

31 October 2011

QUARTERLY ACTIVITIES REPORT September 2011

KEY POINTS

- **Exploration Activities Continue**
 - **Exploration program continues in ATP814P**
 - **Seismic acquisition completed**
- **Maryborough Basin Shale Gas**
- **Cash Reserves \$11.6m**
- **Director Appointment**
- **Company Research Reports**
- **Annual General Meeting**

OPERATIONS

Exploration Program Continues in ATP814P

Monslatt 9

The Monslatt 9 combination core and pilot production well spudded 26 August 2011 and was drilled to a total depth of 1,006 metres. The well intersected a full sequence of the Moranbah Coal Measures including several 3-4 metre thick coal seams at depths of 230 metres and 340 metres. In total 16 seams through the Moranbah Coal Measures with gross coal of approximately 35 meters were intersected. Preliminary gas contents from these seams have been excellent and ranged from 8 to 25 cubic metres per tonne. Gas samples have indicated methane contents of greater than 90%. Gas bearing carbonaceous shales have also been intersected in the lower section of the well, and several samples are on desorption to establish gas content. The well has been cased and suspended and is awaiting completion.

These results further reinforce the potential of the Monslatt Block as a significant gas resource and one which will play an integral part in Blue Energy's vision to have 3,000PJ of 3P gas reserves by year end 2014.

Sapphire 4

The Sapphire 4 Coal Seam Gas well spudded 6 October 2011 and reached a total depth of 940 metres in the Moranbah Coal Measures. The rig is now preparing to run production casing. Sapphire 4 intersected significant coal thicknesses (approximately 50 metres) in the Rangal and Fort Cooper Coal Measures. An open hole Drill Stem Test (DST) conducted across the interval 558 metres to 577 metres in Fort Cooper Coal Measures, flowed gas to surface. The gas flow was not at a rate considered commercially significant, but it does indicate the presence of permeable gas saturated coal in this part of the Sapphire Block. Sapphire 4 is being cored to obtain gas content and other coal property data, however it is also designed to be completed as a pilot production well to establish the commerciality of this part of the Sapphire Block. On reaching total depth, the well will be cased and suspended, pending completion as a pilot production well.

Netherland, Sewell and Associates (NSAI) have identified 39PJ of 3P reserves in the Sapphire Block, together with a further 284PJ of Contingent Resources (recoverable). The results of the

Sapphire 4 well will contribute to a review (conducted by NSAI) of the gas resources held by Blue (100%) in this block.

Monslatt Pilot Operations

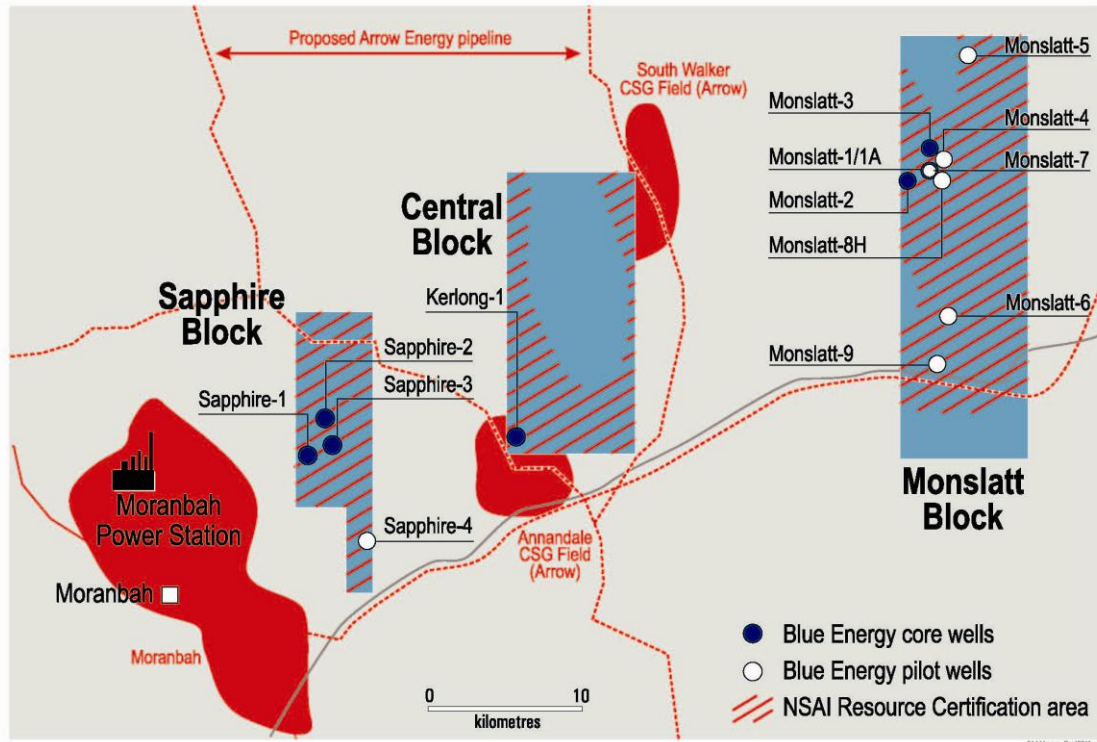
The dewatering and production testing of Monslatt 7 and Monslatt 5 is continuing with initial gas flows from Monslatt 7 commencing during the quarter. As this production testing continues flow rates are expected to increase as dewatering continues. Water production at Monslatt 5 has continued to increase and has reached the capacity of the pump installed. A work-over is planned to commence within the coming month which will see a higher capacity pump installed and the dewatering process continue.

A work-over rig has been secured for the completion of Monslatt 4 and Monslatt 6 with work planned to commence during November 2011. Potential stimulation programmes for Monslatt 6, Monslatt 9 and Sapphire 4 wells are currently being reviewed with the Government Regulator in light of changing environmental regulations. On completion of these works the wells will be placed on pump and the dewatering process commenced.

Seismic Acquisition

Seismic acquisition of 25km 2D seismic was completed during the quarter in the Monslatt block. The data is currently being process and the results will improve the Company's understanding of the geological structure that exists within the block.

Figure 1 – ATP814P



Forward Operations

ATP813P (Galilee Basin)

On 5 October 2011 Galilee Energy Limited (AX:GLL) announced that the operator of the Galilee Gas Project (ATP526P), AGL Energy Limited had reported the project's first gas flow.

Glenaras 6, part of the Glenaras close-spaced five-spot production pilot, started to flow at a steady rate of approximately 54Mscf per day for a period of four days before the well was temporarily shut down for maintenance. The significance of this gas flow is that it constitutes the first record of a stabilised gas flow from a coal seam gas pilot in the Galilee Basin

The Galilee Gas Project is approximately 14km Southwest of Blue Energy's ATP813P and the establishment of a stabilised gas flow rate is a significant step in demonstrating the commerciality of the Galilee Basin. Blue Energy will continue to monitor the progress of the Galilee Gas Project and incorporate any findings into the future work program for ATP813P.

Independent assessment of technical data from ATP813P (compiled from the 2010 drilling campaign in the permit) by Netherland, Sewell and Associates (NSAI) has delineated 554PJ of 3C Contingent Resource (recoverable) together with a further 1,142PJ of Prospective Resource (recoverable). The Contingent Resources have been identified principally around the existing 5 wells drilled by Blue Energy, whilst the Prospective Resource relates to some of the inter-well areas, but does not include the majority of the permit area. This resource assessment relates to approximately 25% of the ATP813P permit area. The potential of the remaining 75% of the permit will be addressed with future drilling.

Table 1: Blue Energy Reserves / Resource Estimates

Permit/Basin/Block	3P Reserves	3C Contingent Resource
	Recoverable	Recoverable
ATP814P – Bowen Basin - Sapphire	39PJ	284PJ
ATP814P – Bowen Basin - Monslatt		1,295PJ
ATP814P – Bowen Basin – Central		457PJ
ATP813P – Galilee Basin		554PJ
Total Blue Energy Resource Base	39PJ	2,590PJ

ATP613P, ATP674A and ATP733A – Maryborough Basin

Blue Energy is currently earning a 75% interest (from Adelaide Energy Limited, "ADE") in these three Maryborough Basin permits by conducting a farm-in work program in the permits. Blue Energy has executed Native Title Agreements on behalf of the joint venture with traditional owner representatives of these areas in order to facilitate the grant of ATP674A and ATP733A. Environmental Authorities for these two application areas have been issued by the Qld Government and the joint venture is awaiting permit grant of the applications by the Government. The three permits will cover an area of 2,940km² (726,486 acres).

A recent analysis of global shale gas potential released by the US Energy Information Administration (EIA) in April 2011 has identified the Maryborough Basin in Queensland as one of four sedimentary basins in Australia which are currently assessed to have significant shale gas potential, with a risked recoverable resource figure calculated for the Maryborough Basin of 23 trillion cubic feet (TCF). The EIA paper and supporting report by Advanced Resources International reviewed 48 sedimentary basins in 32 countries (see <http://www.eia.gov/analysis/studies/worldshalegas/> for the full report). The report notes that "Australia has major gas shale potential in four main assessed basins.... with geologic and industry conditions resembling those of the USA and Canada, the country appears poised to commercialize its

gas shale resources on a large scale. Other prospective shale basins in Australia include the small, scarcely explored Maryborough Basin in coastal Queensland, which contains prospective Cretaceous-age marine shales that are over-pressured and appear gas saturated.”

Data from previous drilling activity in the Maryborough Basin, conducted between 1953 and 2003 targeting conventional gas has established a valid shale gas target in the Cretaceous-aged Maryborough Formation.

Blue Energy and ADE will further assess over the coming months the potential of the shale gas target, in conjunction with coal seam gas and conventional gas targets, with a view to determining a possible drilling location. The type of activity envisaged to be conducted by the joint venture at this early stage of exploration in the Maryborough Basin is similar to those gas exploration activities which have been undertaken before in the permit area by previous operators. Normal groundwater and environmental studies together with a consultation process will be conducted ahead of any field activity.

Other ATP's

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

CORPORATE

Director Appointment

Ms Karen Johnson was appointed to the Board effective 30 September 2011. Karen has over 20 years of accounting related experience, holding senior roles specialising in audit, assurance, technical consulting and financial accounting engagements within Chartered Accounting firms and American Express Inc. She brings excellent investigation and analytical skills combined with strong technical accounting knowledge and a superior understanding of Australian Accounting and Auditing Standards and has previously provided corporate governance consultancy to many organisations. Karen is currently Director - Audit and Assurance with Whitehills Business Advisers & Chartered Accountants based in Brisbane.

Research Reports

During the quarter several research reports have been completed on the Company. Notably, research has been issued by Intersuisse, RB Milestone Group and Alpha Securities. These research reports, along with other investor information, can be found on the Blue Energy web site (www.blueenergy.com.au).

Annual General Meeting

Blue Energy Limited's 2011 Annual General Meeting is scheduled for 11.00 am on Tuesday, 15 November and will be held at The Morgan Room, Christie Conference Centre, Level 1, 320 Adelaide Street, Brisbane with all shareholders encouraged to attend.

ANZ appointed receiver

The Company continues to closely monitor the legal proceedings relating to ownership of the Blue Energy Limited shares held by Australia and New Zealand Banking Group Limited. Blue Energy is not a party to these legal proceedings.

Financial Position

The Company had cash reserves of \$11.6m as at 30 September 2011.

Share & Option Issues

No new shares or options were issued during the quarter. A total of 93,000 incentive rights lapsed during quarter.

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