

31 January 2011

QUARTERLY ACTIVITIES REPORT December 2011

KEY POINTS

- **Exploration Activities Continue**
 - **Resource Upgrade in Monslatt Block of ATP814P**
 - **Successful drilling of Sapphire 4, a combination core and production test well in ATP814P**
 - **Production testing continues in ATP814P**
- **Maryborough Basin Shale Gas**
- **Cash Reserves \$5.3m**
- **Director Appointment**
- **Annual General Meeting**

OPERATIONS

Exploration Program Continues in ATP814P

Drilling results during the quarter further reinforce the potential of the Sapphire and Monslatt Blocks as containing significant gas resources which will play an integral part in Blue Energy's vision to have 3,000PJ of 3P gas reserves by year end 2014.

Monslatt 9

The Monslatt 9 well was a combination CSG core and pilot well. It spudded on 26 August 2011, and drilled through a full sequence of the Moranbah Coal Measures including several 3-4 metre thick coal seams at depths of 230 metres and 340 metres. Final depth was 1,006 metres which included a total 16 seams through the Moranbah Coal Measures with gross coal of approximately 35 metres. The well was cased and suspended. Gas contents from these seams have been excellent and ranged from 8 to 25 cubic metres per tonne raw. The well has been cased and suspended and is awaiting completion during the first half of 2012.

Prior to the well, Netherland, Sewell and Associates (NSAI) had identified 1,295PJ of Contingent Resources (recoverable) in the Monslatt Block. Based on the results of Monslatt 9, NSAI have increased this estimate to 1,451PJ of Contingent Resources (recoverable). Blue holds 100% interest in this block.

Sapphire 4

The Sapphire 4 CSG well was a combination core plus pilot well. It spudded on 6 October 2011, reached a total depth of 940 metres in the Moranbah Coal Measures, and was cased and suspended. Sapphire 4 intersected significant coal thicknesses of approximately 50 metres in the Rangal and Fort Cooper Coal Measures. An open hole drill stem test (DST) conducted across the interval 558 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. Gas contents from these seams have been excellent (up to 14 cubic metres per tonne raw). During the first half of 2012, plans are to complete the well as a pilot production well to establish the commerciality of this part of the Sapphire Block.

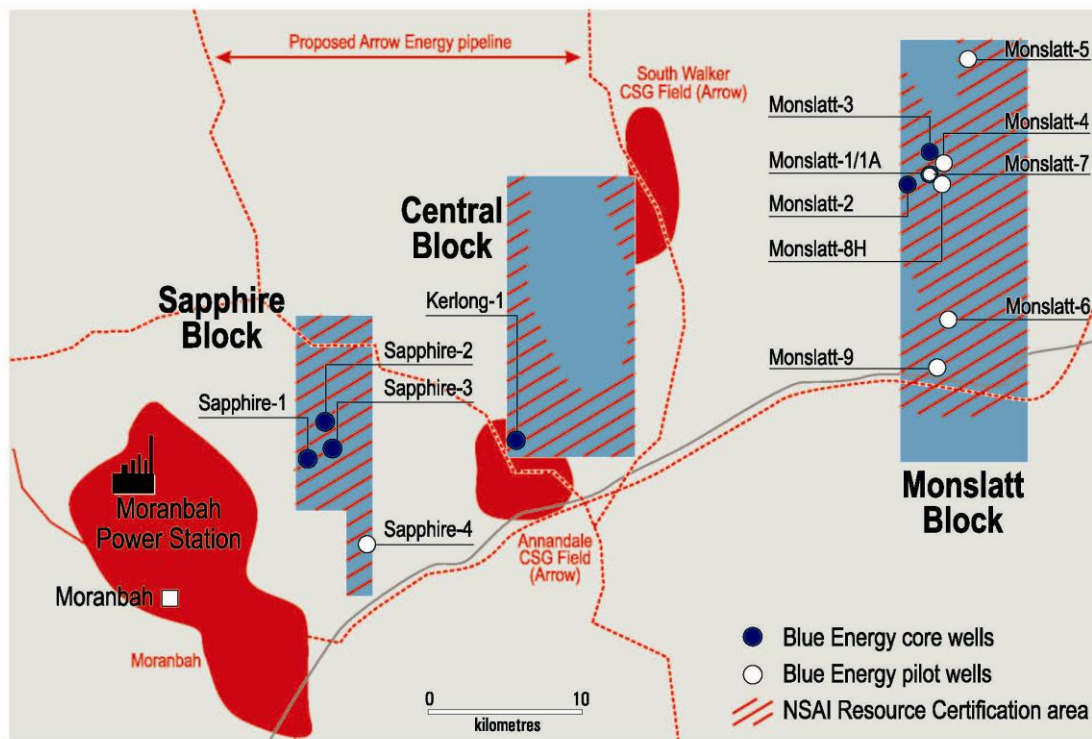
Prior to the well, Netherland, Sewell and Associates (NSAI) had identified 39PJ of 3P reserves, and a further 284PJ of Contingent Resources (recoverable) in the Sapphire Block. Based on the results of Sapphire 4, NSAI have increased these estimates to 75PJ of 3P reserves, and 326PJ of Contingent Resources (recoverable). Blue holds 100% interest in this block.

Monslatt Pilot Workovers and Operations

The de-watering and production testing of Monslatt 7 and Monslatt 5P continued into the quarter until the wells were shut-in for workover. The workover programs began late November and completed in 2nd half December. The workover programs included:

- Monslatt 6P – Nitrogen stimulation and completion of the well for pilot testing.
- Monslatt 7 and in-seam Monslatt 8H – Flush and cleanup of the wellbores and pump. Return to pilot testing.
- Monslatt 5P – Increase in pump size and return to pilot testing.

Figure 1 – ATP814P



Reserve and Resource Status and Target

The current reserve and resource status and targets for Blue is as shown below.

Table 1: Blue Energy Reserves / Resource Estimates

Permit/Basin/Block	3C Contingent Resource Recoverable	Current 3P Reserves Recoverable	Dec 2012 3P Reserve Target	Dec 2014 3P Reserve Target
ATP814P – Bowen Basin - Sapphire	326PJ	75PJ		
ATP814P – Bowen Basin - Monslatt	1,451PJ			
ATP814P – Bowen Basin – Central	457PJ			
ATP813P – Galilee Basin	554PJ			
Total Blue Energy	2,788PJ	75PJ	1,000PJ	3,000PJ

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. Glenaris 6, part of the Glenaris 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.

ATP613P, ATP674A and ATP733A – Maryborough Basin

Blue Energy is currently earning a 75% interest (from Beach Energy Ltd, "BPT") 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).

Beach Energy has recently acquired their interest in these permits through their takeover of Adelaide Energy ("ADE"). Blue Energy has engaged with Beach Energy to expedite the commencement of exploration activity, once the permits have been officially granted by the Qld Government.

As previously announced, the US Energy Information Administration (EIA) in April 2011 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 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.”

Blue Energy and Beach are both excited about the shale gas potential within the Maryborough basin and will further assess 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

Mr Rod Cameron was appointed to the Board effective 15 November 2011. Rod Cameron has over 30 years of industry experience, particularly in the energy and resources industries. He is a seasoned financial executive having been CFO for an ASX listed multinational renewable energy company, as well as an executive director and CFO for a US multinational independent power generation company. Rod has also worked in various management capacities for National Australia Bank, Rio Tinto, Telstra, and Atlantic Richfield Inc. Rod is an Associate member of the Australian Society CPA's and a Fellow of the Australian Institute of Company Directors whilst also operating a successful management consultancy and corporate finance advisory business.

Annual General Meeting

Blue Energy Limited's 2011 Annual General Meeting was held on Tuesday, 15 November 2011. All resolutions put to the meeting were passed.

Financial Position

The Company had cash reserves of \$5.3m as at 31 December 2011.

Shares, Rights & Option Issues

The Company granted 7,517,000 rights during the period under the Employee Incentive Rights Plan.

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