

28 April 2010

Australian Stock Exchange
Announcements Office

QUARTERLY ACTIVITIES REPORT
March 2009

KEY POINTS

- **3,532PJ (2C/3C) Monslatt Area Initial Resource Estimate (GIP)**
- **Additional 3,630PJ (GIP) Shale Gas Prospective Resource**
- **Cash Reserves \$32m**
- **Exploration Activities**
 - **Drilling program extended in ATP814P**
 - **Drilling program continues in ATP813P**
 - **Drilling program undertaken in ATP819P**
- **John Phillips appointed CEO**
- **MOU signed with KOGAS investigating small scale LNG and CNG**
- **Repayment of Convertible Notes**

OPERATIONS

Significant Initial Monslatt Area Resource Estimate

Blue Energy announced during the quarter that an independent assessment by Netherland, Sewell and Associates (NSAI) of the dataset from the Monslatt area of ATP814P (refer Figure 2) has resulted in the following initial resource estimate by NSAI:

| <u>Category</u> | <u>NSAI Estimate</u> |
|--------------------------|-----------------------------|
| 2C (Contingent Resource) | 121PJ (Gas in Place) |
| 3C (Contingent Resource) | 3,411PJ (Gas in Place) |
| Prospective Resource | 3,630PJ (Gas in Place) |

These categories are in accordance with the internationally-accepted methodology of the Society of Petroleum Engineers (SPE). In addition, it is noteworthy that NSAI have significant experience in the certification of CSG reserves in the Moranbah area with other operators.

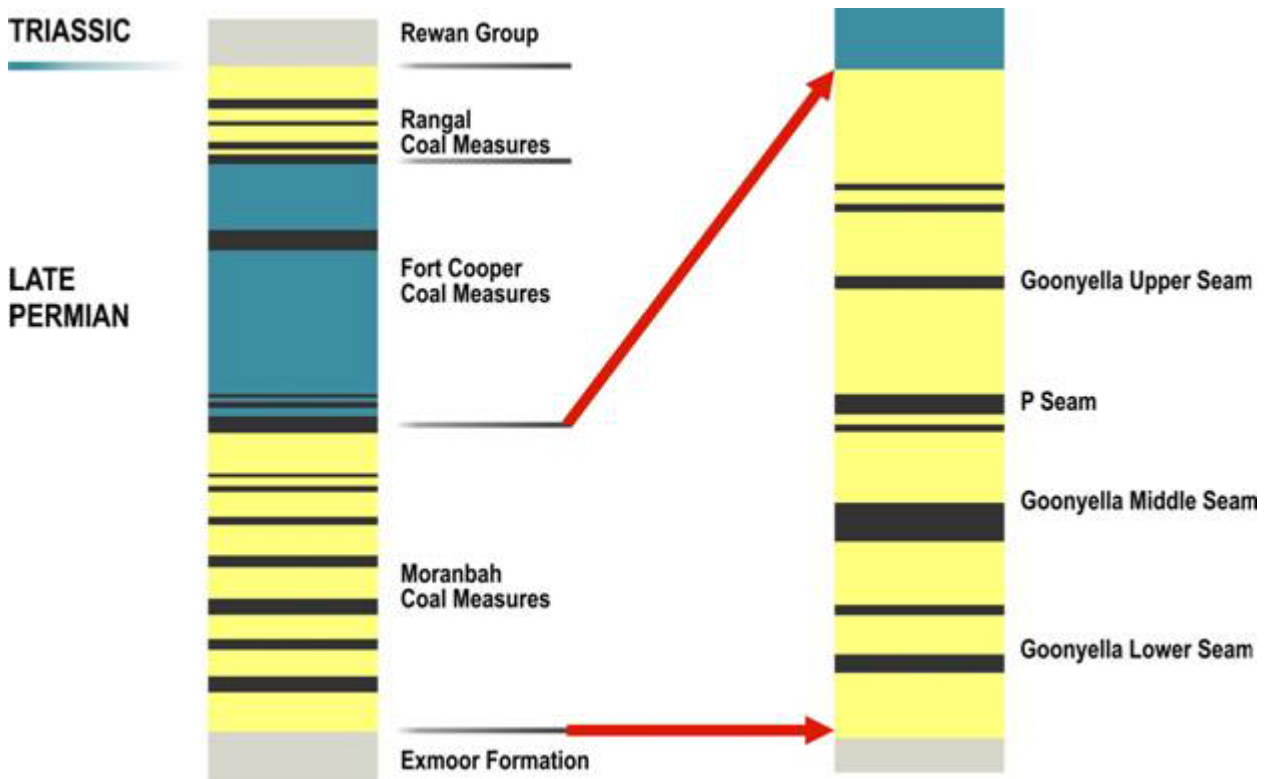
NSAI have assessed the Monslatt data on the main P1 seam in the Moranbah Coal Measures (which is on production at the nearby Moranbah Gas Project operated by Arrow Energy) to be of sufficient quality to assign 2C category of Contingent Resources. Beyond the current Monslatt well dataset, NSAI have attributed 3C Contingent Resources to the P1 seam.

The P1 seam at Monslatt is, on average, five metres thick and has gas content up to 23m³/tonne (refer Figure 1). In addition, recently received adsorption isotherm test results on the P1 seam at Monslatt indicate the P1 seam is fully gas saturated. The other coal

seams intersected in the drilling at Monslatt (up to 25m of total net coal) to date have been treated by NSAI as a 3C Contingent Resource.

A significant Prospective Resource (3,630PJ Gas in Place) has been identified by NSAI relating to the gas potential of the carbonaceous shales intersected in the Monslatt wells which have yielded gas contents of up to 10m³/tonne.

Figure 1 – Monslatt Stratigraphic Column



Drilling Program in ATP814P

Monslatt Block

Drilling of the Monslatt 3 core well was completed during the quarter with the well reaching a total depth of 718m. The well was logged and suspended pending completion as a monitoring well. The well intersected 22 metres of net coal in the primary objective Moranbah Coal Measures with initial field gas content of up to 21m³/tonne.

Blue Energy has signed a Heads of Agreement with Atlas Drilling securing the Atlas Rig 3 to drill up to three (3) pilot production wells in the Monslatt Block of ATP814P. These pilot wells are designed to establish gas production characteristics within the P1 Coal Seam (Moranbah coal Measures), together with the other coal seams intersected in the recently drilled Monslatt coreholes. This production data will enable the conversion of the current Contingent Resources (as discussed above) into 2P and 3P Reserves.

It is expected that the Atlas Rig 3 will be on location and ready to spud the Monslatt 4 Pilot Production well by early May 2010.

Sapphire Block

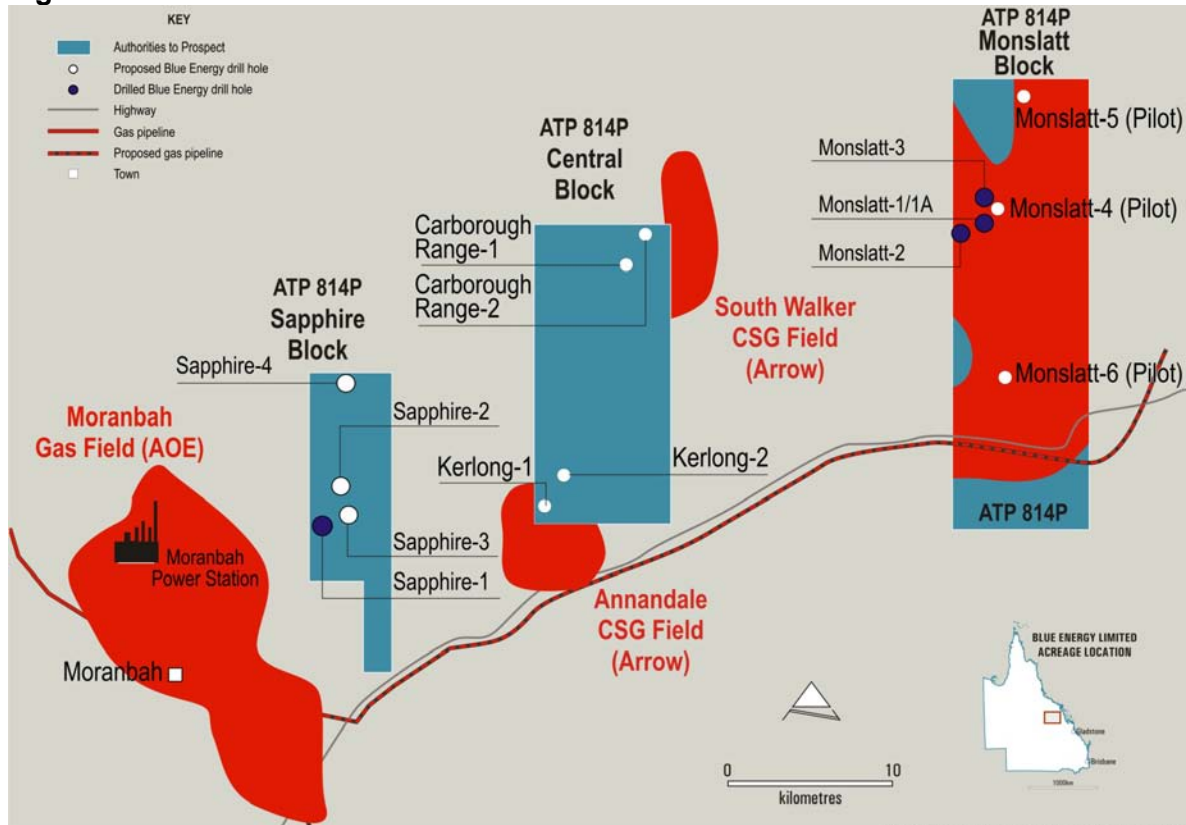
Access to the Sapphire 2 drilling location was delayed during the quarter due to heavy rains from ex-Tropical Cyclone Ului. It is expected that drilling will recommence with Depco 29 drilling rig

by mid May 2010 following completion of additional wells in the Monslatt block. Sapphire 2 will target the Rangal, Fort Cooper and Moranbah Coal Measure sequences approximately 2.7km north east of the Sapphire 1 well drilled by Blue Energy in 2008. The location is only 14km east of Arrow Energy's Moranbah Gas Project.

Central Block

Following the success of the Monslatt block a review of the Central block has identified four (4) locations for an initial exploration program in this block. Drilling will target the Rangal and Fort Cooper Coal Measures to assess the continuity of these coals from the Arrow Energy Annandale and South Walker CSG fields which adjoin the Central block. Drilling of these wells is expected to commence in July 2010 following the completion of the initial 5 core wells in ATP813P.

Figure 2 – ATP814P

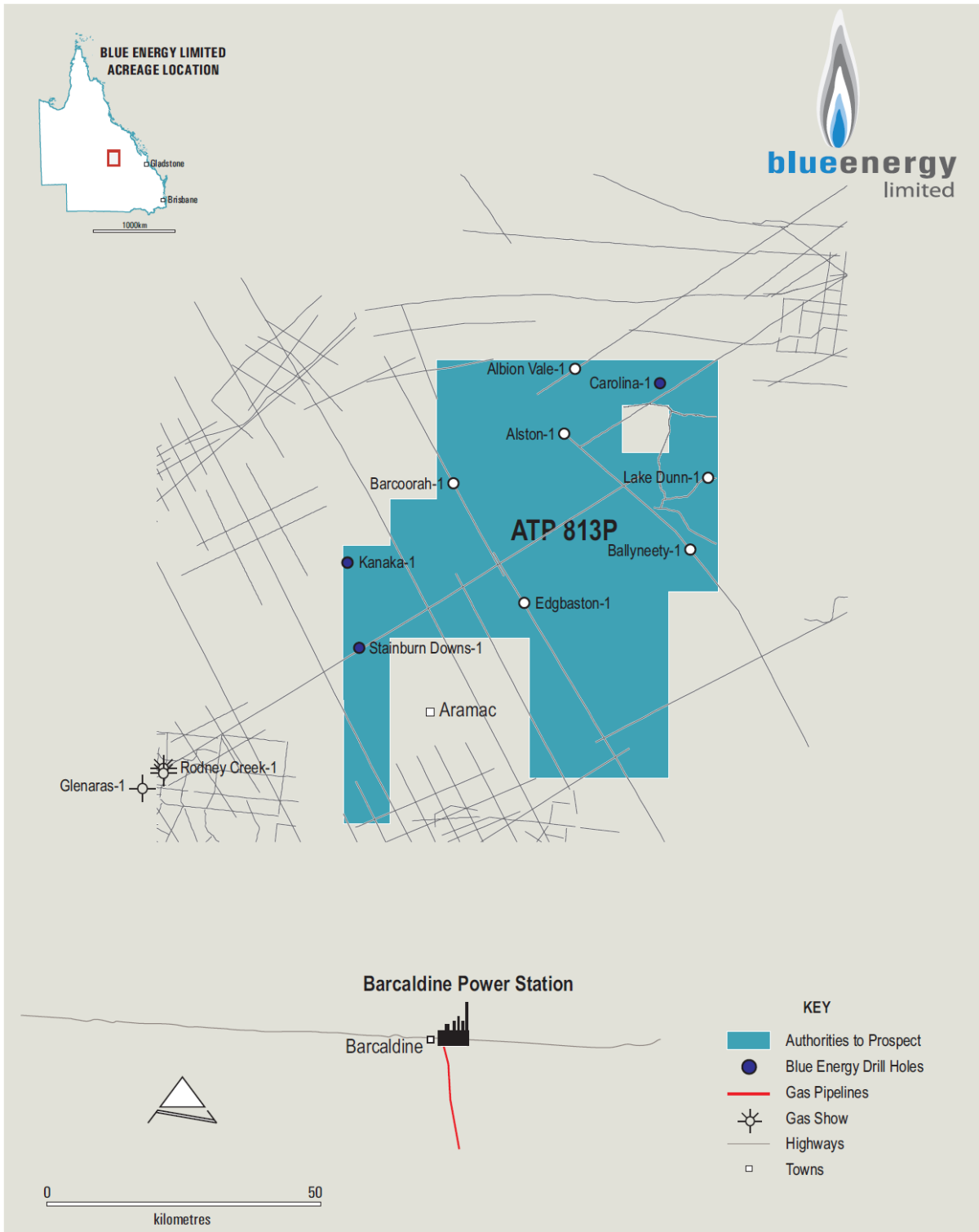


Drilling program continues in ATP813P (Galilee Basin)

The initial core hole drilling program in ATP813P in the Galilee Basin of central Queensland continued during the quarter but was delayed due to the widespread and significant flooding events in the area during February and March 2010. The corehole program is designed to systematically explore the large ATP813P permit (approx 4,125 km² after relinquishment) and specifically investigate the Permian aged Betts Creek and Aramac Coal Measures. The aim of the initial coring program is to establish coal distribution across the permit, together with gas content and permeability data to identify a fairway and suitable site or sites for the drilling of pilot production wells, and to achieve initial 3P/3C certification by year end 2010.

The second well in the program, Stainburn Downs 1, spudded on 19 January 2010. The well was suspended at a total depth of 980m pending re-establishment of access to the site after widespread and significant flooding events earlier this month. Drilling activities have resumed in the permit since quarter end with Boart Longyear Rig 7 recommencing coring the hole on 12 April 2010.

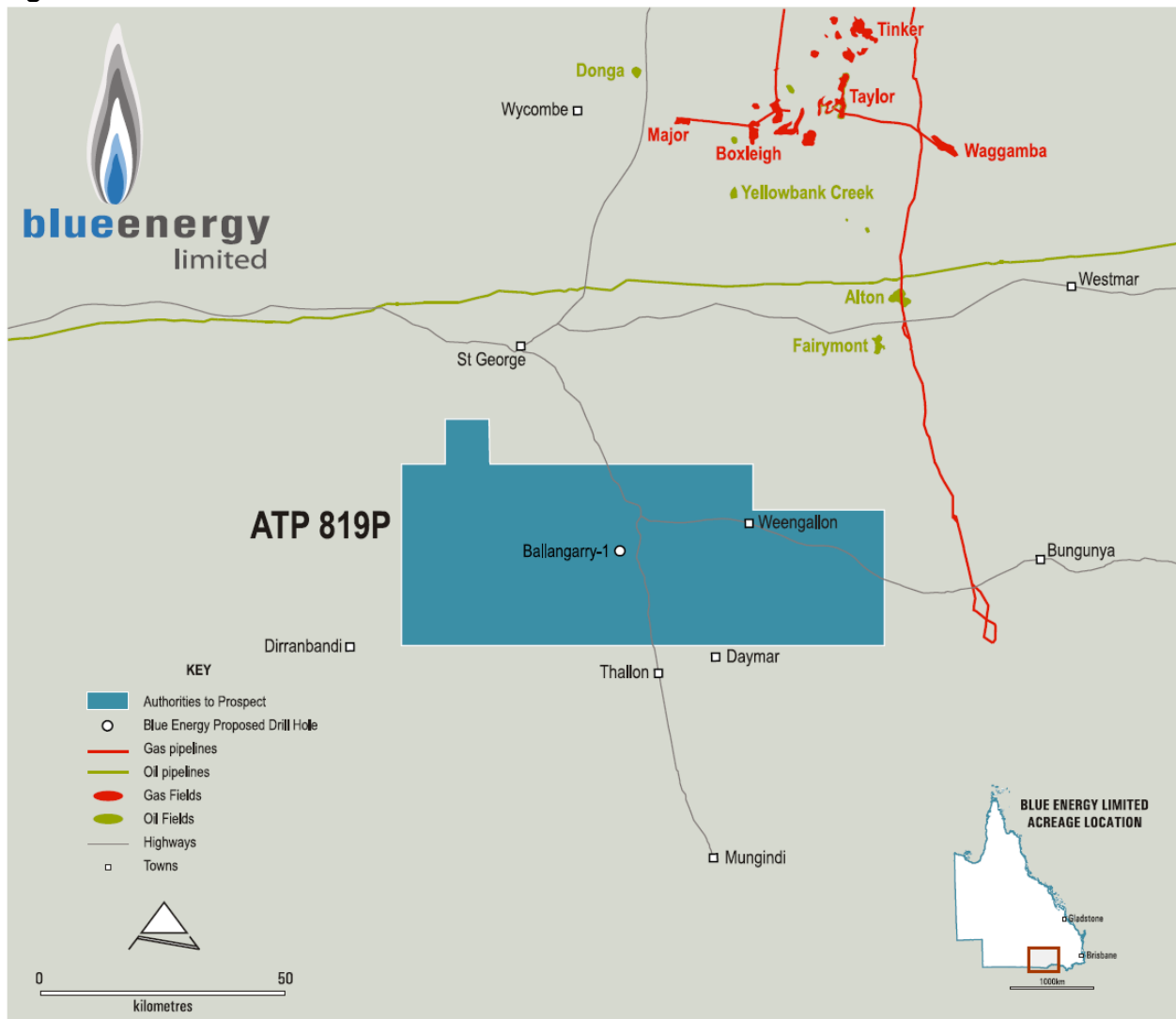
Figure 3 – ATP813P



Initial drilling program undertaken in ATP819P

Blue Energy commenced a single core well program in ATP819P with Ballangarry 1 spudding on 27 February 2010. The core well was designed to assess the Cretaceous section for both Coal Seam Gas and Shale Gas potential and targeted the Wallumbilla Formation. Operations on the core well were suspended for a number of weeks following extensive regional flooding in the area. Subsequent to quarter end the well reached a total depth of 602m and was plugged and abandoned as planned. Wireline logs and desorption samples that were acquired from the well are currently being evaluated. The drilling of Ballangarry 1 well has finalised commitment on ATP819 and a renewal program has been submitted and approved.

Figure 4 – ATP819P



Other ATP's

Blue Energy continued to undertake G&G activities on the remainder of the Company's ATP's to prioritise exploration expenditure and ensure the most cost effective and timely establishment of reserves.

Conventional

As disclosed in the Half Year accounts the Company is currently in the process of surrendering its four PNG PPL's. The decision was made based on the high level of exploration risk, the deep water and expensive nature of the permits and the unsuccessful application for an additional 14,300km² covering inshore waters and onshore acreage to consolidate the potential new oil play identified.

Safety

During the quarter the Company maintained its incident free safety record highlighting the Company's commitment to a safe working environment.

CORPORATE

CEO Appointment

Mr John Phillips was promoted from his former role as Chief Operating Officer to Chief Executive Officer, effective from 1 April 2010, to drive the Company through its next growth phase. Mr Phillips, who joined Blue Energy in May 2009, has developed a deep understanding of the coal seam gas industry as a result of his experience while working with Conoco in the 1990's through to his previous role as COO of successful CSG explorer Sunshine Gas. Mr Peter Cockcroft, who was Executive Chairman since January 2009, simultaneously relinquished his executive duties to become non-Executive Chairman.

KOGAS MOU investigating small scale LNG and CNG Projects

During the quarter the Company signed a Memorandum of Understanding (MOU) with Korea Gas Corporation (KOGAS) to investigate the feasibility of developing small scale Liquefied Natural Gas ("LNG") and Compressed Natural Gas ("CNG") projects within Eastern Australia. A joint working group will be formed by Blue Energy and KOGAS with the purpose of identifying potential opportunities for the development and operation of micro LNG and CNG facilities with the aim of providing a clean, environmentally friendly alternative to existing fuels such as diesel, petrol and LPG.

The utilisation of natural gas vehicles within Australia is extremely low when compared to other parts of the world. Australia's heavy duty road transport sector is well suited to the use of natural gas vehicles. The abundance of natural gas, particularly Coal Seam Gas (CSG) in Australia, is ideal for the production of LNG and CNG for natural gas vehicles and the development of this market will deliver significant benefits to Australia, both environmentally and economically.

Repayment of Convertible Notes

On 31 March 2010 the Company repaid \$3,000,000 of convertible notes to note holders in accordance with the terms and conditions of the convertible notes. The Company currently has no loans or debt on its balance sheet.

ANZ appointed receiver

As previously reported Primebroker Securities Limited ("Primebroker") was placed into receivership by ANZ bank in July 2008. The Receiver took control of 113,525,219 Blue Energy shares provided as security by Blue Energy Shareholders for loan facilities.

On 31 August 2009 the Victorian Supreme Court delivered a judgement concluding that statutory demands made by the Receivers of Primebroker Securities Limited against SC Capital Pty Ltd (a related entity of Primebroker Securities Limited) should be set aside as the Receivers were, on the evidence before the court, not validly appointed. The ANZ Bank has appealed this decision

and the Receivers have applied to the court for a declaration that their appointment is valid. The appeal and application are yet to be determined.

On 14 April 2010 the liquidators for Primebroker Securities Limited launched a \$97.7 million legal action against ANZ on behalf of creditors which seeks an order for the charge under which PricewaterhouseCoopers' were appointed receivers of Primebroker to be set aside under Section 588FJ of the Corporations Act, and ANZ's floating charge over Primebroker's assets declared void.

These events continue created uncertainty as to the legitimacy of the Receiver's appointment and as to the validity of the Receiver's relevant interest in the Company's shares.

The Company is monitoring the legal proceedings closely and is carefully considering its options in relation to the shares controlled by the Receiver.

Financial Position

The Company has cash reserves of \$32m as at 31 March 2010.

Share & Option Issues

The Company granted 6,210,000 options during the period through the Company's Employee Share Option Plan and Share Option Plan. A total of 7,133,501 options expired or were cancelled during the period relating to the Company's Employee Share Option Plan.

END

Appendix 5B

Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001.

Name of entity

Blue Energy Limited

ABN

14 054 800 378

Quarter ended ("current quarter")

31 March 2010

Consolidated statement of cash flows

| Cash flows related to operating activities | Current quarter \$A'000 | Year to date (9 Months) \$A'000 |
|---|----------------------------|---------------------------------------|
| 1.1 Receipts from product sales and related debtors including refunds of Goods & Services Tax | 453 | 971 |
| 1.2 Payments for | | |
| (a) exploration and evaluation | (4,666) | (9,944) |
| (b) development | - | - |
| (c) production | - | - |
| (d) administration | (1,337) | (3,533) |
| 1.3 Dividends received | - | - |
| 1.4 Interest and other items of a similar nature received | 518 | 1,160 |
| 1.5 Interest and other costs of finance paid | (74) | (300) |
| 1.6 Income taxes paid | - | - |
| 1.7 Other – Sundry income | - | - |
| Net Operating Cash Flows | (5,106) | (11,646) |
| Cash flows related to investing activities | | |
| 1.8 Payment for purchases of: | | |
| (a)prospects | - | - |
| (b)equity investments | - | - |
| (c) other fixed assets | (35) | (237) |
| 1.9 Proceeds from sale of: | | |
| (a)prospects | - | - |
| (b)equity investments | - | - |
| (c)other fixed assets | - | - |
| 1.10 Loans to other entities | - | - |
| 1.11 Loans repaid by other entities | - | - |
| 1.12 Other – Capital return on written-off investment | - | - |
| Net investing cash flows | (35) | (237) |
| 1.13 Total operating and investing cash flows (carried forward) | (5,141) | (11,883) |

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

| | | | |
|------|--|---------|----------|
| 1.13 | Total operating and investing cash flows (brought forward) | (5,141) | (11,883) |
| | Cash flows related to financing activities | | |
| 1.14 | Proceeds from issues of shares, (less costs) | 168 | 16,292 |
| 1.15 | Proceeds from sale of forfeited shares | - | - |
| 1.16 | Proceeds from borrowings | - | - |
| 1.17 | Repayment of borrowings | (3,000) | (3,000) |
| 1.18 | Dividends paid | - | - |
| 1.19 | Other – over receipt on share issues (refundable) | - | - |
| | Net financing cash flows | (2,832) | 13,292 |
| | Net increase (decrease) in cash held | (7,973) | 1,409 |
| 1.20 | Cash at beginning of quarter/year to date | 39,853 | 30,499 |
| 1.21 | Exchange rate adjustments to item 1.20 | (8) | (36) |
| 1.22 | Cash at end of quarter | 31,872 | 31,872 |

Payments to directors of the entity and associates of the directors

Payments to related entities of the entity and associates of the related entities

| | | Current quarter \$A'000 |
|------|--|----------------------------|
| 1.23 | Aggregate amount of payments to the parties included in item 1.2** | 136 |
| 1.24 | Aggregate amount of loans to the parties included in item 1.10 | - |

1.25 Explanation necessary for an understanding of the transactions

** Directors' fees and consulting fees paid to Directors or companies related to Directors (includes GST of \$2,500).

Non-cash financing and investing activities

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

N/A

2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

N/A

+ See chapter 19 for defined terms.

Financing facilities available

Add notes as necessary for an understanding of the position.

| | Amount available \$A'000 | Amount used \$A'000 |
|---------------------------------|-----------------------------|------------------------|
| 3.1 Loan facilities | - | - |
| 3.2 Credit standby arrangements | - | - |

Estimated cash outflows for next quarter

| | \$A'000 |
|--------------------------------|-----------------|
| 4.1 Exploration and evaluation | (10,000) |
| 4.2 Development | - |
| Total | (10,000) |

Reconciliation of cash

| Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows. | Current quarter \$A'000 | Previous quarter \$A'000 |
|---|----------------------------|-----------------------------|
| 5.1 Cash on hand and at bank | 5,524 | 1,498 |
| 5.2 Deposits at call | 26,348 | 38,355 |
| 5.3 Bank overdraft | - | - |
| 5.4 Other (provide details) | - | - |
| Total: cash at end of quarter (item 1.22) | 31,872 | 39,853 |

Changes in interests in mining tenements

| | Tenement reference | Nature of interest (note (2)) | Interest at beginning of quarter | Interest at end of quarter |
|---|-----------------------|----------------------------------|--|----------------------------------|
| 6.1 Interests in mining tenements relinquished, reduced or lapsed | N/A | | | |
| 6.2 Interests in mining tenements acquired or increased | N/A | | | |

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

Issued and quoted securities at end of current quarter

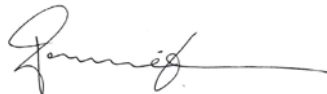
Description includes rate of interest and any redemption or conversion rights together with prices and dates.

| | Total number | Number quoted | Issue price per security (see note 3) (\$) | Amount paid up per security (see note 3) (\$) |
|--|--------------|---------------|--|---|
| 7.1 Preference⁺ securities | - | - | | |
| 7.2 Changes during quarter | | | | |
| (a) Increases through issues | - | - | - | - |
| (b) Decreases through returns of capital, buy-backs, redemptions | - | - | - | - |
| 7.3 +Ordinary securities | 647,488,256 | 647,488,256 | | |
| 7.4 Changes during quarter | | | | |
| (a) Increases through issues | 1,000,000 | 1,000,000 | 0.17 | 0.17 |
| (b) Decreases through returns of capital, buy-backs | | | | |
| 7.5 +Convertible debt securities | - | - | | |
| 7.6 Changes during quarter | | | | |
| (a) Increases through issues | - | - | | |
| (b) Decreases through repayment | 3,000,000 | - | | |
| 7.7 Options | | | <i>Exercise price</i> | <i>Expiry date</i> |
| B25 cent Incentive Options | 5,666,667 | - | 0.25 | 30/03/11 |
| C30 cent Incentive Options | 5,666,666 | - | 0.30 | 30/03/11 |
| C35 cent Incentive Options | 2,000,000 | - | 0.35 | 02/09/12 |
| 25 cent Options Qtr1 08-09 | 6,030,000 | - | 0.25 | 08/09/12 - 17/08/13 |
| 25 cent Options Qtr3 08-09 | 60,000 | - | 0.25 | 09/01/14 |
| 25 cent Options Qtr4 08-09 | 2,500,000 | - | 0.25 | 01/05/14 |
| 25 cent Options Qtr 2 09-10 | 5,200,000 | - | 0.25 | 04/12/14 |
| 25 cent Options Qtr 3 09-10 | 4,000,000 | - | 0.25 | 16/02/13 |
| 25 cent Options Qtr 3 09-10 | 2,210,000 | - | 0.25 | 11/03/15 |
| 7.8 Issued during quarter | | | | |
| 25 cent Options Qtr 3 09-10 | 4,000,000 | - | 0.25 | 16/02/13 |
| 25 cent Options Qtr 3 09-10 | 2,210,000 | - | 0.25 | 11/03/15 |
| 7.9 Exercised during quarter | | | | |
| A17 cent Incentive Options | 1,000,000 | - | 0.17 | 0.17 |
| 7.10 Expired/cancelled during quarter | | | | |
| 25 cent Incentive Options | 3,333,500 | - | 0.25 | 29/01/10 |
| B50 cent Incentive Options | 666,667 | - | 0.50 | 16/02/10 |
| C60 cent Incentive Options | 666,667 | - | 0.60 | 16/02/10 |
| A17 cent Incentive Options | 2,466,667 | - | 0.17 | 30/03/10 |
| 7.11 Debentures (totals only) | - | - | | |
| 7.12 Unsecured notes (totals only) | - | - | | |

+ See chapter 19 for defined terms.

Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 4).
- 2 This statement does ~~not~~ ^{not} (delete one) give a true and fair view of the matters disclosed.



Sign here: Date: 28 April 2010
(Company Secretary)

Print name: Damien Cronin

Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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