

29 January 2010

**Australian Stock Exchange
Announcements Office**

**QUARTERLY ACTIVITIES REPORT
December 2009**

KEY POINTS

- **Cash Reserves \$39.9m**
- **Exploration Activities**
 - **Drilling program underway, high gas content and shale gas potential indentified, drilling program extended in ATP814P**
 - **Drilling program underway in ATP813P**
 - **Initial drilling program completed in ATP896P**
 - **Pipeline Survey Licence application submitted**
- **ANZ appeals court decision regarding validity of appointed receivers**
- **Director Changes**
 - **Retirement of Mr Stephen Harrison**
 - **Mr Peter Flanagan not re-elected by Shareholders**
- **Annual General Meeting held**

OPERATIONS

Drilling program underway, high gas content and shale gas potential indentified, drilling program extended in ATP814P (Bowen Basin)

On 8 October 2009 drilling of the first well of a six (6) well program commenced within ATP814P in the northern Bowen Basin of central Queensland.

The Monslatt drilling program (3 wells) was to test for the presence and thickness of the Permian aged Moranbah Coal Measures in the eastern area of ATP814P. The wells are located approximately 20km west of the town of Nebo in central Queensland and approximately 50 kilometres north east of Arrow Energy's Moranbah Gas Project.

The Sapphire drilling program (3 wells) is designed to test for the presence and thickness of the Permian aged Moranbah Coal Measures in the western area of ATP814P. These wells will evaluate the extent of coals intersected in the Sapphire 1 core well drilled in October 2008 and are located adjacent to Arrow Energy's Moranbah Gas Project and approximately 15km from the Moranbah North power station.

The Monslatt 1A core well was drilled in early December 2009 and gas desorption results indicate high gas content in the region. In total 36 samples were placed on test, all of which desorbed gas with the highest yielding sample having reached 23.4m³/tonne of gas (on a raw basis) and 12 samples were in excess of 10m³/tonne. Methane content is 95% or better. The samples are currently still desorbing gas and final results will be available during the first quarter of 2010.

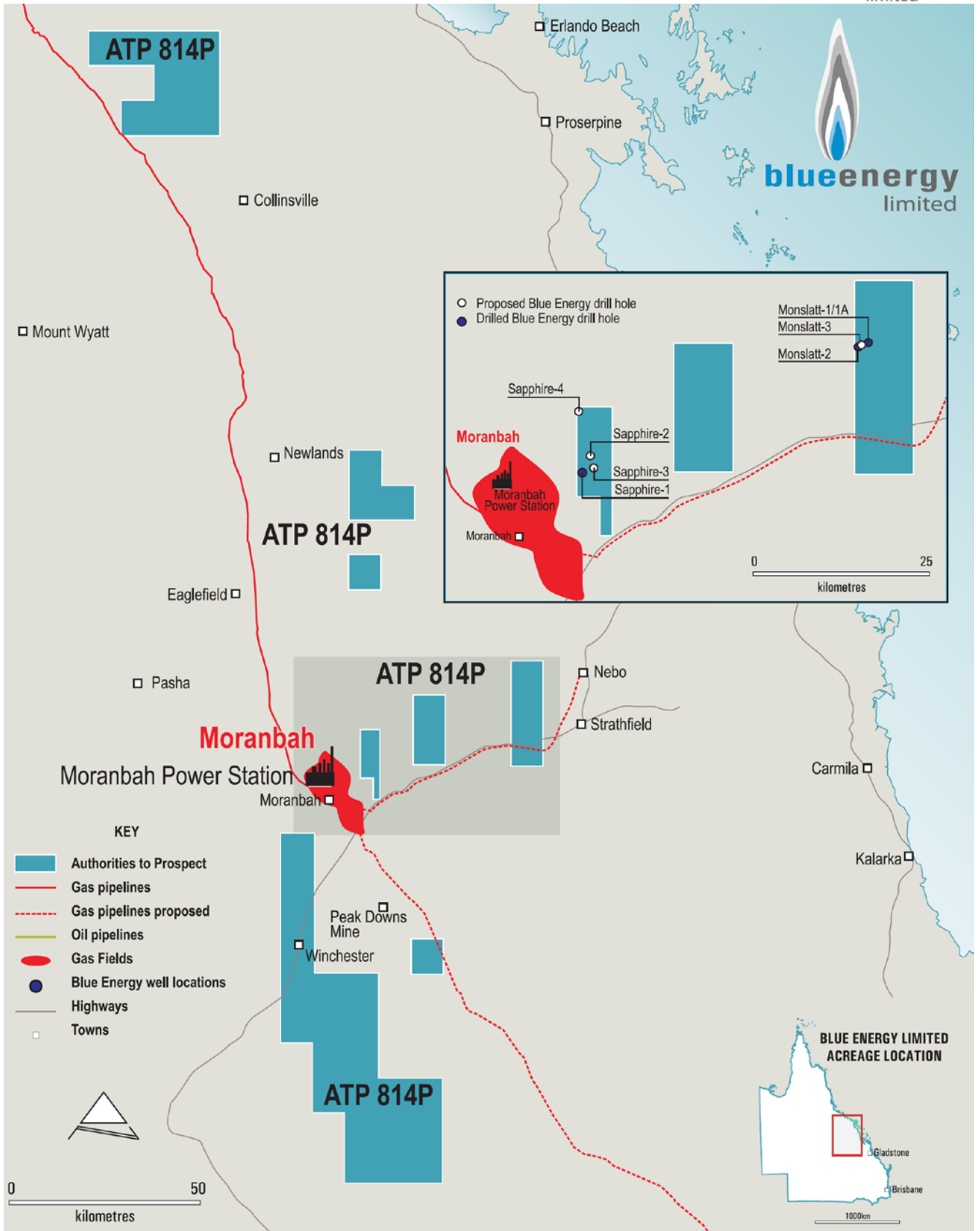
Carbonaceous shales were intersected in the well with visible bleeding gas at surface. These shales have been specifically targeted for sampling in the Monslatt drilling campaign and subsequent wells and have yielded gas contents up to 10m³/tonne (raw). The identification of gaseous shales within the eastern block of ATP814P is a very welcome and exciting outcome.

This development has significant implication for the play and potential resource base of this part of the permit. Further analysis of these results is being undertaken to assess the resource.

As a result of the very high gas and methane content, optimal depth window and high net coal, Blue Energy is planning to extend its exploration program in the eastern block of ATP814P to test the lateral extent of the coals throughout the block. This will allow the company to accelerate its reserves certification process with Netherlands Sewell & Associates (NSAI). Planning for a pilot well has commenced and will be accelerated with the aim of achieving reserves certification by mid 2010.

Planning is underway for up to an additional fifteen (15) wells, predominately stratigraphic wells with strategically placed core and production wells, to be drilled in the eastern (Monslatt) block of ATP814P. This program is designed to determine the lateral extent and thickness of the coals within the broader area of the block.

The first production test well in the area is expected to be drilled in early March 2010 with planning currently underway. The production test will be designed to establish water and gas flow rates which are a critical input to the reserve certification process. Preliminary data from the work to date points to a high level of inherent permeability within the coals as the result of natural fracturing. This should enable simpler completion techniques to be deployed.

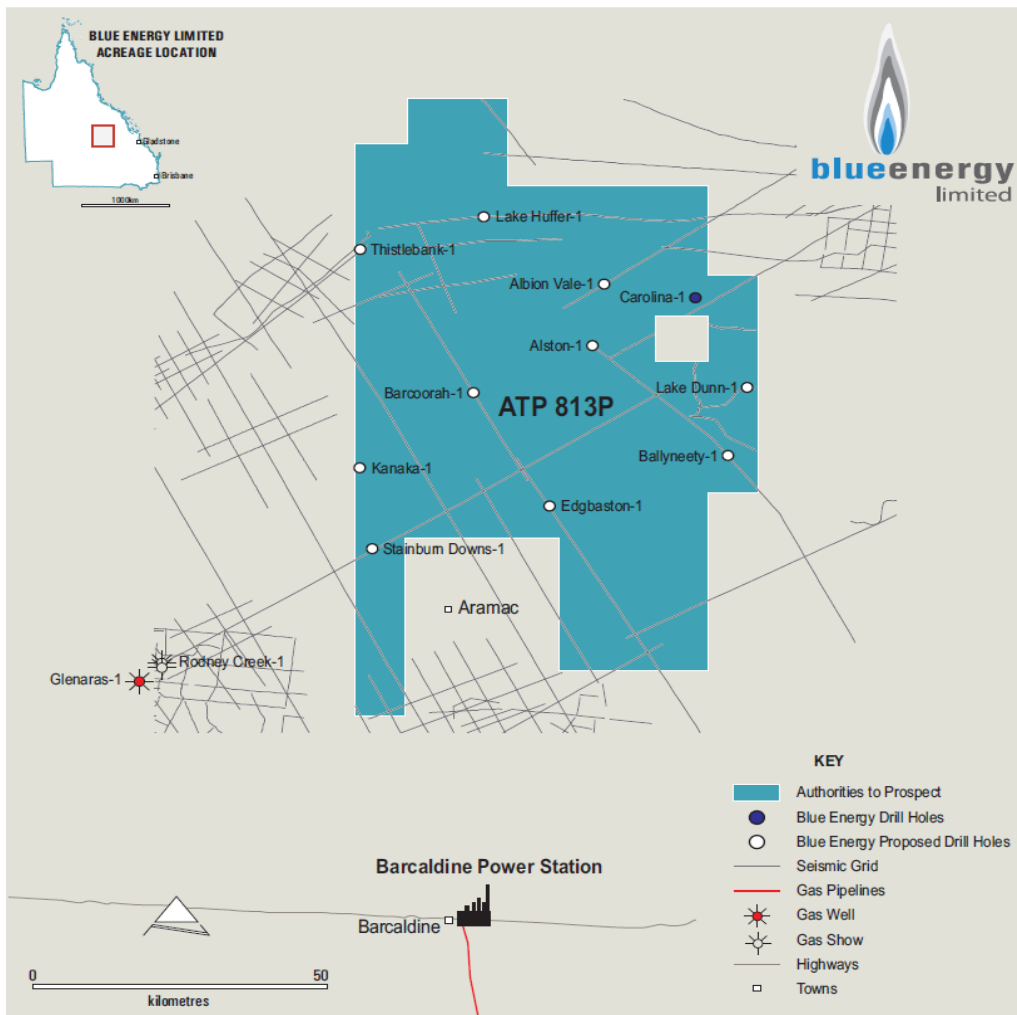


Drilling program commenced in ATP813P (Galilee Basin)

The 10 well core hole drilling program in ATP813P in the Galilee Basin of central Queensland commenced during the quarter. The corehole program is designed to systematically explore the large ATP813P permit (approx 6,185 km²) and specifically investigate the Permian aged Betts Creek and Aramac Coal Measures. The aim of the initial 10 well 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 first well in the program, Kanaka 1, spudded on 16 November 2009 and was completed on 21 December 2009. The well reached a total depth of 1,300 metres intersecting 25 metres of coal, including a 10 metre net coal seam at 1,136 meters. Wireline logs were run and preliminary raw gas contents of up to 3.9m³/tonne have been obtained from coal sampled within the Betts Creek Formation. These results are consistent with reported results from nearby operators and confirms the input parameters to Blue Energy's probabilistically determined original gas in place estimate of approximately 15TCF (P₅₀) announced in 2008.

Drilling activities have resumed in the permit with the drilling of Stainburn Downs 1 underway.



Initial drilling program completed in ATP896P

Blue Energy commenced a core well program in ATP896P during August 2009 with Lucas-Mitchell Rig 180. The program was located to the east of Arrow Energy's Tipton West CSG field, and is aimed at obtaining coal thickness and distribution data together with gas content and permeability data in ATP896P. Three core wells, Orphan 1, Gone 1A and Oakey Power 1 were drilled with testing and wireline logs completed. The net coal intersected was at the lower end of expectations (1 – 10m net coal), however was not unexpected given that ATP896P lies on the eastern margin of the basin. Gas contents were also low (<1m³/tonne) given the shallow nature of the coals. Analysis of the drilling results is continuing and these will be incorporated into the data set for the permit. A further review of the permit to identify alternate targets will be undertaken during the second quarter of 2010.

Galilee Pipeline Survey

Pipeline Survey Licence application (PSL 49) has been lodged with the Queensland Government and is progressing through the various regulatory bodies required for approval. The aim of the PSL is to enable more detailed investigations of the optimum pipeline route from Blue Energy's ATP813P acreage in the Galilee Basin to potential export locations on the east coast of Queensland to Abbot Point and Gladstone.

Given the encouraging results from the initial phase of the current drilling program in the Company's ATP814P located near Moranbah, the investigations will be expanded to include potential pipeline routes from Moranbah to both Abbot Point and Gladstone.

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. Particular focus was applied to analysing existing results and data from all Blue Energy exploration and other available data to confirm current interpretations.

Conventional

The Company continued work on its PNG offshore PPL's, including the review of existing seismic, and identified the potential for a number of different play types. An extensive search for a farmin partner for the Company's PNG offshore PPL's was undertaken during 2009 and despite interest being shown by several parties no offers have been received. The Company met with authorities in PNG in November 2009 to discuss options available for the completion of the work program and determination of a year 3 and 4 work program.

Given the unsuccessful farmout process, the high level of exploration risk, the deep water and expensive nature of the permits and the unsuccessful application for an additional 14,300 km² covering inshore waters and onshore acreage to consolidate the potential new oil play identified, the company has decided to surrender the PNG offshore PPL's.

Safety

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

CORPORATE

Board Changes

As foreshadowed in November 2009, Mr Stephen Harrison, a non-executive director of the Company, retired effective 31 December 2009. Mr Harrison has been a Director since 21 August 2008 and was Chairman of the Risk and Audit Committee.

At the Annual General Meeting held on 11 November 2009, Mr Peter Flanagan was unsuccessful in being re-elected by shareholders and ceased to be a Director at the conclusion of the meeting.

Annual General Meeting held

The Company's Annual General Meeting was held in Brisbane on 11 November 2009. A summary of the voting results of the AGM are contained in the table below.

Resolution	For	Against	Abstain
Adopt Remuneration Report for the Year Ending 30 June 2009	135,764,754	3,674,623	115,245,792
Approve Shares Issued to KOGAS Australia Pty Ltd	75,383,916	2,520,061	114,078,187
Approve Convertible Note Options Issued to City High Natural Resources High Yield Trust PLC	137,552,578	2,620,249	114,499,035
Approve Executive Options to John Phillips	134,945,586	5,252,391	114,558,885
Approve Executive Options to Peter Cockcroft	134,200,090	6,650,985	114,264,586
Re-elect Peter Cockcroft as Director	138,054,913	2,332,492	114,544,756
Re-elect Paul Massarotto as Director	139,194,027	672,081	114,964,354
Re-elect Garry Button as Director	139,242,587	663,521	114,970,754
Re-elect Heung-Bog Lee as Director	138,382,471	1,772,075	114,694,756
Re-elect Peter Flanagan as Director	125,473,895	223,001,543	917,540
Approve Directors' Aggregate Fee Level	128,754,203	7,957,364	115,490,241
Approve Directors' Options to Peter Cockcroft	130,776,816	8,564,159	114,594,385
Approve Directors' Options to Paul Massarotto	130,888,395	8,160,781	114,536,885
Approve Directors' Options to Garry Button	131,035,033	8,173,341	114,536,885
Approve Directors Options to Heung-Bog Lee	130,950,593	8,107,781	114,536,885
Approve Directors Options to Peter Flanagan	26,700,522	114,593,003	114,435,826
Approve Deeds of Indemnity	134,525,189	2,221,508	115,125,567
Approve Employee Share Option Plan	136,076,463	2,317,994	114,803,672
Grant Section 195 Approval	134,309,498	2,281,364	115,969,438

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.

These events have 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 purportedly controlled by the Receiver.

Financial Position

The Company remains in a strong financial position with cash reserves of \$39.9m as at 31 December 2009.

Share & Option Issues

2,000,000 Employee Share Options were granted in the period through the Company's Employee Share Option Plan. 3,200,000 Director Options were issued in accordance with the resolution passed at the Annual General Meeting. 750,000 options expired or were cancelled during the period relating to the Company's Employee Share Option Plan. 12,700,000 options were exercised and converted to Shares during the period.

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