29 January 2013

QUARTERLY ACTIVITIES REPORT
December 2012

KEY POINTS

- **New Maryborough Basin Permits Granted**
- **Blue expects near term grant of Cooper Basin permits**
- **Gas-flow testing continues at Monslatt and Sapphire pilot wells**
- **Board restructured**
- **Implemented cost reductions delivering up to $1.5 million annual savings**
- **Cash Reserves $17m at 31 December 2012**

Blue Energy Limited (ASX: “BUL”) is pleased to update the market on its Queensland coal seam gas (CSG) and shale projects for the three months ended 31 December 2012.

UNCONVENTIONAL EXPLORATION

ATP1114A, 1117A, 1123A – Southern Georgina Basin Qld (BUL 100%)

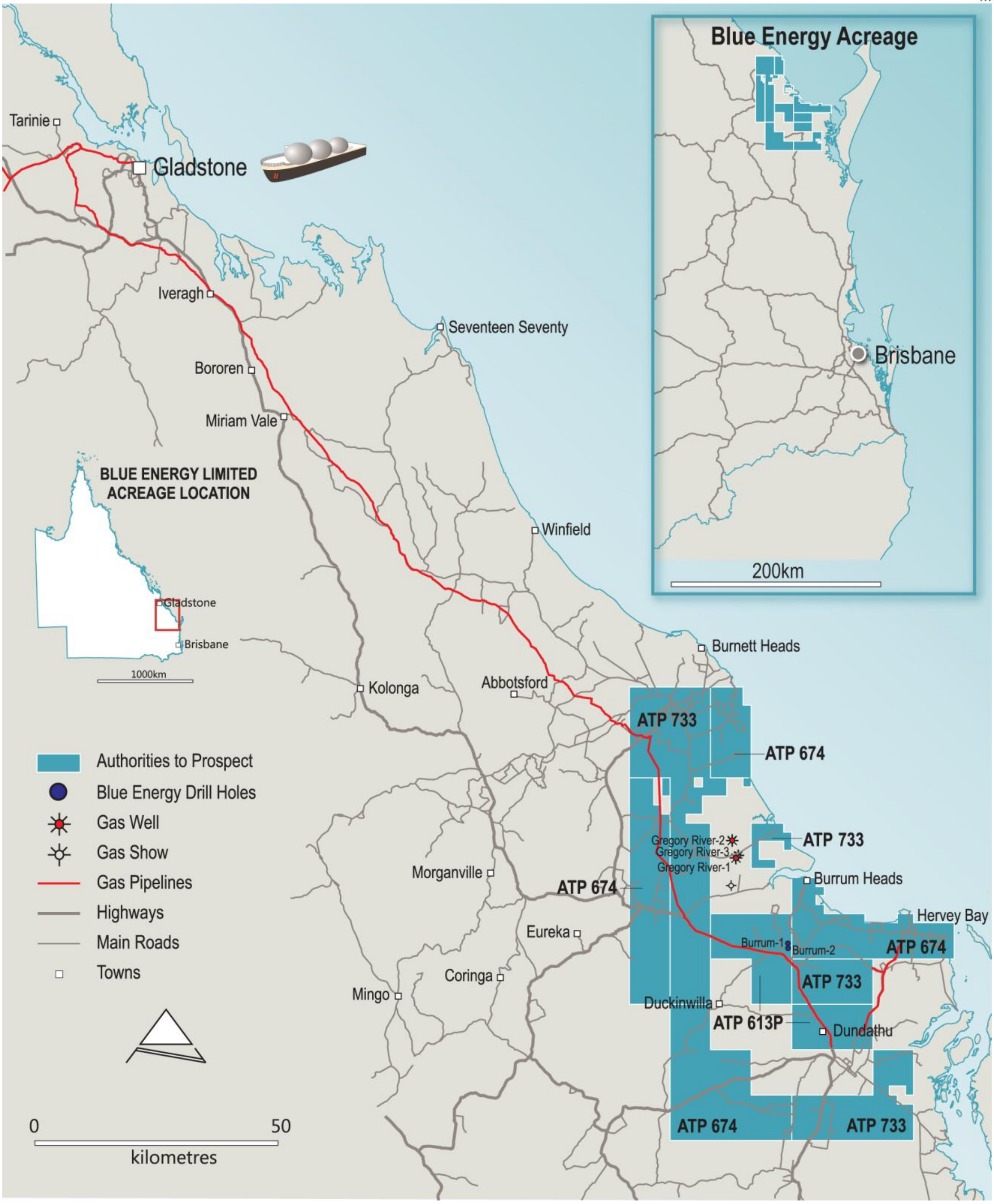
As previously reported, Blue Energy has secured significant acreage (subject to Native Title Agreements and Environmental Authorities) in the Southern Georgina Basin in western Queensland. The three permits are located between two areas that are the subject of significant farm in deals involving major international oil and gas companies (Statoil farming into Petrofrontier acreage, and Total farming into Central Petroleum’s acreage). Blue Energy is currently undertaking Native Title negotiations to enable the grant of these permits.

The hydrocarbon potential of the area has been identified with both conventional and unconventional hydrocarbon plays being developed by various Operators in the basin and confirmed by the intersection of oil and gas bearing sections in wells drilled recently in the western portion of the basin and wells drilled in the eastern section.

Maryborough Basin (ATP613P, ATP674P and ATP733P)

In December, Blue Energy, in conjunction with its Joint Venture partner Beach Energy Limited (Beach) (ASX: BPT), was granted two exploration tenements, ATP674P and ATP733P, in Queensland’s Maryborough Basin. The permits cover some 2,584km^2 and lie adjacent to the previously awarded ATP613P, bringing the total covered by the Joint Venture to 2,984km^2. Blue Energy is farming into the three Maryborough Basin permits and holds, subject to completing the farm-in work program, a 75% interest in the permits and is operator of the farmin work program. Work on establishing baseline water bore information (as required by the Government) for the area has commenced.

The importance of exploration in the Maryborough Basin cannot be overstated. Success in defining a significant gas resource in the area could potentially lead to a viable alternative supply of energy for the Maryborough region and greater South East Queensland. It could also lead to a reduction in supply pressure currently facing the domestic gas market in Queensland.



GAS PRODUCTION PILOTS

Sapphire Block (ATP814P)

Production testing of the Sapphire 4 Pilot Production Test well, (drilled late 2011) is continuing, with gas flowing continuously but at rates which remain below commercial levels from the Fort Cooper Coal Measures. A hydraulic fracture stimulation was attempted on the perforated interval in the well with only partial success of placing the full proppant load in the zone of interest. The well has now been placed back on test.

Monslatt Block (ATP814P)

The vertical Monslatt 7 well and its in-seam Monslatt 8H continues to be tested. To date there has been no material increase in gas flow rates from those achieved during initial testing. The reservoir data acquired to date is being assessed to determine future plans for the well.

Monslatt 5P is currently shut in on long term pressure build-up. Following analysis of this data, a decision on future testing of the well will be made.

The Monslatt 6P well which recorded a gas flow rate of up to 15,000 standard cubic feet per day has been on pressure build up and a decision to restart the production test will be made during the next quarter.

The coals in the Monslatt have demonstrated high gas content and gas saturation, however the low permeability of these coals requires the development of a different production strategy to that which has been employed to date. This strategy is currently being developed.

FORWARD WORK PROGRAM

The following table outlines the planned forward work program for Blue Energy for 2013/14.

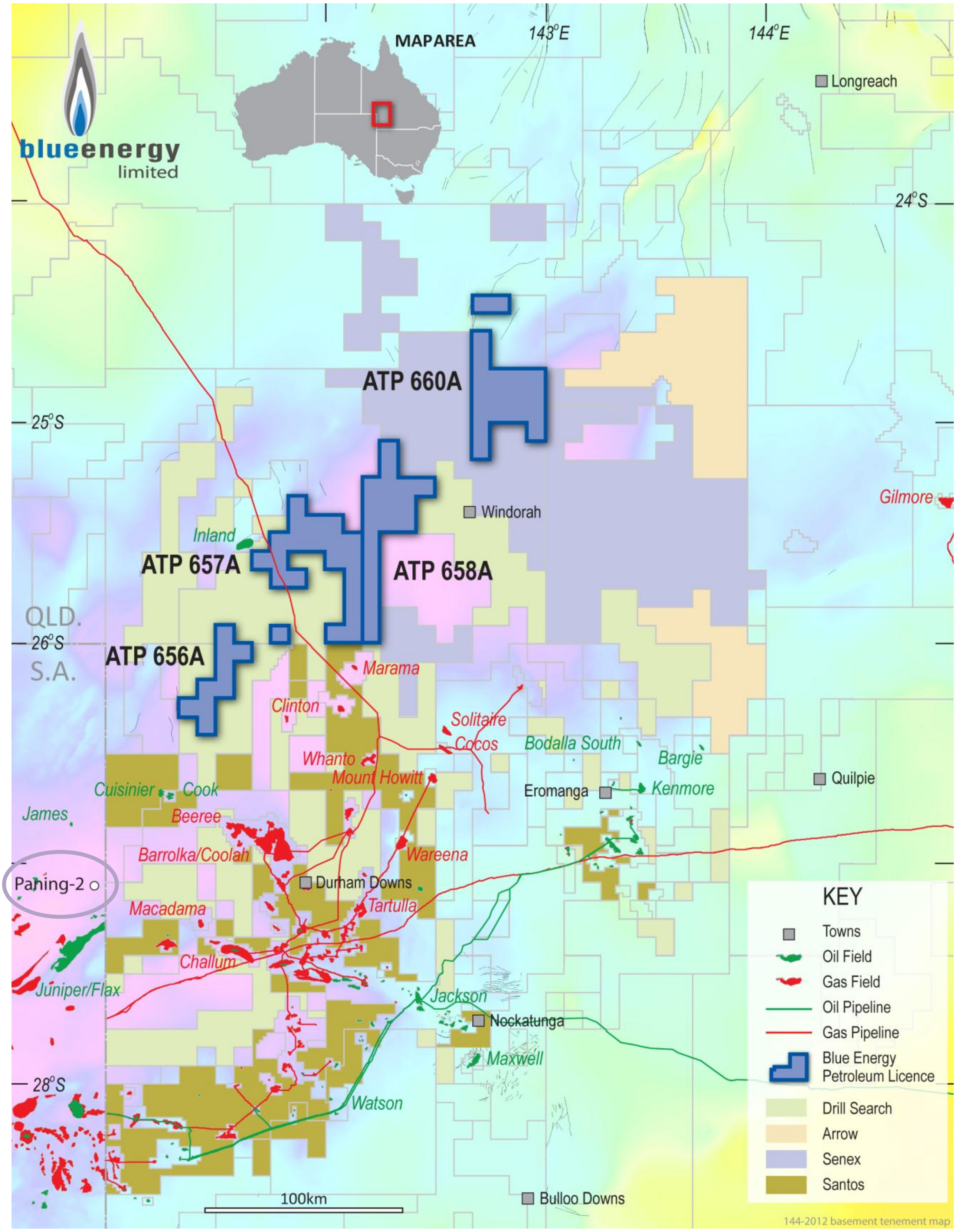
Permit	Basin	Activity	2012		2013				2014			
			Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
ATP1114A, 1117A, 1123A	Georgina	Native Title/EA Seismic acquisition Drilling										
ATP 814P	Bowen	Pilot testing Sapphire 5 Drilling										
ATP 854P	Surat	Coreholes Pilot Well Seismic			*Wet season*			*Wet season*				*Wet season*
ATP 813P	Galilee	Coreholes Pilot?										
ATP 656A, 660A, 658A	Cooper	Native Title/EA Seismic acquisition Drilling										

Cooper Basin (ATP 656A, 657A, 658A, & 660A)

With Native Title Agreements now in place for all of Blue Energy's Cooper Basin Application areas, the last remaining impediment to grant of these areas is the issuing of Environmental Authorities by the Queensland Government. Assuming this is done expeditiously and therefore grant of these permits follows soon after, Blue will be in a position to commence its year one work program.

Drillsearch, Senex and Beach are all active in the area on both the South Australia and Queensland – Paning 2. Significant potential exists in these permit areas, as evidenced by the nearby Inland Oil field (production from the Jurassic Birkhead Formation, and Namur Sandstone Member as well as the Murta Member) Cook Oil Field (Hutton oil pool) and Cuisinier Oilfield (Murta oil) to the south east. Blue will be targeting these plays, together with the Permian and Triassic sequences and the unconventional Tertiary Toolebuc Formation shale play

Activity on this Northern flank of the Cooper Basin is beginning to ramp up as Operators recognise that this area has similar potential to the western flank of the Cooper Basin, where Permian generated liquids have migrated into the overlying Jurassic reservoirs on the flanks of the basin. Drillsearch, Santos and Senex are becoming very active in the region with exploration programs in these companies' operated areas ramping up (Paning 2 –drilled by Senex and seismic acquisition programs over Cuisinier (Santos).



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

Annual General Meeting

Blue Energy Limited's 2012 Annual General Meeting was held on Thursday, 15 November 2012. All resolutions were passed at the meeting. For further details refer to the ASX release made following the meeting.

Board Restructure

During the quarter, the Chairman, Mr Peter Cockcroft, advised the Board that due to personal circumstances he would be standing down as Chairman as of 10 October 2012 and subsequently retiring from the Board effective 31 December 2012. Dr Paul Massarotto also retired from his position as Non-Executive Director of Blue Energy effective as of the close of the Company's 2012 Annual General Meeting held on 15 November 2012.

Mr John Ellice-Flint will serve as Acting Chairman of the Board and Mr Rodney Cameron has been appointed Deputy Chairman.

Operational Review

During the quarter, the Company finalised a major review of operating costs, both head office and field based activities, with the aim of reducing the overhead spend and focusing existing cash reserves on value adding exploration/production activities. To date the Company has successfully implemented cost reduction initiatives that will reduce annual operating expenditures by $1.5 million. Further cost reductions have been identified and will be implemented in coming months.

KOGAS

KOGAS exercised its farm-in option in relation to ATP814P on 30 June 2012, bringing the option period to a close and initiating discussions between the parties on a non-exclusive basis. KOGAS have now indicated they are not currently in a position to enter into a farmin agreement.

Shares, Rights & Option Issues

During the quarter, 7,619,000 incentive rights were issued in accordance with the Employee Incentive Rights Plan rules. Subsequent to the end of the quarter, 2,000,000 employee options expired. No other shares or options were issued during the quarter.

Competent Person Statement

The estimates of 3P reserves and contingent resources have been provided by Mr John Hattner of Netherland, Sewell and Associates Inc. Mr Hattner is a full time employee of NSAI, has over 30 years' of industry experience and 20 years' of experience in reserve estimation, is a licensed geologist, and has consented to the use of the information presented herein. The estimates in the report by Mr Hattner have been prepared in accordance with the definitions and guidelines set forth in the 2007 Petroleum and Resource Management System (PRMS) approved by the Society of Petroleum Engineers (SPE).

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