

## ASX/Media Release

## Operational and Corporate Update

Blue Energy Limited (ASX: BUL) provides the following operational and corporate update.

**Significant Resource Upgrade Monslatt Area (ATP814P)**

Blue Energy is pleased to advise that an assessment of an updated dataset from the Monslatt area of ATP814P by Netherland, Sewell and Associates (NSAI), including recent drilling activities, has resulted in a significant upgrade in the 2C resource estimate by NSAI.

Resource Category	March 2010	August 2010	
	Gas in Place	Gas in Place	Recoverable
2C (Contingent Resource)	121PJ	1,206PJ	454PJ
3C (Contingent Resource)	3,411PJ	1,937PJ	841PJ
<b>Total Contingent Resource</b>	<b>3,532PJ</b>	<b>3,143PJ</b>	<b>1,295PJ</b>

The updated dataset used by NSAI for this upgrade included the Monslatt 5C and 6C stratigraphic wells, together with stratigraphic and permeability data obtained from the recent Monslatt 4, 5, 6 & 7 Pilot wells.

There has been no change to the previously reported Prospective Resources of 3,630 PJ (GIP) which is associated with the identified shale gas intervals in the Monslatt wells. No additional work targeting this resource has been conducted since the initial resource estimate of March 2010.

These results have been obtained by NSAI using the internationally-accepted methodology of the Society of Petroleum Engineers (SPE). In addition, it is noteworthy that NSAI have significant experience in the certification of CSG reserves in the Moranbah area.

Blue Energy CEO, Mr John Phillips, said “the conversion of a significant portion of the initial 3C resource estimate for the Monslatt area to the 2C category is a significant milestone as it validates the geological model developed for the area by Blue Energy staff and also provides the Company with additional focus to establish reserves in an timely manner at Monslatt.” He also added that “the resource upgrade gives Blue Energy an estimated 454PJ of recoverable 2C resource from which a 2P reserves conversion process will now be undertaken via the commencement of production testing of the recent 4 well pilot program.”

**Forward Operations**

As announced recently, four production test wells have recently been drilled in Monslatt. Three of these have been cased and suspended immediately above the main Moranbah “P” seam, which is productive at Arrow Energy’s Moranbah Gas Project. A rig with air drilling capabilities has been contracted by Blue Energy and will begin mobilisation to site today to drill out the “P” seam using “under-balanced” drilling techniques and conduct flow tests on these three wells. With success, this will provide production data to establish gas flow capacity and well productivity data from the Monslatt coals sufficient to convert the existing 2C/3C resource into 2P/3P reserves. Planning is continuing to source a rig capable of drilling lateral/in seam well configurations should it become apparent from our modelling that greater productivity will be achieved from a “surface to in-seam” well design.

“Given the similar geology, Monslatt could well be analogous to the nearby Moranbah Gas Project operated by Arrow Energy/Shell. The Gas in Place is similar to Moranbah, and it is not unreasonable to expect similar 2P and 3P reserves after positive results from our pilot production wells in the next few months. Additional appraisal activities at Monslatt will be developed in the near term to convert the remaining 3C resources into 2C” Mr Phillips said.

#### **Kerlong 1 corehole (Central Block ATP814P)**

The Kerlong 1 well which spudded on 19 July 2010 has been drilled to a total depth of 914 metres, logged and in the process of being suspended. On completion of these activities the rig will be released. The well encountered approximately 20 meters of net coal with early stage gas desorption indicating raw gas content in the order of 12 – 15m<sup>3</sup>/tonne. The well is designed to evaluate the Rangal Coal Measures at a location approximately 5 kilometres north of the producing Annandale CSG field (operated by Arrow Energy). The well is approximately 25 kilometres east of Moranbah.

#### **Odin Energy Limited (ODN)**

The Company confirms that a mediation process requested and instigated by Odin Energy Limited as part of the legal proceedings brought by it against Blue Energy Limited, its 100% subsidiary Kompliment Pty Ltd, and Great Artesian Oil and Gas Limited has recently concluded without resolution of the matters in dispute.

Blue Energy remains of the view that it has no liability to Odin Energy Limited, and the Company will continue its strenuous defence of the proceedings.

#### **BBY Limited (BBY)**

Blue Energy advises that its former corporate finance adviser, BBY Limited (BBY), has commenced legal proceedings against it.

The Company engaged BBY in December 2006 to raise up to \$20 million in capital by the placement of shares in the Company. BBY failed to raise any funds for the Company under the engagement. The Company subsequently obtained funding from other sources.

BBY is claiming \$2.082 million, being 6% of a \$34.7 million funding provided to the Company by CVC Limited in July 2007.

The Company denies BBY has any entitlement to the amount claimed, or any amount, and will vigorously defend these proceedings.

#### **Stanwell**

Blue Energy also advises that Stanwell Corporation Limited's shareholding in the Company ceased to be subject to a voluntary escrow as from 5 August 2010. Under the Alliance Agreement entered into with the Company in August 2008, Stanwell held an option, which if exercised prior to 6 August 2010, would have extend this voluntary escrow period for a further 24 months from 6 August 2010. As such, 6 August 2010 is the earliest date at which the end of the escrow period can be confirmed.

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Figure 1: ATP814P Location Map

