

29 July 2010

**Australian Stock Exchange  
Announcements Office**

**QUARTERLY ACTIVITIES REPORT  
June 2010**

**KEY POINTS**

- **Exploration Activities Continue**
  - **Drilling program continues in ATP814P**
  - **Drilling program undertaken in ATP813P**
- **Cash Reserves \$27m**
- **John Phillips appointed Managing Director**
- **KOGAS farmin option extended**

**OPERATIONS**

**Drilling Program continues in ATP814P**

**Monslatt Block**

In March 2010 Blue Energy received an initial gas in place resource estimate from Netherland, Sewell and Associates (NSAI) of 121PJ (2C), 3,411PJ (3C) from coals within the Monslatt Block. In addition, a Prospective Resource of 3,630PJ relating to the gas potential of the carbonaceous shales was also received from NSAI. Blue Energy has continued exploration and appraisal activities aimed at the conversion of the 2C/3C resource estimates into certified 2P/3P reserves. To this extent production well drilling and testing is ongoing and an updated data set has been provided to the reserves certifiers.

During the period the following wells were drilled:

Monslatt 5C and 6C stratigraphic wells reached total depths of 858 and 959 metres respectively. Wireline logs acquired on both wells identified between 34 metres and 40 metres of net coal. The wells confirmed the lateral continuity of the target seams and the suitability of each area for a production well to be drilled.

Monslatt 4 production well reached a total depth of 812 metres and 7" production casing was run. Wireline logs and permeability tests were acquired in the well and these are being interpreted prior to completion of the well as a pilot production well.

Monslatt 5 production well, located in the northern part of the Monslatt Block and approximately 5km north of the Monslatt 4 well, reached a total depth of 806 metres and 7" production casing was run. Wireline logs and permeability tests were acquired in the well and are also being interpreted prior to completion of the well as a pilot production well.

Monslatt 6 production well was spudded on 19 June 2010 and reached a total depth of 520 metres in the Moranbah Coal Measures subsequent to quarter's end. The well was cased and suspended pending the arrival of an under-balanced drilling rig to drill the P seam target. Wireline logs were acquired and permeability testing was conducted in the well prior to suspension. Production casing was run to a depth immediately above the Moranbah

Coal Measure "P" seam. Under-balanced drilling operations are expected to commence in the first week of August 2010 to assess the main P seam target.

Monslatt 7 has been drilled subsequent to quarter end to a total depth of 459 meters. As with the Monslatt 6 well it has been cased and suspended pending the arrival of an under-balanced drilling rig to drill the P seam target using under-balanced drilling techniques which minimises formation damage.

### **Sapphire Block**

Drilling of the Sapphire 2 core well was completed during the quarter with the well reaching a total depth of 1,050 metres. The well was logged and suspended pending completion as a monitoring well. The well intersected approximately 40 metres of net coal. The Sapphire 2 well targeted the Rangal, Fort Cooper and Moranbah Coal Measure sequences approximately 2.7km north east of the Sapphire 1 well drilled by Blue Energy in 2008. The location is only 14km east of Arrow Energy's Moranbah Gas Project.

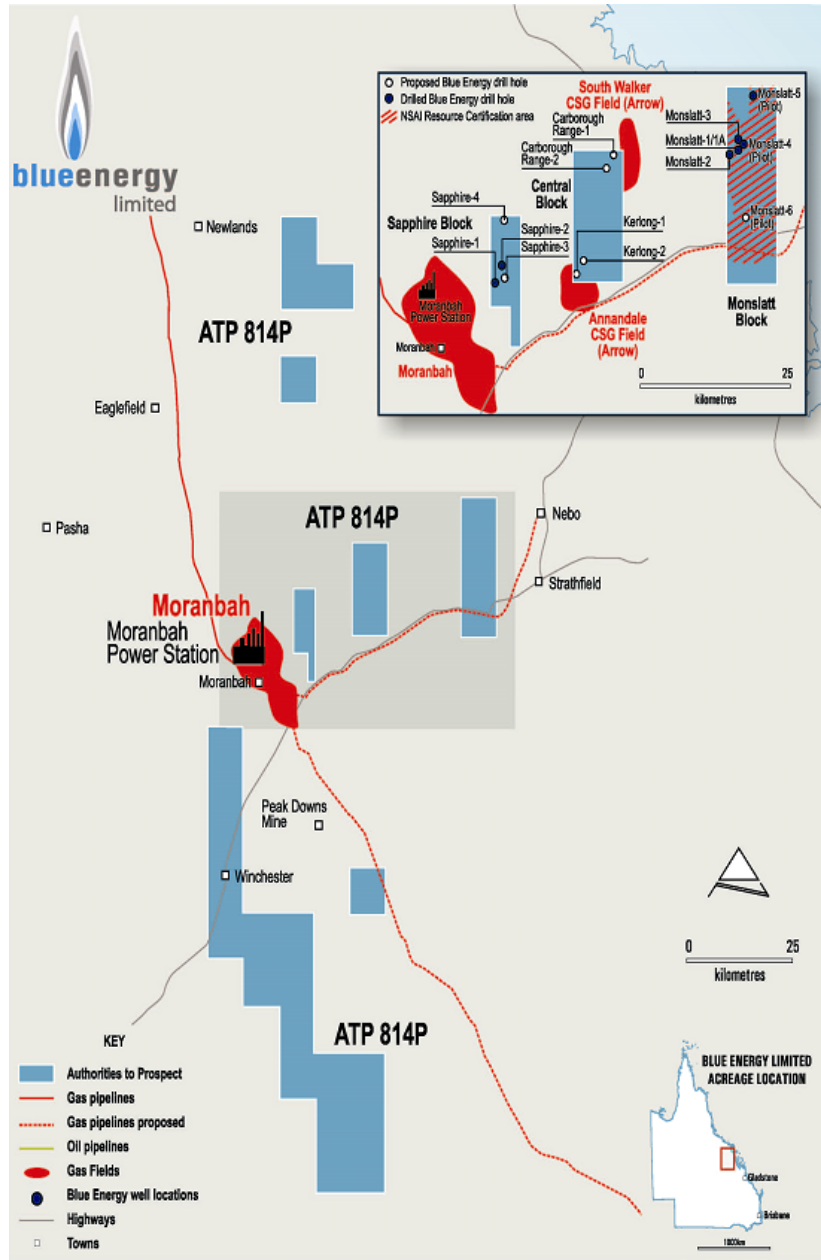
Drilling also commenced on the Sapphire 3 core well during the quarter with the well reaching a total depth of 627 metres following the end of the quarter. Wireline logs were obtained and permeability testing conducted. The well intersected a total of 35 metres of net coal, in the Rangal and Fort Cooper Coal Measure sequences. Samples of these coals are currently still on desorption test to determine gas content. This encouraging initial well result confirms the potential of this part of the permit which will be further assessed in the coming months.

### **Central Block**

Following the success of the Monslatt block a review of the Central block identified four (4) locations for an initial exploration program in this block. Drilling will target the Rangal and Fort Cooper Coal Measures to assess the continuity of these coals from the Arrow Energy Annandale and South Walker CSG fields which adjoin the Central block.

Drilling of the first of these four (4) wells commenced after quarter end with the spudding of the Kerlong 1 core well. The well is designed to evaluate the Rangal Coal Measures at a location approximately 5km north of the producing Annandale CSG Field (operated by Arrow Energy). The well is approximately 25km east of Moranbah.

**Figure 1 – ATP814P**



**Drilling program undertaken in ATP813P (Galilee Basin)**

The initial core hole drilling program in ATP813P in the Galilee Basin of central Queensland was completed during the quarter. The core hole program systematically explored the southern portion of the large ATP813P permit (approx 4,125km<sup>2</sup> after compulsory relinquishment) and specifically investigated the Permian aged Betts Creek and Aramac Coal Measures.

During the period the following wells were drilled:

The Stainburn Downs 1 core hole reached a total depth of 1,200 metres with wireline logs identifying a total net coal intersection of 20 metres in the Betts creek and Aramac Coal Measures. Gas contents in the range of 2 - 5m<sup>3</sup>/tonne (dry ash free) were recorded.

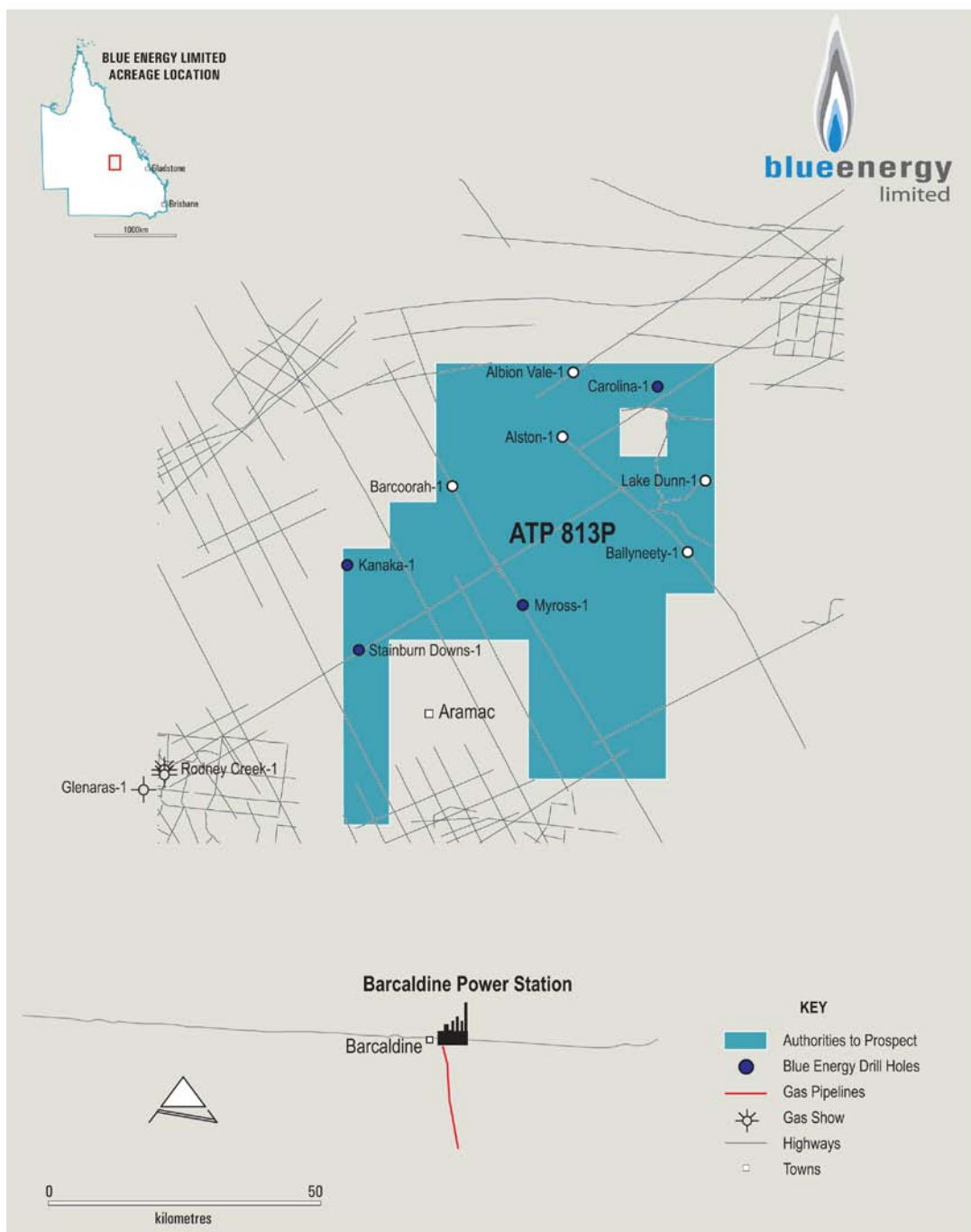
The Myross 1 core hole, located approximately 30km north east of the town of Aramac, reached a total depth of 1,098 metres. Wireline logs were acquired and a total net coal thickness of 20

metres was intersected in the well. Gas content analysis is in the final stages of desorption testing.

The Balyneety 1 core well, located approximately 50km north east of the town of Aramac, reached a total depth of 1,008 metres. Wireline logs were acquired and a total net coal thickness of 15 metres was intersected in the well.

The results of this initial coring program will now be used to establish coal distribution across the southern portion of the permit, together with gas content and permeability. A review of all data obtained will be undertaken in the coming months with the aim of developing a second stage exploration program.

**Figure 2 – ATP813P**



June3\_2010\_atp\_813 proposed wells seismic

## **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.

## **Conventional**

As disclosed in the Half Year accounts the Company is currently in the process of surrendering its four PNG PPL's. The decision was made based on the high level of exploration risk, the deep water and expensive nature of the permits and the unsuccessful application for an additional 14,300km<sup>2</sup> covering inshore waters and onshore acreage.

## **Safety**

During the quarter the Company maintained its incident free safety record consistent with the Company's commitment to ensuring its activities are conducted in a safe manner.

## **CORPORATE**

### **Managing Director Appointment**

Mr John Phillips, the Company's CEO, was appointed as Managing Director of the Company, effective from 28 June 2010. Mr Phillips, who joined Blue Energy in May 2009, has developed a deep understanding of the coal seam gas industry as a result of his experience while working with Conoco in the 1990's through to his previous role as Chief Operating Officer of successful CSG explorer Sunshine Gas.

### **KOGAS Farmin Option Extended**

A request was received by KOGAS during the quarter to extend the farmin option in respect of ATP814P and/or ATP813P to 28 February 2011. The farmin option was initially granted to KOGAS as part of the Share Placement Agreement entered into between the parties in August 2009. KOGAS cited the recent taxation uncertainty together with exploration delays associated with the severe flooding events that occurred between December 2009 and March 2010 in requesting the extension. Blue Energy is committed to working with KOGAS as a strategic partner and has agreed to their request for an extension. During the option extension period Blue Energy will continue to undertake exploration activities to further mature these assets and will provide KOGAS all necessary data to enable KOGAS to fully assess the permits with the aim of gaining KOGAS' commitment to a farmin agreement in early 2011.

### **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.

On 14 April 2010 the liquidators for Primebroker Securities Limited launched a \$97.7 million legal action against ANZ on behalf of creditors which seeks an order for the charge under which

PricewaterhouseCoopers' were appointed receivers of Primebroker to be set aside under Section 588FJ of the Corporations Act, and ANZ's floating charge over Primebroker's assets declared void.

These events continue to create 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 controlled by the Receiver.

### **Financial Position**

The Company has cash reserves of \$27m as at 30 June 2010.

### **Share & Option Issues**

The Company did not grant any options during the period. A total of 1,600,000 options expired or were cancelled during the period relating to the Company's Employee Share Option Plan.

**END**

# Appendix 5B

## Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001.

Name of entity

**Blue Energy Limited**

ABN

14 054 800 378

Quarter ended ("current quarter")

30 June 2010

### Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (12 Months) \$A'000
1.1 Receipts from product sales and related debtors including refunds of Goods & Services Tax	390	1,361
1.2 Payments for		
(a) exploration and evaluation	(3,558)	(13,502)
(b) development	-	-
(c) production	-	-
(d) administration	(630)	(4,163)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	456	1,616
1.5 Interest and other costs of finance paid	-	(300)
1.6 Income taxes paid	-	-
1.7 Other – Sundry income	-	-
<b>Net Operating Cash Flows</b>	<b>(3,342)</b>	<b>(14,988)</b>
<b>Cash flows related to investing activities</b>		
1.8 Payment for purchases of:		
(a)prospects	-	-
(b)equity investments	-	-
(c) other fixed assets	(28)	(265)
1.9 Proceeds from sale of:		
(a)prospects	-	-
(b)equity investments	-	-
(c)other fixed assets	-	-
1.10 Loans to other entities	-	-
1.11 Loans repaid by other entities	-	-
1.12 Other – Investment in shares	(1,534)	(1,534)
<b>Net investing cash flows</b>	<b>(1,562)</b>	<b>(1,799)</b>
1.13 Total operating and investing cash flows (carried forward)	<b>(4,904)</b>	<b>(16,787)</b>

+ See chapter 19 for defined terms.

**Appendix 5B**  
**Mining exploration entity quarterly report**

1.13	Total operating and investing cash flows (brought forward)	(4,904)	(16,787)
	<b>Cash flows related to financing activities</b>		
1.14	Proceeds from issues of shares, (less costs)	-	16,292
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	-	(3,000)
1.18	Dividends paid	-	-
1.19	Other – over receipt on share issues (refundable)	-	-
	<b>Net financing cash flows</b>	-	13,292
	<b>Net increase (decrease) in cash held</b>	(4,904)	(3,495)
1.20	Cash at beginning of quarter/year to date	31,872	30,499
1.21	Exchange rate adjustments to item 1.20	7	(29)
1.22	<b>Cash at end of quarter</b>	26,975	26,975

**Payments to directors of the entity and associates of the directors**

**Payments to related entities of the entity and associates of the related entities**

		Current quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2**	223
1.24	Aggregate amount of loans to the parties included in item 1.10	-

1.25 Explanation necessary for an understanding of the transactions

\*\* Directors' fees and consulting fees paid to Directors or companies related to Directors (includes GST of \$1,666).

**Non-cash financing and investing activities**

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

N/A

2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

N/A

+ See chapter 19 for defined terms.

### Financing facilities available

Add notes as necessary for an understanding of the position.

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities	-	-
3.2 Credit standby arrangements	-	-

### Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	(10,000)
4.2 Development	-
<b>Total</b>	<b>(10,000)</b>

### Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	3,620	5,524
5.2 Deposits at call	23,355	26,348
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
<b>Total: cash at end of quarter</b> (item 1.22)	<b>26,975</b>	<b>31,872</b>

### Changes in interests in mining tenements

	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1 Interests in mining tenements relinquished, reduced or lapsed	N/A			
6.2 Interests in mining tenements acquired or increased	N/A			

+ See chapter 19 for defined terms.

**Appendix 5B**  
**Mining exploration entity quarterly report**

**Issued and quoted securities at end of current quarter**

*Description includes rate of interest and any redemption or conversion rights together with prices and dates.*

	Total number	Number quoted	Issue price per security (see note 3) (\$)	Amount paid up per security (see note 3) (\$)
7.1 <b>Preference<sup>+</sup> securities</b>	-	-		
7.2 <b>Changes during quarter</b>				
(a) Increases through issues	-	-	-	-
(b) Decreases through returns of capital, buy-backs, redemptions	-	-	-	-
7.3 <b>+Ordinary securities</b>	647,488,256	647,488,256		
7.4 <b>Changes during quarter</b>				
(a) Increases through issues				
(b) Decreases through returns of capital, buy-backs				
7.5 <b>+Convertible debt securities</b>	-	-		
7.6 <b>Changes during quarter</b>				
(a) Increases through issues	-	-		
(b) Decreases through repayment	-	-		
7.7 <b>Options</b>			<i>Exercise price</i>	<i>Expiry date</i>
B25 cent Incentive Options	5,666,667	-	0.25	30/03/11
C30 cent Incentive Options	5,666,666	-	0.30	30/03/11
C35 cent Incentive Options	2,000,000	-	0.35	02/09/12
25 cent Options Qtr1 08-09	4,430,000	-	0.25	08/09/12 - 17/08/13
25 cent Options Qtr3 08-09	60,000	-	0.25	09/01/14
25 cent Options Qtr4 08-09	2,500,000	-	0.25	01/05/14
25 cent Options Qtr 2 09-10	5,200,000	-	0.25	04/12/14
25 cent Options Qtr 3 09-10	4,000,000	-	0.25	16/02/13
25 cent Options Qtr 3 09-10	2,210,000	-	0.25	11/03/15
7.8 <b>Issued during quarter</b>				
7.9 <b>Exercised during quarter</b>				
7.10 <b>Expired/cancelled during quarter</b>				
25 cent Options Qtr1 08-09	1,600,000	-	0.25	08/09/12 - 17/08/13
7.11 <b>Debentures (totals only)</b>	-	-		
7.12 <b>Unsecured notes (totals only)</b>	-	-		

+ See chapter 19 for defined terms.

## Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 4).
- 2 This statement does ~~not~~ *(delete one)* give a true and fair view of the matters disclosed.



Sign here: ..... Date: 29 July 2010  
(Company Secretary)

Print name: Stuart Owen

## Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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