,503	301,875,000
c. In accordance with AASB133, there are no dilutive securities.		

Earnings per share are not comparable to prior periods due to the acquisition of Bandanna Coal Pty Ltd by Bandanna Energy Limited on 3 October 2008.

For personal use only

Notes to the financial statements

for the year ended 30 June 2009 (continued)

NOTE 9: CASH AND CASH EQUIVALENTS

	Consolidated Group		Parent Entity	
	2009 \$	2008 \$	2009 \$	2008 \$
Cash at bank and in hand	4,985,811	8,972,765	4,985,811	450,683
Short-term bank deposits	1,129,980	–	1,129,980	–
	6,115,791	8,972,765	6,115,791	450,683

The effective interest rate on short-term bank deposits was an average of 3.6%; these deposits have an average maturity of 137 days.

Financial guarantees to the amount of \$1,074,980 are secured by short term bank deposits.

NOTE 10: TRADE AND OTHER RECEIVABLES

	Consolidated Group		Parent Entity	
	2009 \$	2008 \$	2009 \$	2008 \$
CURRENT				
Trade receivables	–	4,500,000	–	1,849
Other receivables	141,221	106,295	141,221	24,862
	141,221	4,606,295	141,221	26,711

NON-CURRENT

Amounts receivable from:

Wholly owned subsidiaries	–	–	7,673,354	6,905,878
	–	–	7,673,354	6,905,878

Trade receivables of \$4,500,000 related to the sale of a coal tenement by Bandanna Coal Pty Ltd in the prior year. The trade receivable was received on 30 April 2009.

Non-current receivables from wholly owned subsidiaries are non-interest bearing and not repayable to the parent company within twelve months.

NOTE 11: OTHER CURRENT ASSETS

	Consolidated Group		Parent Entity	
	2009 \$	2008 \$	2009 \$	2008 \$
CURRENT				
Other debtors				
Security deposit	86,611	61,750	17,541	17,541
Prepayments	26,892	–	26,892	889
	113,503	61,750	44,433	18,430

NON CURRENT

Transaction costs Business acquisition ⁽¹⁾	–	–	–	363,878
	–	–	–	363,878

⁽¹⁾ Transaction costs business acquisition is the accumulated costs directly attributable to the business acquisition of Bandanna Coal Pty Ltd and its controlled entities to 30 June 2008. In accordance with AASB3 Business Combinations, transaction costs have been expensed in the year ended 30 June 2009.

For personal use only

Notes to the financial statements

for the year ended 30 June 2009 (continued)

NOTE 12: FINANCIAL ASSETS

	Consolidated Group		Parent Entity	
	2009 \$	2008 \$	2009 \$	2008 \$
Shares in controlled entities at cost	-	-	450,958	450,958

NOTE 13: CONTROLLED ENTITIES

a. Controlled Entities Consolidated

Subsidiaries of Bandanna Energy Limited	Country of Incorporation	Percentage Owned (%) ⁽¹⁾	
		2009	2008
Advocate Holding Pty Ltd	Australia	100	100
Enterprise Energy Pty Ltd ⁽²⁾	Australia	100	100
Traditional Oil Exploration Pty Ltd	Australia	100	100
Bandanna Coal Pty Ltd	Australia	100	-
Alpha Coal Pty Ltd	Australia	100	-
Arcadia Coal Pty Ltd	Australia	100	-
Bandanna Oil Shale Pty Ltd	Australia	100	-
Carnarvon Coal Pty Ltd	Australia	100	-
Dingo West Coal Pty Ltd	Australia	100	-
DJB Coal Pty Ltd	Australia	100	-
Fernlee Coal Pty Ltd	Australia	100	-
Springsure Creek Coal Pty Ltd	Australia	100	-
Waitara Coal Pty Ltd	Australia	100	-

⁽¹⁾ Percentage of voting power is in proportion to ownership

⁽²⁾ Triplanetary Pty Ltd changed its name to Enterprise Energy Pty Ltd on 11 November 2009

b. Acquisition of Controlled Entities

On 3 October 2008, Bandanna Energy Limited (formerly Enterprise Energy Limited) acquired 100% of the issued share capital of Bandanna Coal Pty Ltd and controlled entities, for the issue of 3,018,750,000 shares to the shareholders of Bandanna Coal Pty Ltd. Refer Note 5.

For personal use only

Notes to the financial statements

for the year ended 30 June 2009 (continued)

NOTE 14: PLANT AND EQUIPMENT

	Consolidated Group		Parent Entity	
	2009 \$	2008 \$	2009 \$	2008 \$
Plant and equipment				
At cost	267,228	–	267,228	108,272
Accumulated depreciation	(72,687)	–	(72,687)	(30,554)
Total	194,541	–	194,541	77,718
Furniture & fittings				
At cost	35,512	–	35,512	16,472
Accumulated depreciation	(3,116)	–	(3,116)	(1,146)
Total	32,396	–	32,396	15,326
Office equipment				
At cost	3,291	2,863	–	–
Accumulated depreciation	(1,915)	(930)	–	–
Total	1,376	1,933	–	–
Geo Data Base				
At cost	15,486	–	15,486	15,486
Total	15,486	–	15,486	15,486
Work in progress	67,313	–	67,313	–
Total Plant & Equipment	311,112	1,933	309,736	108,530

a. Movements in Carrying Amounts

Movement in the carrying amounts of each class of plant and equipment between the beginning and the end of the current financial year.

Note	Plant & Equipment \$	Furniture & Fittings \$	Office Equipment \$	Geo Database \$	WIP \$	Total \$
Consolidated Group						
Balance at beginning of year	–	–	1,933	–	–	1,933
Acquired on acquisition of Bandanna Energy Limited	5	73,578	15,501	–	15,486	104,115
Additions	157,002	19,040	429	–	67,313	243,784
Disposals	–	–	–	–	–	–
Depreciation expense	36,039	1,695	986	–	–	38,720
Carrying amount at the end of year	194,541	32,396	1,376	15,486	67,313	311,112
Parent Entity						
Balance at beginning of year	77,718	15,326	–	15,486	–	108,530
Additions	158,956	19,040	–	–	67,313	245,309
Disposals	–	–	–	–	–	–
Depreciation expense	42,133	1,970	–	–	–	44,103
Carrying amount at the end of year	194,541	32,396	–	15,486	67,313	309,736

For personal use only

Notes to the financial statements

for the year ended 30 June 2009 (continued)

NOTE 15: EXPLORATION & EVALUATION ASSETS

	Note	Consolidated Group		Parent Entity	
		2009 \$	2008 \$	2009 \$	2008 \$
Costs carried forward in respect of exploration and evaluation expenditure		17,303,354	2,744,702	-	-
Movements in carrying amounts					
Balance at the beginning of the year		2,744,702	2,038,657	-	-
Acquired on acquisition of Bandanna Energy Limited	5	9,165,611	-	-	-
Amounts capitalised during the year		5,363,601	706,045	-	-
Asset impairment		(9,476)	-	-	-
Transferred from/(to) development	16	38,916	-	-	-
Total Exploration & Evaluation Assets		17,303,354	2,744,702	-	-

Recoverability of the carrying amount of exploration costs is dependent on the successful development and commercial exploration, or alternatively, sale of the respective areas of interest.

NOTE 16: DEVELOPMENT ASSETS

	Note	Consolidated Group		Parent Entity	
		2009 \$	2008 \$	2009 \$	2008 \$
Costs carried forward in respect of development expenditure		658,912	-	-	-
Movements in carrying amounts					
Balance at the beginning of the year		-	-	-	-
Acquired on acquisition of Bandanna Energy Limited	5	697,828	-	-	-
Amounts capitalised during the year		-	-	-	-
Amount reclassified as Exploration & Evaluation Asset	15	(38,916)	-	-	-
Asset impairment		-	-	-	-
Total Development Assets		658,912	-	-	-

NOTE 17: TRADE AND OTHER PAYABLES

	Consolidated Group		Parent Entity	
	2009 \$	2008 \$	2009 \$	2008 \$
CURRENT				
Unsecured				
Trade payables	103,680	370,678	103,680	103,137
Sundry payables and accrued expenses	688,156	26,182	325,117	404,816
Employee benefits	78,107	-	78,107	34,859
Amounts payable to other related parties	-	2,500	-	-
	869,943	399,360	506,904	542,812

NOTE 18: LONG TERM PROVISIONS

	Consolidated Group		Parent Entity	
	2009 \$	2008 \$	2009 \$	2008 \$
Employee benefits	2,583	-	2,583	732

Notes to the financial statements

for the year ended 30 June 2009 (continued)

NOTE 19: ISSUED CAPITAL

	Consolidated Group		Parent Entity	
	2009 \$	2008 \$	2009 \$	2008 \$
332,180,143 (2008: 740,411) fully paid ordinary shares	21,417,057	2,184,011	23,536,031	13,731,356
a. Ordinary Shares				
At the beginning of reporting period	2,184,011	2,184,011	13,731,356	13,179,133
Shares issued during the year				
– Placement of 10,000,000 ordinary shares to R.Shaw 7 August 2007	–	–	–	500,000
– Issue of one million ordinary fully paid shares at an issue price of \$0.05 per share to Dr Stanley Mark Elliott, a director of the Company on 24 August 2007	–	–	–	50,000
– Shares issued during the period from exercise options on 25 August 2008	–	–	240,000	–
– Issue of 12,500,000 ordinary fully paid shares at an issue price of \$0.80 per share on 9 October 2008 ⁽¹⁾	10,000,000	–	10,000,000	–
Conversion of Options 31 December 2007	–	–	–	2,223
Total Shares Issued during the year	10,000,000	–	10,240,000	552,223
Cost of Business combination	9,625,000	–	–	–
	21,809,011	2,184,011	23,971,356	13,731,356
Less: Cost of capital raising	(391,954)	–	(435,325)	–
At the end of the reporting period	21,417,057	2,184,011	23,536,031	13,731,356

	Consolidated Group		Parent Entity	
	2009 Number	2008 Number	2009 Number	2008 Number
At the beginning of the reporting period	740,411	740,411	175,041,247	164,030,134
Business Combination	174,300,836	–	–	–
Placement of 10,000,000 ordinary shares to R. Shaw 7 August 2007	–	–	–	10,000,000
Placement one million ordinary fully paid shares at an issue price of \$0.05 per share to Dr Stanley Mark Elliott, a director of the Company, on 24 August 2007	–	–	–	1,000,000
Conversion of Options 31 December 2007	–	–	–	11,113
Shares Issued during the period from exercise of options on 25 August 2008	3,000,000	–	3,000,000	–
Shares issued pursuant to Share Sale Agreement	3,018,750,000	–	3,018,750,000	–
	3,196,791,247	740,411	3,196,791,247	175,041,247
Conversion of 1 for 10	319,680,143	–	319,680,143	–
Issue of 12,500,000 ordinary fully paid shares on 9 October 2008 ⁽¹⁾	12,500,000	–	12,500,000	–
At the end of the reporting period	332,180,143	740,411	332,180,143	175,041,247

⁽¹⁾ Bandanna Energy Limited was reinstated to official quotation on ASX on 9 October 2008 following completion of the acquisition of Bandanna Coal Pty Ltd and issue of 12,500,000 shares. The issue date of the 12,500,000 shares was 30 September 2008.

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held. On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

For personal use only

Notes to the financial statements

for the year ended 30 June 2009 (continued)

NOTE 19: ISSUED CAPITAL (CONTINUED)

b. Options

	2009 Number	2008 Number
At the beginning of the reporting period	9,300,000	41,148,989
Options issued during the year		
24 September 2007	–	300,000
3 November 2008 ⁽²⁾	1,378,000	–
8 December 2008 ⁽²⁾	1,460,000	–
23 December 2008	2,470,000	–
Options exercised during the year		
31 December 2007	–	(11,113)
25 August 2008	(3,000,000)	–
Options lapsed during the year		
31 December 2007	–	(32,137,876)
30 September 2008	(300,000)	–
Consolidation of Options 3 October 2008	(5,400,000)	–
At the end of the reporting period	5,908,000	9,300,000

⁽²⁾ The issue of options to executives was not finalised as at 31 December 2008. While the exercise period is from the date of commencement of employment of the executives, the details were not finalised and the option certificates not issued until subsequent to 31 December 2008.

c. Capital Management

The Consolidated Group total capital includes ordinary share capital. The Consolidated Group has no interest bearing liabilities. The parent entity manages the capital of the Group in order to maintain an appropriate debt to equity ratio, provide the shareholders with adequate returns and ensure the Group can fund its operations and continue as a going concern. The parent entity may manage the capital structure of the group through new share issues, management of debt levels and distributions to shareholders.

NOTE 20: CAPITAL AND LEASING COMMITMENTS

a. Exploration expenditure commitments relating to tenements

	Consolidated Group		Parent Entity	
	2009 \$	2008 \$	2009 \$	2008 \$
Due within 1 year	2,972,880	2,387,500	–	–
Due 12 months to 5 years	5,561,000	262,500	–	–
Due greater than 5 years	–	–	–	–
	8,533,880	2,650,000	–	–

b. Operating Lease Commitments

	Consolidated Group		Parent Entity	
	2009 \$	2008 \$	2009 \$	2008 \$
Non-cancellable operating leases contracted for but not capitalised in the financial statements				
Minimum lease payments not later than one year	138,727	–	138,727	115,516
Later than one year and not later than five years	236,472	–	236,472	375,199
Aggregate lease expenditure contracted for at balance date	375,199	–	375,199	490,716

For personal use only

Notes to the financial statements

for the year ended 30 June 2009 (continued)

NOTE 20: CAPITAL AND LEASING COMMITMENTS (CONTINUED)

Items subject to operating leases are property leases. The remaining lease terms range from 11 months to 3 years. Contingent rental provisions within the lease agreement require the minimum lease payments shall be increased by 4% per annum.

The consolidated entity does not have the option to purchase the leased assets at the expiry of the lease period.

NOTE 21: SEGMENT REPORTING

Primary Reporting – Business Segments

	Coal & Minerals \$	Oil & Gas \$	Administration \$	Total Continuing Operations \$	Discontinuing Operations \$
Consolidated 2009					
REVENUE					
Segment Revenue	2,524,487	12,038	387,718	2,924,243	–
RESULT					
Segment Result	2,040,779	10,333	(3,301,564)	(1,250,452)	–
Income Tax Benefit /(Expense)				528,470	–
Profit after Income Tax				(721,982)	–
ASSETS					
Segment Assets	6,521,734	11,502,101	6,620,058	24,643,893	–
LIABILITIES					
Segment Liabilities	452,169	4,727	415,630	872,526	–
OTHER					
Depreciation	–	–	38,720	38,720	–
Consolidated 2008					
REVENUE					
Segment Revenue	15,946,946	–	–	15,946,946	–
RESULT					
Segment Result	15,175,251	–	–	15,175,251	–
Income Tax Benefit /(Expense)				(4,168,649)	–
Profit after Income Tax				11,006,602	–
ASSETS					
Segment Assets	16,387,266	–	–	16,387,266	–
LIABILITIES					
Segment Liabilities	4,788,827	–	–	4,788,827	–
OTHER					
Depreciation	930	–	–	930	–

For personal use only

Notes to the financial statements

for the year ended 30 June 2009 (continued)

NOTE 21: SEGMENT REPORTING (CONTINUED)

Accounting Policies

Segment revenues and expenses are those directly attributable to the segments. There is no allocation of administration costs to the coal and oil and gas segments.

Coal and minerals and oil and gas segment assets represent capitalised exploration and development expenditure and security deposits. Administration assets consist primarily of cash, receivables and plant and equipment.

Segment liabilities for coal and oil and gas represent trade payables and accruals attributable to those segments. Administration liabilities include other accruals, payroll related liabilities and employee benefits.

There are no intersegment transfers or eliminations.

Geographical Segments

The consolidated groups segments are all located in Australia.

NOTE 22: CASH FLOW INFORMATION

a. Reconciliation of Cash Flow from Operations with Profit/(Loss) after Income Tax

	Consolidated Group		Parent Entity	
	2009 \$	2008 \$	2009 \$	2008 \$
Profit/(Loss) from after income tax	(721,982)	11,006,602	(4,159,506)	(3,427,881)
Non-cash flows in profit/(loss)				
Impairment	9,476	–	–	2,104,397
Share-based payment expenses	788,898	–	799,313	198,195
Depreciation	38,720	930	44,103	25,558
Gain on sale of tenements	–	(14,827,642)	–	–
Unwind discount	–	(490,671)	–	–
Adjustment items	–	–	–	(28,236)
Business combination expenses	94,277	–	683,555	–
Farmin Settlement	(1,524,487)	–	–	–
Farmin Contribution	(1,000,000)	–	–	–
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries				
(Increase)/decrease in trade debtors	(39,171)	–	–	(1,849)
(Increase)/decrease in other assets	–	–	(56,392)	2,068
Increase/(decrease) in trade creditors and accruals	(606,702)	(165,253)	67,643	(146,327)
Increase/(decrease) in GST payable	58,838	–	(85,969)	–
Increase/(decrease) in provisions	(4,254,073)	(317,830)	45,098	35,592
Cash flow from operations	(7,156,206)	(4,794,864)	(2,662,155)	(1,238,483)

Notes to the financial statements

for the year ended 30 June 2009 (continued)

NOTE 23: SHARE-BASED PAYMENTS

The following Share based payment arrangements existed at 30 June 2009.

Options granted to key management personnel are as follows:

Grant Date	Number	Exercise Price	Expiry Date
3 November 2008 ⁽¹⁾	1,378,000	\$0.80	3 November 2011
8 December 2008 ⁽¹⁾	1,460,000	\$0.80	8 December 2011
23 December 2008	2,470,000	\$0.80	23 December 2010

⁽¹⁾ The issue of options to executives was not finalised as at 31 December 2008. While the exercise period is from the date of commencement of employment of the executives, the details were not finalised and the option certificates not issued until subsequent to 31 December 2008.

The options hold no voting or dividend rights and are not transferable.

	Parent Entity			
	2009 Number of Options	2009 Weighted Average Exercise Price	2008 Number of Options	2008 Weighted Average Exercise Price
Outstanding at the beginning of the year	9,300,000	0.141	41,148,989	0.188
Granted	5,308,000	0.800	300,000	0.074
Forfeited	–	–	–	–
Exercised	(3,000,000)	0.080	(11,113)	0.200
Expired	(300,000)	0.074	(32,137,876)	0.200
Consolidation	(5,400,000)	0.180	–	–
Outstanding at the end of the year	5,908,000	0.900	9,300,000	0.141
Exercisable at the end of the year	–	–	3,300,000	0.080

During the year ended 30 June 2009, 3,000,000 \$0.08 options expiring on 24 July 2008 were exercised into ordinary shares.

During the year ended 30 June 2009, 300,000 \$0.074 options expiring on 30 September 2008 lapsed.

The options outstanding at 30 June 2009 had a weighted average exercise price of \$0.90 and a weighted average remaining life of 1.8 years. Exercise prices range from \$0.80 to \$2.00 in respect of options outstanding at 30 June 2009.

The weighted average fair value of the options during the year was \$0.133.

This price was calculated using a Black Scholes and/or Monte Carlo options pricing model applying the following inputs:

– Weighted average exercise price	\$0.80
– Weighted average life of the option	2 years
– Underlying share price	\$0.46
– Expected share price volatility	85%
– Risk-free interest rate	4.19%

Historical volatility has been the basis for determining expected share price volatility as it is assumed that this is indicative of future tender. The life of options is based on the historical exercise patterns, which may not eventuate in the future.

Included under Employee Benefits Expense in the income statement is \$799,313 (2008 \$198,195), and relates in full, to equity share-based payment transactions.

For personal use only

Notes to the financial statements

for the year ended 30 June 2009 (continued)

NOTE 24: EVENTS AFTER BALANCE SHEET DATE

Bandanna Energy Limited became a shareholder in WICET Holdings Pty Ltd effective 16 July 2009. WICET Holdings Pty Ltd is an industry owned consortium looking to develop the Wiggins Island Coal Terminal.

On 20 July 2009, EPM 17932 Planet Creek 2 was granted to Advocate Holding Pty Ltd (a wholly owned subsidiary of Bandanna Energy Limited).

On 26 September 2009, 59,871,803 fully paid ordinary shares will be released from escrow and listed as quotable securities on the ASX.

On 23 September 2009, the Company announced that it had entered into a Share Subscription Agreement by which it would issue 37,532,016 fully paid ordinary shares to SAMTAN Co of Korea (equating to 10% of Bandanna's fully diluted shares on issue post placement) at an issue price of \$0.60 per share, raising \$22.5 million. Bandanna and SAMTAN have also entered into a Marketing Agreement whereby SAMTAN will have exclusive representation rights for Bandanna's coal delivered into Korea. The arrangement also provides for a right to negotiate the purchase of 20% of Bandanna's coal production at market prices from its existing Queensland coal tenements (except for Alpha Project). The Agreement is subject to certain conditions precedent being met on or before 18 December 2009.

The financial statements were authorised for issue on 24 September 2009.

NOTE 25: RELATED PARTY TRANSACTIONS

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

	Consolidated Group		Parent Entity	
	2009	2008	2009	2008
	\$	\$	\$	\$
Transactions with related parties:				
a. Transactions with Director/Secretary related entities				
Global Resource Asset Exchange Pty Ltd, owned by Jeremy Barlow (non executive Chairman) and Robert Johansen (Non Executive Director), provided management, administration and office services during the year	232,575	330,180	32,575	–
DFK Richard Hill Pty Ltd provided accounting and secretarial services during the year. Richard Hill (Company Secretary) was a partner and Richard Collinge a director of DFK Richard Hill Pty Ltd during the year.	163,111	–	163,111	182,361

Director related entities DJ Mining Pty Ltd, Global Resource Asset Exchange Pty Ltd, J Barlow Consultants and Perusal Time Pty Ltd are parties to royalty deeds with various entities in the Bandanna Energy Limited group as disclosed in the prospectus dated 17 September 2008. No royalties were paid to the director related entities in the year ended 30 June 2009.

b. Wholly owned group

The wholly owned group consists of those entities listed in note 13.

Transactions between Bandanna Energy Limited and other entities in the group consist of the provision of working capital.

NOTE 26: FINANCIAL RISK MANAGEMENT

Financial Risk Management Policies

The Group's financial instruments consist mainly of deposits with banks, accounts receivable and payable, and loans to and from subsidiaries. The main purpose of non-derivative financial instruments is to raise finance for the group operations.

Treasury Risk Management

Treasury risk management is addressed by the Risk Management Committee as required to assist the consolidated group in meeting its financial targets whilst minimising potential adverse effects on financial performance.

Financial Risk Exposures and Management

The main risks the Group is exposed to through its financial instruments are interest rate risk, liquidity risk, credit risk and price risk.

Notes to the financial statements

for the year ended 30 June 2009 (continued)

NOTE 26: FINANCIAL RISK MANAGEMENT (CONTINUED)

Interest rate risk

The Consolidated Group's exposure to interest rate risk, which is the risk that a financial instruments value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on classes of financial assets and financial liabilities, is set out below.

Exposures arise predominately from assets and liabilities bearing variable interest rates as the consolidated entity intends to hold fixed rate assets and liabilities to maturity.

Liquidity Risk

The Group manages liquidity risk by monitoring forecast cash flows.

Financial liability and financial asset maturity analysis

	Within 1 year		Total	
	2009 \$	2008 \$	2009 \$	2008 \$
Consolidated Group				
Financial liabilities due for payment				
Trade & other payables	791,836	399,360	791,836	399,360
Total expected outflows	791,836	399,360	791,836	399,360
Financial assets – cash flows realisable				
Cash & cash equivalents	6,115,791	8,972,765	6,115,791	8,972,765
Trade & other receivables	141,221	4,606,295	141,221	4,606,295
Total anticipated inflows	6,257,012	13,579,060	6,257,012	13,579,060
Net (outflow)/inflow as financial instruments	5,465,176	13,179,700	5,465,176	13,179,700
Parent Entity				
Financial liabilities due for payment				
Trade & other payables	428,797	507,953	428,797	507,953
Total expected outflows	428,797	507,953	428,797	507,953
Financial assets – cash flows realisable				
Cash & cash equivalents	6,115,791	450,683	6,115,791	450,683
Trade & other receivables	141,221	26,711	141,221	26,711
Total anticipated inflows	6,257,012	477,394	6,257,012	477,394
Net (outflow)/inflow as financial instruments	5,828,215	(30,559)	5,828,215	(30,559)

Credit Risk

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets, is carrying the amount, net of any provisions for impairment of those assets, as disclosed in the balance sheet and notes to the financial statements.

In respect of the parent entity, credit risk also incorporates the exposure of Bandanna Energy Limited to the liabilities of all members of the closed group.

For personal use only

Notes to the financial statements

for the year ended 30 June 2009 (continued)

NOTE 26: FINANCIAL RISK MANAGEMENT (CONTINUED)

The tables below reflect the undiscounted contractual settlement terms for financial instruments of a fixed period of maturity.

	Weighted Average Effective Interest Rate		Floating Interest Rate		Non-interest bearing		Total	
	2009 %	2008 %	2009 \$	2008 \$	2009 \$	2008 \$	2009 \$	2008 \$
Consolidated Group								
Financial Assets								
Cash and cash equivalents	3.60	4.50	6,115,791	8,972,765	–	–	6,115,791	8,972,765
Receivables			–	–	141,221	4,606,295	141,221	4,606,295
Total Financial Assets			6,115,791	8,975,765	141,221	4,606,295	6,257,012	13,579,060
Financial Liabilities								
Trade and other payables			–	–	103,680	370,678	103,680	370,678
Total Financial Liabilities			–	–	103,680	370,678	103,680	370,678
Parent Entity								
Financial Assets								
Cash and cash equivalents	3.60	5.10	6,115,791	450,683	–	–	6,115,791	450,683
Receivables			–	–	141,221	26,711	141,221	26,711
Total Financial Assets			6,115,791	450,683	141,221	26,711	6,257,012	477,394
Financial Liabilities								
Trade and other payables			–	–	428,797	507,953	428,797	507,953
Total Financial Liabilities			–	–	428,797	507,953	428,797	507,953

Net Fair Values

Fair value estimation

The fair values of financial assets and financial liabilities are presented in the following table and can be compared to their carrying values as presented in the balance sheet. Fair values are those amounts at which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Fair values derived may be based on information that is estimated or subject to judgment, where changes in assumptions may have a material impact on the amounts estimated. Cash and cash equivalents, trade and other receivables and trade and other payables are short-term instruments in nature whose carrying value is equivalent to fair value. Trade and other payables exclude amounts provided for relating to annual leave which is not considered a financial instrument.

For personal use only

Notes to the financial statements

for the year ended 30 June 2009 (continued)

NOTE 26: FINANCIAL RISK MANAGEMENT (CONTINUED)

	2009		2008	
	Net Carrying Value \$	Net Fair Value \$	Net Carrying Value \$	Net Fair Value \$
Consolidated Group				
Financial assets				
Cash and cash equivalents	6,115,791	6,115,791	8,972,765	8,972,765
Trade and other receivables	141,221	141,221	4,606,295	4,606,295
Total financial assets	6,257,012	6,257,012	13,579,060	13,579,060
Financial liabilities				
Trade and other payables	103,680	103,680	370,678	370,678
Total financial liabilities	103,680	103,680	370,678	370,678
Parent Entity				
Financial assets				
Cash and cash equivalents	6,115,791	6,115,791	450,683	450,683
Trade and other receivables	141,221	141,221	26,711	26,711
Total financial assets	6,257,012	6,257,012	477,394	477,394
Financial liabilities				
Trade and other payables	428,797	428,797	507,953	507,953
Total financial liabilities	428,797	428,797	507,953	507,953

NOTE 27: GOING CONCERN

At 30 June 2009, the Company had \$6,115,791 in cash and cash equivalents. The Company has forecast that it could deplete its current cash reserves by 30 June 2010. Per note 24, the Company has entered into an agreement to issue 37,532,016 fully paid ordinary shares to SAMTAN Co (SAMTAN), raising \$22.5 million. The Agreement is subject to certain conditions precedent being met on or before 18 December 2009. In the event the agreement with SAMTAN does not complete, then action would be taken to reduce operational expenditure or seek alternative sources of capital so that the Company can continue as a going concern. The Company sees no reason why it will not be able to raise such sources of capital under prevailing market conditions.

For personal use only

Directors' declaration

The directors of the Company declare that:

1. the financial statements and notes, as set out on pages 11 to 39, are in accordance with the *Corporations Act 2001* and:
 - a. comply with Accounting Standards; and
 - b. give a true and fair view of the financial position as at 30 June 2009 and of the performance for the year ended on that date of the Company and consolidated group;
2. As set out in Note 27, the Company has entered into an agreement to issue 37,532,016 fully paid ordinary shares to SAMTAN Co raising \$22.5 million. The agreement is subject to certain condition precedents being met on or before 18 December 2009. In the event the agreement with SAMTAN does not complete, the Directors expect that the funding to meet the Company's commitments will be obtained and are accordingly of the opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations by the Managing Director and Chief Financial Officer required under section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the Board of Directors.



Mr Jeremy Barlow
Chairman



Dr Raymond Shaw
Managing Director

Dated: 24 September 2009

Independent auditor's report

to the members of Bandanna Energy Limited



Grant Thornton South Australian Partnership
ABN 27 244 906 724

Level 1
67 Greenhill Rd
Wayville SA 5034
GPO Box 1270
Adelaide SA 5001
DX 275 Adelaide

T 61 8 8372 6666
F 61 8 8372 6677
E info@gtsa.com.au
W www.grantthornton.com.au

REPORT ON THE FINANCIAL REPORT

We have audited the accompanying financial report of Bandanna Energy Limited (the company), which comprises the balance sheet as at 30 June 2009, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report.

The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Independence

In conducting our audit, we complied with applicable independence requirements of the *Corporations Act 2001*.

For personal use only

Independent auditor's report

to the members of Bandanna Energy Limited (continued)

Auditor's Opinion

In our opinion:

1. the financial report of Bandanna Energy Limited is in accordance with the *Corporations Act 2001*, including:
 - a. giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2009 and of their performance for the year ended on that date; and
 - b. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
2. the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

INHERENT UNCERTAINTY REGARDING CONTINUATION AS A GOING CONCERN

Without qualification to the opinion expressed above, attention is drawn to the following matter. As disclosed in Note 27, the company has forecast that it may deplete its current cash reserves by June 2010. Subsequent to year end the company has entered into an agreement to issue shares to SAMTAN Co raising \$22.5 million. This agreement is subject to certain conditions being met on or before 18 December 2009. In the event that the agreement does not complete, the directors will take action to reduce operational expenditure and seek alternative sources of additional capital.

If the conditions precedent are not met and this agreement does not proceed and Bandanna Energy Limited is unable to take action to reduce its committed expenditure or seek alternative sources of capital, there exists significant uncertainty whether Bandanna Energy Limited would be able to continue as a going concern and therefore may be forced to realise its assets and extinguish its liabilities other than in the normal course of business and at the amounts stated in the financial report.

REPORT ON THE REMUNERATION REPORT

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2009. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*.

Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of Bandanna Energy Limited for the year ended 30 June 2009, complies with section 300A of the *Corporations Act 2001*.

GRANT THORNTON
South Australian Partnership
Chartered Accountants



S J Gray
Partner

Signed at Wayville on this 24th day of September 2009

Grant Thornton Australia Limited is a member firm within Grant Thornton International Ltd. Grant Thornton International Ltd and the member firms are not a worldwide partnership. Grant Thornton Australia Limited, together with its subsidiaries and related entities, delivers its services independently in Australia.

Liability limited by a scheme approved under Professional Standards Legislation

Corporate directory

DIRECTORS

Jeremy Barlow
David Graham
Robert Johansen
Raymond Shaw

COMPANY SECRETARY

Matthew Scott

REGISTERED AND PRINCIPAL OFFICE

Bandanna Energy Limited
Level 12, 410 Queen Street
Brisbane QLD 4000

Tel 07 3041 4400
Fax 07 3041 4444

New South Wales

Suite 2, Level 1, 80 Mount Street
North Sydney NSW 2060

Tel 02 9923 1520
Fax 02 9923 1528

SHARE REGISTRY

Computershare Investor Services Pty Ltd
Level 5, 115 Grenfell Street
Adelaide SA 5000

Tel 1300 556 161

STOCK EXCHANGE LISTING

Australian Stock Exchange
The home exchange is Adelaide

ASX Code **BND**

AUDITORS

Grant Thornton South Australian Partnership
Level 1, 67 Greenhill Road
Wayville SA 5034

Tel 08 8372 6666

For personal use only

Additional information

for listed public companies

The following additional information is required by the Australian Stock Exchange Ltd in respect of listed public companies only.

1. SHAREHOLDING

a. Distribution of Shareholders

Category (size of holding)	Number Ordinary
1 – 1,000	2,973
1,001 – 5,000	962
5,001 – 10,000	376
10,001 – 100,000	465
100,001 and over	49
	4,825

The number of shareholdings held in less than marketable parcels is 3008.

b. Substantial Shareholders

The names of the substantial shareholders listed in the holding company's register as at 30 June 2009 are:

Shareholder	Number Ordinary
DJ MINING PTY LTD	87,845,788
RESOLVE GEO PTY LTD	87,845,788
LOCMARIA PTY LTD	24,210,391
J BARLOW CONSULTANTS PTY LTD	19,521,287
MATHEW CONSULTING PTY LTD	19,521,287
NORMAN JOSEPH ZILLMAN	18,866,908
NORMAN JOSEPH ZILLMAN + LORRAINE JEAN ZILLMAN (BANNERBLOCK SUPER FUND A/C)	18,866,908

c. Voting Rights

The voting rights attached to each class of equity security are as follows:

Ordinary shares

Each ordinary share is entitled to one vote when a poll is called, otherwise each member present at a meeting or by proxy has one vote on a show of hands.

Redeemable and converting preference shares

These shares have no voting rights.

d. Restricted Securities

The following restricted securities are on issue:

Class of restricted security	Number	Escrow end date
Ordinary Shares	59,871,803	26 September 2009
Ordinary Shares	242,003,203	26 September 2010

Additional information

for listed public companies (continued)

e. 20 Largest Shareholders – Ordinary Shares

Name	Number of Ordinary Fully Paid Shares Held	% Held of Issued Ordinary Capital
1. DJ MINING PTY LTD	87,845,788	26.45
2. RESOLVE GEO PTY LTD	87,845,788	26.45
3. LOCMARIA PTY LTD	24,210,391	7.29
4. J BARLOW CONSULTANTS PTY LTD	19,521,287	5.88
5. MATHEW CONSULTING PTY LTD	19,521,287	5.88
6. NORMAN JOSEPH ZILLMAN	18,866,908	5.68
7. NORMAN JOSEPH ZILLMAN + LORRAINE JEAN ZILLMAN (BANNERBLOCK SUPER FUND A/C)	18,866,908	5.68
8. GAS STRATEGIES PTY LTD	16,140,125	4.86
9. GLOBAL RESOURCE ASSET EXCHANGE PTY LTD	9,056,524	2.73
10. DR RAYMOND DOUGLAS SHAW + MS RITA BARBARA JONES (SHAW JONES SUPER FUND A/C)	1,352,000	0.41
11. SHIMMERING BRONZE PTY LTD	1,197,500	0.36
12. NITROSHIRE PTY LTD	704,984	0.21
13. GANRA PTY LTD (FLANNERY FAMILY A/C)	625,000	0.19
14. MITCHELL GAS PTY LTD	625,000	0.19
15. ROMADAK PTY LTD (ROMADAK SUPER FUND A/C)	625,000	0.19
16. MR NORMAN ZILLMAN + MRS LORRAINE ZILLMAN (BANNERBLOCK P/L SUPER A/C)	361,390	0.11
17. BARRINTOR PTY LTD	355,000	0.11
18. MR ANTHONY GALE	300,000	0.09
19. CAPRO PTY LTD (RG & CE PRICE FAMILY A/C)	250,000	0.08
20. MR PETER JOHN GOODMAN	250,000	0.08
	308,520,880	92.92

For personal use only

Additional information

for listed public companies (continued)

2. TENEMENT LISTING

Tenement No.	Tenement Name	Location	% Interest
EPC 1049	Alpha – Rua	Galilee Basin, Queensland	100 ⁽¹⁾
EPC 1048	Alpha – Tahī	Galilee Basin, Queensland	100 ⁽¹⁾
EPC 1179	Alpha – Toru	Galilee Basin, Queensland	100 ⁽¹⁾
EPC 1180	Alpha – Wha	Galilee Basin, Queensland	100 ⁽¹⁾
EPC 892	Arcadia	Bowen Basin, Queensland	100
EPC 1204	Arcadia 2	Bowen Basin, Queensland	100
EPC 1221	Arcturus	Bowen Basin, Queensland	100
EPC 1189	Carnarvon	Bowen Basin, Queensland	100
EPC 1195	Carnarvon South	Bowen Basin, Queensland	100
EPC 1140	Denison	Bowen Basin, Queensland	100
EPC 881	Dingo West	Bowen Basin, Queensland	100
EPC 1103	Fernlee	Bowen Basin, Queensland	100
EPC 1185	Fernlee North	Bowen Basin, Queensland	100
EPC 1131	Gemini	Bowen Basin, Queensland	100
EPC 891	Springsure Creek	Bowen Basin, Queensland	100
EPC 1197	Wanella	Bowen Basin, Queensland	100
EPM16553	Mt Bison	Styx Basin, Queensland	100
EPM 16666	Toolabuc	Northern Eromanga Basin, Queensland	100
EPM 16667	Duaringa	Duaringa Basin, Queensland	100
EPM 16668	North Proserpine	Hillsborough Basin, Queensland	100
EPM 17658	Planet Creek	Bowen Basin, Queensland	100
EPM 17932	Planet Creek 2	Bowen Basin, Queensland	100
PEL 88	–	Cooper Basin, South Australia	50
PEL100	–	Cooper Basin, South Australia	5
PEL 106	Smegsy	Cooper Basin, South Australia	25 ⁽²⁾
PEL 106	Rosco	Cooper Basin, South Australia	1 2.5 ⁽²⁾
PEL 106	Udacha	Cooper Basin, South Australia	12.5 ⁽²⁾
PEL 106	Paprika	Cooper Basin, South Australia	12.5 ⁽²⁾
ATP 539P	–	Cooper Basin, Queensland	50 ⁽²⁾
ATP 549P (West)	–	Cooper Basin, Queensland	41.66
PL 18	–	Surat Basin, Queensland	10

⁽¹⁾ Subject to Alpha Farmin Agreement.

⁽²⁾ Earning Interests, subject to various Farmin Agreements.

For personal use only