30 January 2014

QUARTERLY ACTIVITIES REPORT
December 2013

KEY POINTS

- **Marburg 1 oil exploration well drilled and tested in ATP854P**
- **Stagmount 1 CSG core well drilled in ATP813P ,Galilee Basin**
- **Gas-flow testing continues at the Sapphire pilot well**
- **Cash Reserves $14m at 31 December 2013**

Blue Energy Limited (ASX: "BUL") is pleased to update the market on further progress achieved within its Queensland oil and gas projects for the three months ended 31 December 2013.

Reserve and Resource Position

Permit	Block	Assessment Date	1P (PJ)	1C (PJ)	2P (PJ)	2C (PJ)	3P (PJ)	3C (PJ)
ATP854P		30-06-12	-	22	-	47	-	101
ATP813P		31-12-10	-	-	-	42	-	548
ATP814P	Sapphire	31-12-12	-	75	50	127	178	224
ATP814P	Central	31-12-12	-	27	-	81	-	438
ATP814P	Monslatt	31-12-12	-	-	-	476	-	1,693
ATP814P	Lancewood	30-09-13	-	7	5	11	15	421
ATP814P	South	30-06-13	-	15	-	27	6	30
Total (PJ)			**-**	**146**	**55**	**811**	**200**	**3,454**
Total (bcf)			**-**	**146**	**55**	**811**	**200**	**3,454**

All numbers are net to Blue Energy.

Exploration Drilling – Marburg Oil Prospect ATP854P (100% Blue Energy)

The Blue Energy technical team identified a large untested conventional structural trap within the southern part of the wholly-owned ATP854P permit following the Company's normal technical review process of existing data. Negotiations with the landholder have been completed and access to the location secured.

The principal targets for this conventional play were the Precipice and Boxvale Sandstones, which are productive in the Moonie, Alton and New Royal Oil fields to the south.

Marburg 1 spudded on 13 October 2013 and was drilled to a Total Depth of 685 metres (RT) by Coe Drilling rig 10. Good oil indications (fluorescence and solvent cut) were intersected in the Boxvale Sandstone, Lower Evergreen Formation, Precipice Sandstone and Moolayember Formation. The basal Evergreen/top Precipice Sandstones fluorescence shows were tested by open hole Drill Stem Test (DST) during drilling, however the DST results showed this interval (above the main Precipice Sandstone porosity) to be of low permeability, and the test failed to recover hydrocarbons.

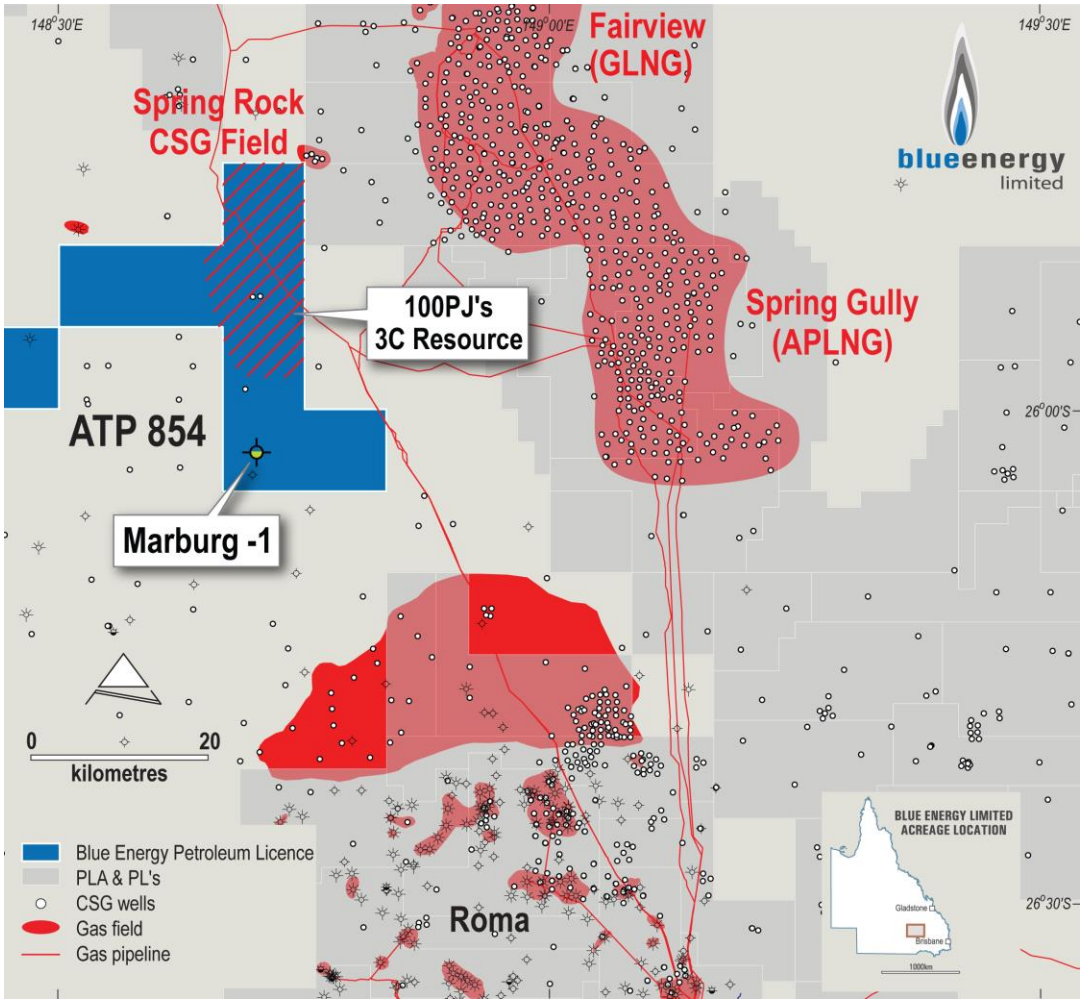
Wireline logs were acquired in the well. This process included the acquisition of sidewall cores, targeting the Precipice Sandstone section. The sidewall cores also exhibited strong hydrocarbon indications (fluorescence) across the primary target. In addition to the usual wireline logs, a wireline pressure survey was conducted to establish the fluid content and pressure characteristics of the Precipice Sandstone. Wireline log analysis shows the Precipice Sandstone to have excellent porosity and permeability, and that there is a possible hydrocarbon column present. However, the level of certainty of this was in doubt due to factors including the type of oil shows encountered (possible low specific gravity (heavy) crude oil), whether the shows represent a live or residual oil column only, and the pressure depleted nature of the Precipice Sandstone.

As a consequence it was considered that the most cost effective manner in which to further clarify the hydrocarbon indications encountered in Marburg 1 was to move the drilling rig off location, suspend the well and develop an extended well test program for the Precipice Sandstone, to be implemented in the coming months.

The well test operation over the Precipice Sandstone in Marburg 1 was conducted in early January (as reported to the market) but was however unsuccessful in producing any significant hydrocarbons. The Marburg 1 well will be plugged and abandoned.

Blue Energy entered into an agreement to farm-out 20% of the Marburg oil prospect for a carry of the cost of drilling the Marburg 1 oil exploration well and the completion, testing and production of the well and all works required to lodge a Production Licence Application over the potential Marburg 1 discovery area, if applicable. The farminee provided all funding required for drilling and testing of the Marburg 1 well.

Location of the Marburg Oil Prospect ATP854P



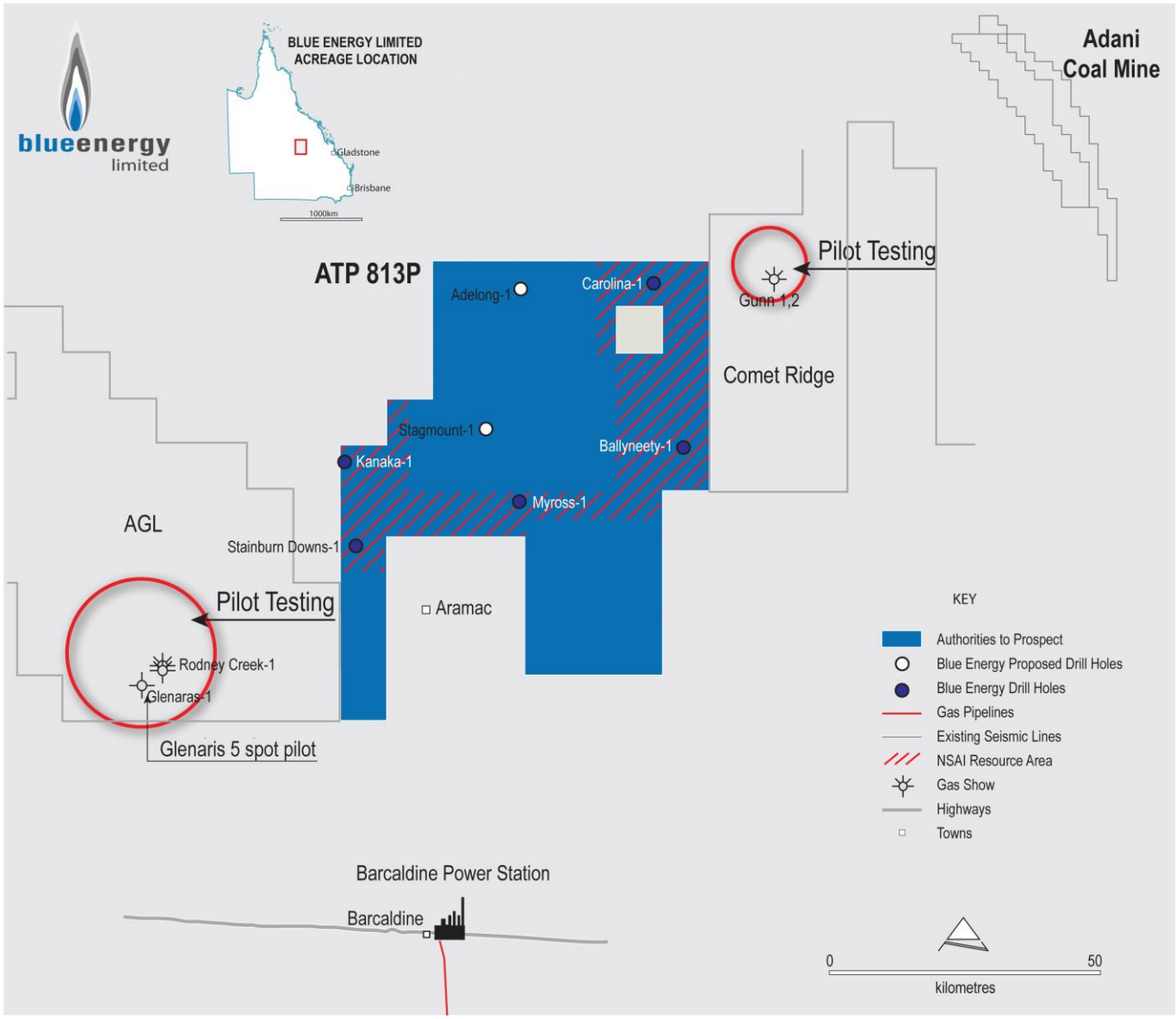
Following the drilling of the Marburg 1 oil exploration well, further geological assessment of ATP854P will be undertaken for both conventional oil and gas potential plus the assessment of the deeper Permian section (Rieds Dome Beds), which is thought to be present off the structural highs in the permit. The Rieds Dome Beds could be a potential coal seam gas target in this permit.

Galilee Basin ATP813P (100% Blue Energy)

During the quarter, Blue Energy drilled the Stagmount 1 CSG exploration core well in the permit. The well spudded 3 November 2013 and reached a total depth of 1,153m in the Permian Jochmus Formation. The well targeted the Early Permian Betts Creek Beds and Aramac Coal Measures.

The well intersected 16 metres of net coal and core samples are still undergoing desorption testing. The results of the well (including desorption analysis) will be sent to Netherland, Sewell and Associates (NSAI) for incorporation into the ATP813P model and it is expected that Blue will receive a revised Contingent Resource assessment for the permit from NSAI in due course.

The Stagmount 1 well was plugged back to casing point (718 metres) and ownership transferred to the landowners for their use as a future water well.



Wiso Basin - Northern Territory (Blue Energy earning up to 50%)

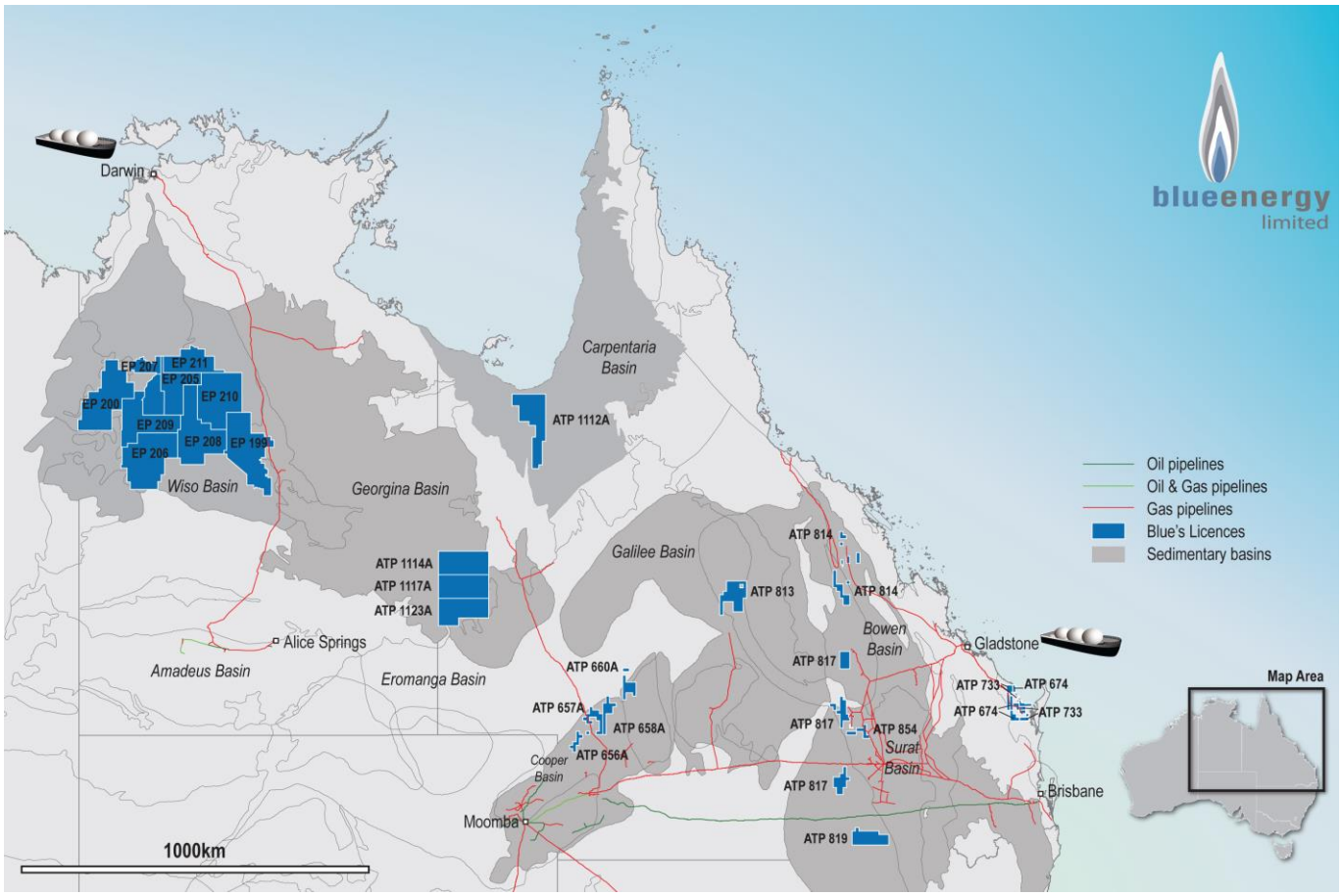
Blue Energy executed a binding term sheet to farm into Australian Oil and Gas Limited's ("AOG") nine exploration blocks in the Wiso Basin in the Northern Territory (see Figure 1).

The Wiso Basin, located northeast of Alice Springs in the central Northern Territory, is relatively unexplored with only minimal exploration and stratigraphic drilling conducted in the basin's margins. It is expected however that the Wiso Basin will contain a Cambrian aged sequence similar to that present in the adjacent Georgina Basin which has been demonstrated to contain widespread marine source rock with an active and viable petroleum system.

In addition, the underlying potential Proterozoic sequence has been shown to be hydrocarbon productive in the McArthur Basin and could hold significant hydrocarbon potential in the Wiso Basin area.
The proposed farm-in agreement involves a total area of 111,887 square kilometres (27.6 million acres) of the Northern Territory (NT), an area approximately equivalent to the size of England.

Initial work on Gravity and Magnetic geophysical data has commenced in the three granted permits (EP200, EP 205 and EP207), whilst Native Title Agreements are required to be executed with the Traditional Owners of the lands before the remaining permits can be awarded.

Blue Energy Permit Locations



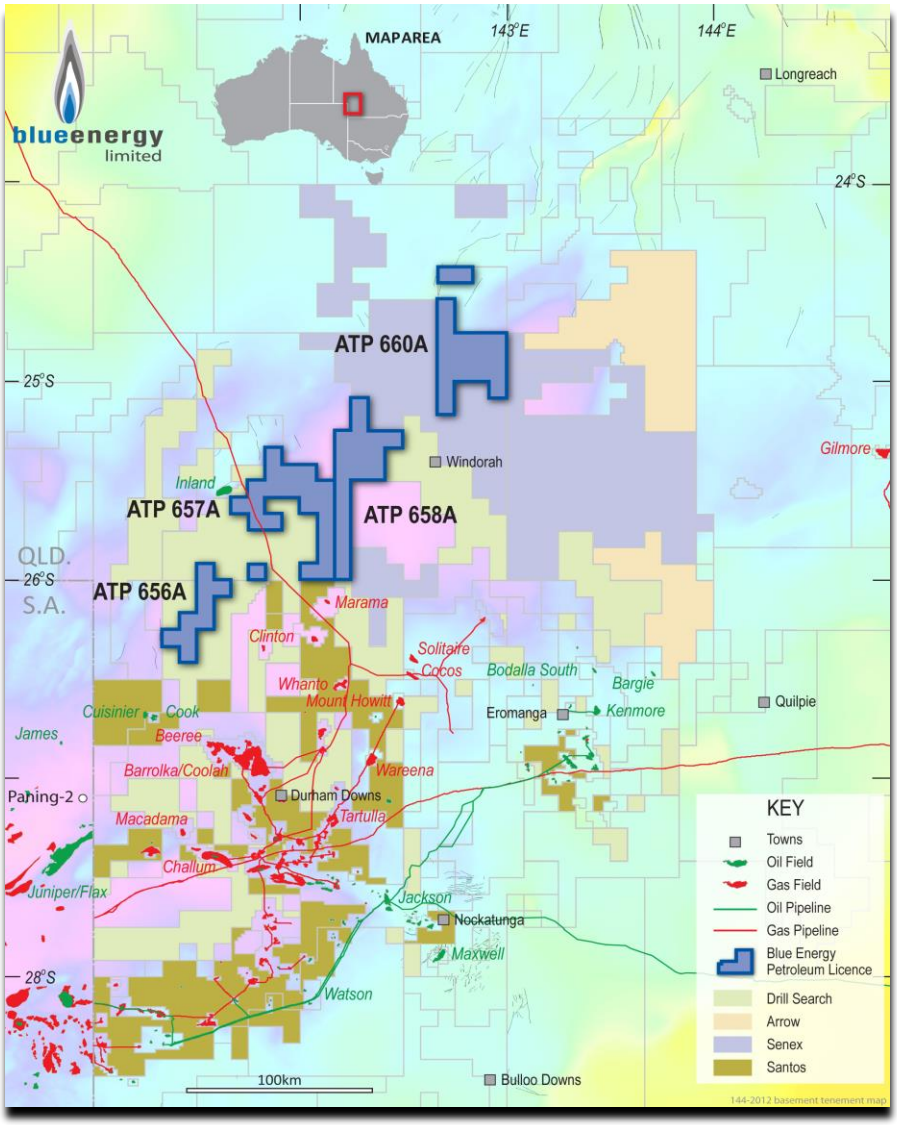
Cooper Basin (ATP 656A, 657A, 658A, & 660A Blue Energy 100%)

All Native Title Agreements for these Cooper Basin application areas are now in place, with the next step before grant of these areas now being the issuing of Environmental Authorities by the Queensland Government. Once this is completed and the permits are awarded by the Government, Blue Energy will be in a position to commence its year one work program.

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

Operators recognise that this Northern Flank of the Cooper Basin area has similar potential to the western, eastern and southern flanks of the Cooper Basin, where Permian generated liquids have migrated into the overlying Jurassic reservoirs on the flanks of the basin. The key to unlocking the Northern Flank area of the Cooper Basin in Queensland will be the acquisition processing and interpretation of modern 2D and especially 3D seismic data. These techniques have been successfully used elsewhere on the margins of the basin and yielded exceptionally high drilling success ratios.

Location map of Blue Energy's Cooper-Eromanga Basin acreage



ATP1114A, 1117A, 1123A – Southern Georgina Basin Qld (Blue Energy 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. (Owen #3).

Blue Energy understands that on-ground activity in permits adjacent to Blue Energy's Southern Georgina Basin permits has commenced, with Central Petroleum (who is in Joint Venture partnership with Total) having recently completed a regional 2D seismic survey totalling 984 line kilometres in ATP's 909, 911 and 912P. . Central Petroleum's ATP912P adjoins Blue Energy's 100% owned ATP1123A.

Maryborough Basin (ATP613P, ATP674P and ATP733P - Blue Energy 75% subject to farm in)

Blue Energy, in conjunction with its Joint Venture partner Beach Energy Limited (Beach) (ASX: BPT), has been 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 farm-in work program. Work on establishing baseline water bore information (as required by the Government) for the area is continuing. Planning is underway to undertake the drilling of a single well as required under the farm-in agreement. This well will be drilled once all the environmental, and government approvals are obtained.

Surat Basin (ATP818P Blue Energy100%)
Consistent with ongoing prioritising of acreage within the portfolio, Blue Energy has relinquished ATP818P in the eastern Surat Basin. The area including and surrounding ATP818P is extensively covered by areas of Strategic Cropping Land (SCL) declarations. As such the ability to access and explore the area in a timely manner is problematic. In addition should exploration have been successful in the permit, it is not clear whether the SCL encumbrance would permit a practical development of any discovered resource.

Petroleum Tenements Held

Permit	Location	Interest Held Previous Quarter	Interest Held Current Quarter	Comment
ATP656A	Cooper Basin (Qld)	100%	100%	
ATP657A	Cooper Basin (Qld)	100%	100%	
ATP658A	Cooper Basin (Qld)	100%	100%	
ATP660A	Cooper Basin (Qld)	100%	100%	
ATP813P	Galilee Basin (Qld)	100%	100%	
ATP814P	Bowen Basin (Qld)	100%	100%	
ATP817P	Surat Basin (Qld)	100%	100%	
ATP818P	Surat Basin (Qld)	100%	0%	Relinquished during quarter
ATP819P	Surat Basin (Qld)	100%	100%	
ATP854P	Surat Basin (Qld)	100%	100%	
ATP1112A	Carpentaria Basin (Qld)	100%	100%	
ATP1114A	Georgina Basin (Qld)	100%	100%	
ATP1117A	Georgina Basin (Qld)	100%	100%	
ATP1123A	Georgina Basin (Qld)	100%	100%	

Beneficial Interests Held via Farm in's

Permit	Location	Interest Held Previous Quarter	Interest Held Current Quarter	Comment
ATP613P	Maryborough Basin (Qld)	75%	75%	See Note 1
ATP674P	Maryborough Basin (Qld)	75%	75%	See Note 1
ATP733P	Maryborough Basin (Qld)	75%	75%	See Note 1
EP199A	Wiso Basin (NT)	10%	10%	See Note 2
EP200	Wiso Basin (NT)	10%	10%	See Note 2
EP205	Wiso Basin (NT)	10%	10%	See Note 2
EP206A	Wiso Basin (NT)	10%	10%	See Note 2
EP207	Wiso Basin (NT)	10%	10%	See Note 2
EP208A	Wiso Basin (NT)	10%	10%	See Note 2
EP209A	Wiso Basin (NT)	10%	10%	See Note 2
EP210A	Wiso Basin (NT)	10%	10%	See Note 2
EP211A	Wiso Basin (NT)	10%	10%	See Note 2

Note 1 – Interest held subject to completion of farmin work program.
Note 2 - Ability to earn up to 50% subject to completion of farmin work program.

Bowen Basin ATP814P (Blue Energy 100%)

Pilot Production testing continues on the Sapphire 4 well in ATP814P. Blue is awaiting completion of a geological model by Netherland and Sewell to establish further reserve and resource upgrades for ATP814P.

CORPORATE

Annual General Meeting

The Annual General Meeting of the Company was be held on Thursday 28 November 2013 at 11.00am (Brisbane time). All resolutions were carried.

Operational Review

The review of operating costs continues with further cost savings identified and implemented during the quarter. The reduced overhead spend will allow existing cash reserves to be focused on value-adding exploration/production activities. To date the Company has successfully implemented non-recurring cost reduction initiatives that will reduce annual operating expenditures by $2.7 million.

Shares, Rights & Option Issues

During the quarter 10,345,000 incentive rights were issued and 354,000 incentive rights lapsed. No options were issued or lapsed. No shares were issued.

Competent Person Statement

The estimates of 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), utilising a deterministic methodology.

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