

30 January 2009

**Australian Stock Exchange
Announcements Office**

**QUARTERLY ACTIVITIES REPORT
December 2008**

KEY POINTS

- **Exploration Continues**
 - **First appraisal well pumping water (ATP854P)**
 - **Carolina 1 well intersects 17m net coal (ATP813P)**
 - **Seismic Program across 4 ATP's completed**
 - **CSG fairway identified in ATP813P**
- **Farmout process initiated**
- **Chairman takes executive role**
- **ANZ appointed receiver indicates medium term position**
- **Cash conservation strategy implemented**
- **Cash Reserves \$13.7m**

OPERATIONS

**ATP854P
Appraisal Well Cerulean 2 Completed**

Following the drilling of the Cerulean 2 appraisal well in the September quarter, the well was successfully completed and put on pump during the quarter. The Cerulean 2 well is designed to gather data on the potential for production of Coal Seam Gas (CSG) from coal formations identified during recent exploration drilling.

ATP854P is located east of Injune and is in close proximity to gas pipeline infrastructure. The Cerulean 2 Well is targeting the potentially thick and continuous Permian Bandanna coals on the Springsure Shelf, a regional geological province of the Bowen Basin. These coals are producing CSG in the nearby Santos Fairview and Origin Spring Gully fields.

The well is currently pumping water at approximately 10 barrels per day with the water level stable. The results to date are showing that the coals are of relatively low permeability and production test data is being reviewed by an external consultant in order to determine the most effective stimulation technique to improve productivity.

The next phase of activity will concentrate on continuation of the testing phase and potential stimulation of Cerulean 2 with the aim of establishing and monitoring gas flow. Planning is also underway for additional core wells to be drilled within ATP854P to extend Blue Energy's understanding of the full extent of this CSG resource and progress the ATP to the contingent resource category.

The well was drilled to a total depth of 850m and encountered 71m of gross potential pay coal with coal measures thicker and deeper than anticipated.

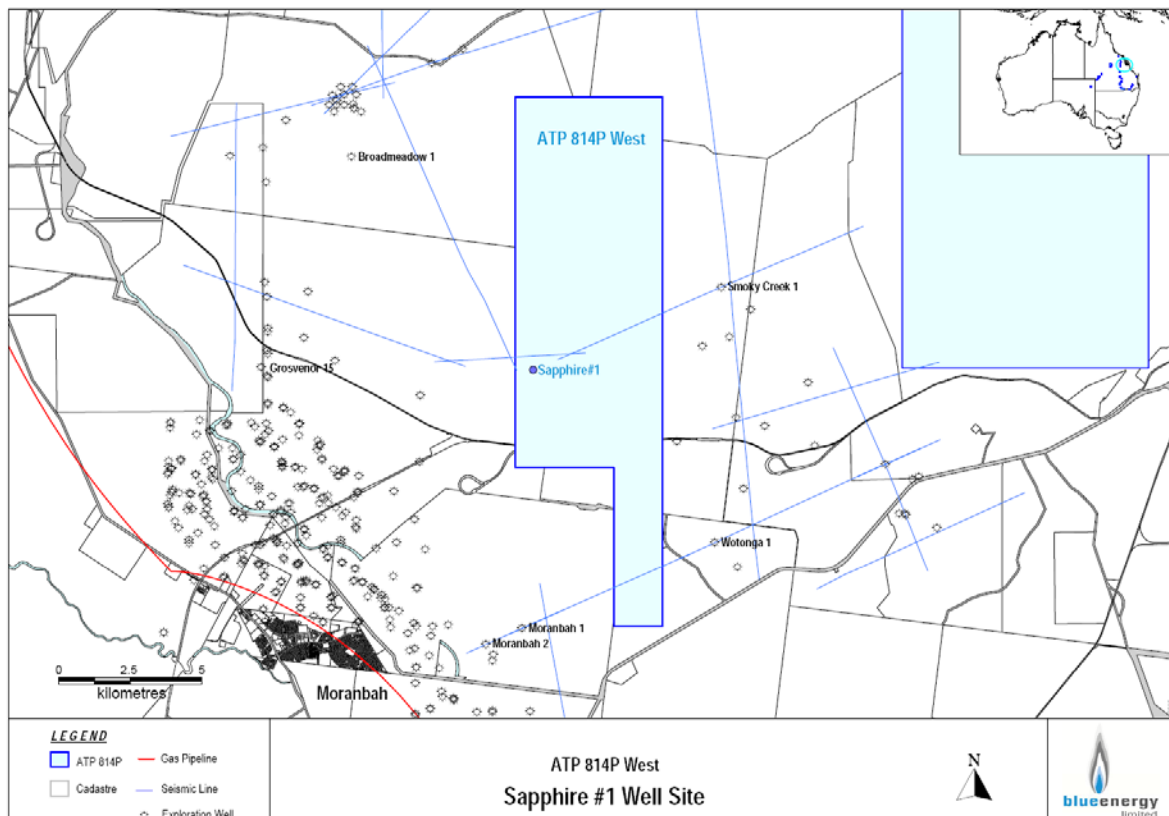
Gas sampling results have shown excellent gas content and permeability, however there is a high level of nitrogen contamination in the gas. Subsequent review has identified that Sapphire 1 was drilled in the close vicinity of a local volcanic intrusion, similar that that encountered by Arrow Energy in a nearby well which has resulted in the nitrogen contamination. The intrusion is local in nature and not expected to affect the overall prospectivity of the ATP.

Seismic

The BE08 Glenden Seismic Survey was conducted in the south of ATP 814P Mount Hillalong Block and acquired 24km of 2D seismic. The main target horizon was the Rangal Coal measures with the deeper Moranbah Coal Measures. The results of the survey were successful in imaging the coal measure horizons of interest and indicating that the western region is more prospective than first thought. The survey outlines an area where the coals are of a prospective depth in the south of the Mt Hillalong area.

The BE08 Moranbah Seismic Survey was conducted in ATP814P western area and acquired 22km of 2D seismic. The object of this survey was to determine the depth and distribution of the Rangal Coal Measures, Fort Cooper Coal Measures and Moranbah Coal Measures in the western area that lies adjacent to the CH4 (Arrow) Moranbah gas project. The results of the seismic survey were a vast improvement on surveys previously recorded from this area with the Rangal Coal Measures, Fort Cooper Coal Measures and Moranbah Coal Measures are discernable from the resulting sections. The survey covers most of the western block and indicates accurately the position of large structural features within the block.

Blue Energy has previously reported a P₅₀ Gas In Place (GIP) estimate for this area of 1,072Bcf (~1,126PJ). The results for the recent drilling and seismic activities support the assumptions used in arriving at this estimate.



ATP813P

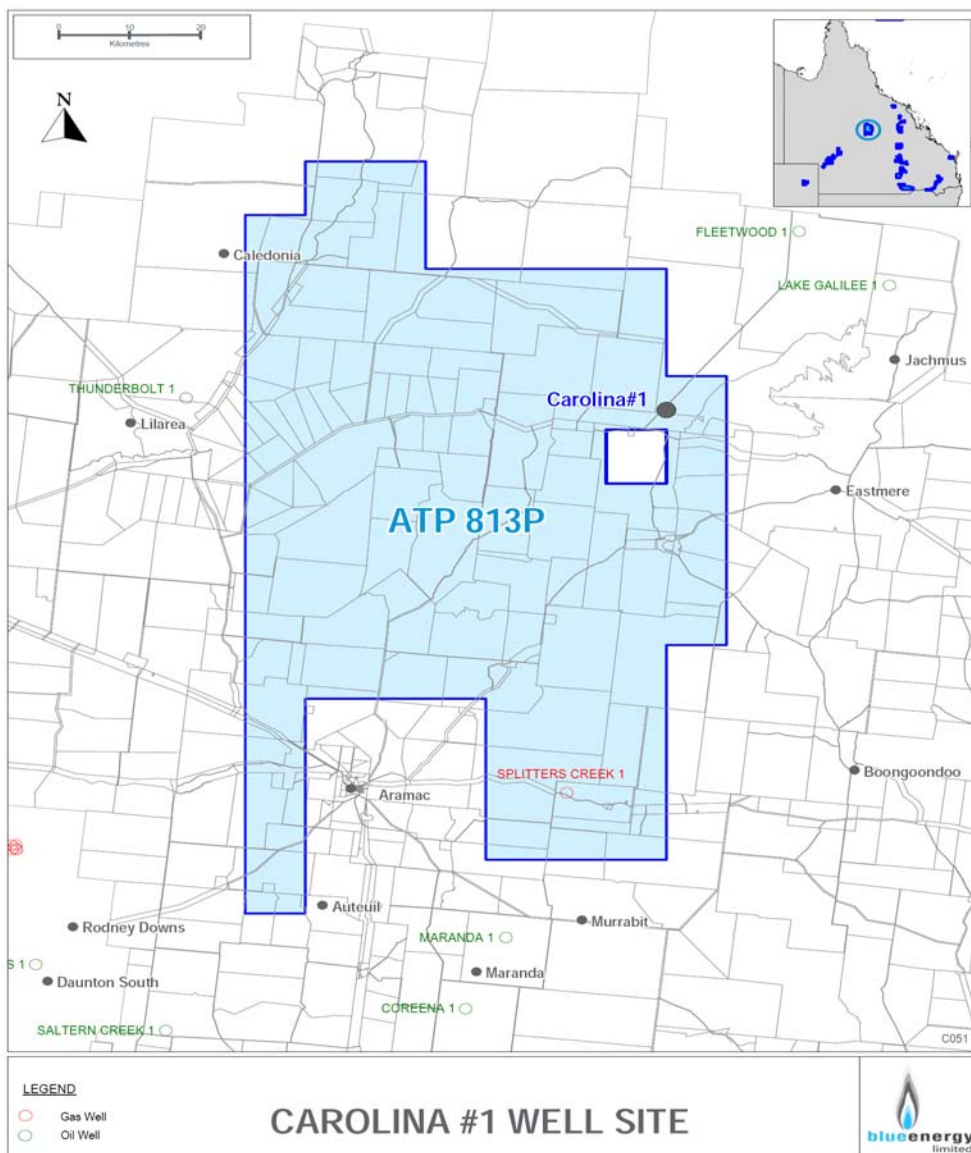
Carolina 1

Carolina 1 was spudded on 29 September 2008 with drilling completed in October 2008. ATP813P is located within the Galilee Basin in central western Queensland and lies adjacent to the Galilee Energy Limited ATP529P area which recently had success with its Rodney Creek 8 well. Carolina 1 intercepted a total of 21m of pay zone (coal and carbonaceous shale) at a depth interval ranging between 830m and 990m. Net coal thickness has been estimated at 17m in this pay zone using a 1.75 gr/cm³ density cut-off. The well confirms the existence of the Betts Creek formation across a large portion of the ATP813P permit. The results of gas analysis indicate high methane content and gas contents consistent with other results from the surrounding area.

Seismic

The BE08 Aramac Seismic Survey was conducted in ATP 813P in the quarter. The objective was to determine the structure and depth distribution of the coal bearing Betts Creek Beds and Aramac Coal Measures in the eastern ATP813P. The survey was successful in demonstrating that coal bearing strata is present at a prospective depth over this area. It was also successful in demonstrating a coal deposition fairway where thicker coal seams may be expected and showing that the Aramac Coal Measures thicken toward the west. It showed that there is coal thickening in syn-depositional structures.

Blue Energy has previously reported gas in place estimates of 15,250Bcf (P50) for ATP813P.



ATP613P

Blue Energy farmed into ATP613P through Magellan Petroleum (Magellan) in May 2006 and has recently begun work on the second phase of the farmin program by undertaking 27km of 2D seismic. The objective of the BE08 Maryborough seismic survey was to determine the depth and distribution of the Burrum Coal Measures within the Burrum syncline of the Maryborough Basin. The results of the seismic survey showed that the Burrum Coal Measures were in the prospective depth range throughout the Burrum Syncline. The Burrum Coal Measures were shown from surface to below 600m depth. The seismic revealed faulting and subsidiary synclines and anticlines within the Burrum Syncline which can be targeted for areas of permeability enhancement.

Other ATP's

Blue Energy is continuing to undertake G&G activities on the remainder of the Company's ATP's to gain a better understanding of the prospectivity of the acreage. Particular focus is being applied to analysing existing results and data from previous Blue Energy exploration and other available data to re-confirm the results obtained. In addition, work is being undertaken to identify any other opportunities such as shallow Jurassic Walloon formation coals that may exist in Blue Energy's ATP's.

Conventional

During the quarter reinterpretation of existing seismic has been undertaken for the PNG permits which has identified the potential of a previously unrecognised oil play within the permits. The PNG permits comprise offshore PPL's 271, 272, 273 and 274 totalling approximately 65,000km². A process to identify funding options for the permit has been initiated and it is planned to finalise this process in the next quarter so seismic acquisition can be undertaken during 2009.

A farmout process on the balance of Blue Energy's conventional acreage is expected to begin in the next quarter.

CORPORATE

Strategic Review and Farmout Process

Blue Energy has undertaken a review of its investment strategy, funding options available to implement the strategy and a rigorous review of exploration results and technical data. The Company has implemented a cash conservation strategy, reduced overheads, deferred some exploration activities and embarked on a farmout program.

With the strong refocus on exploration activities, Blue Energy's Chief Executive Officer, Mr. Bill Williams, will be stepping down from this position later in January to pursue other interests. Mr Williams will continue to assist Blue Energy in the farmout process and other initiatives under a consulting arrangement. The Chairman, Mr Peter Cockcroft, has taken on an executive role to add additional skills and experience while the Company refocuses on its exploration activities. Mr Cockcroft's vast domestic and international experience within the oil and gas sector, particularly with farmout processes, will be invaluable to the Company as it explores all options to add value to its asset portfolio.

The review has been an important step in confirming the prospectivity of ATP813P, ATP814P, ATP817P and ATP854P. Blue Energy has engaged experienced technical consulting group, MBA Consulting, to assist with the proposed farmout process, initially verifying datasets and establishing and manning a data room. There has been considerable interest in the Company's tenements and the formalisation of a farmout process will allow Blue Energy to pursue partners with appropriate financial and technical capabilities. The Company is targeting to finalise the farmout process late in the first quarter of 2009 to enable exploration activities in be undertaken in the second quarter of 2009.



Annual General Meeting

Mr Sharif Oussa retired from the Board at the Annual General Meeting held on 28 November 2008. Mr Oussa, who retired by rotation, did not offer himself for re-election. Mr Oussa was a founder of Blue Energy (Qld) Pty Ltd which held the initial asset portfolio acquired by Blue Energy Ltd in 2005 and has held a number of positions with the Company since 2005, including that of Managing Director when he joined the Board in October 2006. Sharif's experience as a specialist Geologist and his successful advisory roles to a number of Australian CBM companies has proved invaluable to Blue Energy.

A copy of the Chairman's' address and AGM presentation can be found on the Blue Energy web site. www.blueenergy.com.au

ANZ and Primebroker

As previous 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 Shareholders for loan facilities.

The ANZ Bank appointed Receiver has advised the Company that given the level and nature of interest in the parcel of Blue Energy shares and having regard to current market conditions, he will be holding the shares for the short to medium term. Additionally, the Receiver has indicated an intention to seek a board position on behalf of Primebroker pending an orderly disposal of the shares, in due course.

The Company is continuing to work with the Receiver to ensure a timely and orderly resolution to the issue.

Odin Energy Limited

During the quarter Odin Energy Ltd (Odin) purported to have terminated the Spinal Block Farmin Agreement with the Company and launched legal proceedings to recover \$4.5m Odin had contributed to the joint venture. Blue Energy is defending the proceeding.

Financial Position

The Company remains in a strong financial position with cash reserves of \$13.7m as at 31 December 2008. Net cash outflow for the quarter was \$5.5m, primarily related to exploration activities described above.

As stated above Blue Energy has initiated a farmout process which is aimed at ensuring a high level of exploration and development activity continues on the Company's tenements while conserving available funds. Blue Energy is one of the few CSG companies that currently maintains 100% ownership of their ATP's which places it in a strong position to secure funding and continue its exploration program in these tight economic conditions.

Share & Option Issues

No Employee Share Options were granted in the period Company's Employee Share Option Plan. 150,000 options expired or were cancelled during the period relating to the Company's Employee Share Option Plan. No options were exercised and converted to Shares during the period.

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")

31 December 2008

Consolidated statement of cash flows

	Current quarter \$A'000	Year to date (6 Months) \$A'000
Cash flows related to operating activities		
1.1 Receipts from product sales and related debtors including refunds of Goods & Services Tax	592	1,192
1.2 Payments for		
(a) exploration and evaluation	(4,987)	(8,776)
(b) development	-	-
(c) production	-	-
(d) administration	(1,130)	(1,933)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	217	700
1.5 Interest and other costs of finance paid	(88)	(176)
1.6 Income taxes paid	-	-
1.7 Other – Sundry income	-	-
Net Operating Cash Flows	(5,396)	(8,993)
Cash flows related to investing activities		
1.8 Payment for purchases of:		
(a)prospects	-	-
(b)equity investments	-	-
(c) other fixed assets	(107)	(231)
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 – Capital return on written-off investment	-	-
Net investing cash flows	(107)	(231)
1.13 Total operating and investing cash flows (carried forward)	(5,503)	(9,224)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(5,503)	(9,224)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, (less costs)	(3)	302
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Other – over receipt on share issues (refundable)	-	-
	Net financing cash flows	(3)	302
	Net increase (decrease) in cash held	(5,506)	(8,922)
1.20	Cash at beginning of quarter/year to date	19,233	22,649
1.21	Exchange rate adjustments to item 1.20		
1.22	Cash at end of quarter	13,727	13,727

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**	564
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

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

Financing facilities available

+ See chapter 19 for defined terms.

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	(500)
4.2 Development	-
Total	(500)

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	531	1,970
5.2 Deposits at call	13,196	17,263
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
Total: cash at end of quarter (item 1.22)	13,727	19,233

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		
6.2		Interests in mining tenements acquired or increased		

+ 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 Preference⁺ securities	-	-		
7.2 Changes during quarter				
(a) Increases through issues	-	-	-	-
(b) Decreases through returns of capital, buy-backs, redemptions	-	-	-	-
7.3 +Ordinary securities	445,460,674	445,460,674		
7.4 Changes during quarter				
(a) Increases through issues	-	-	-	-
(b) Decreases through returns of capital, buy-backs	-	-	-	-
7.5 +Convertible debt securities	3,500,000	-		
7.6 Changes during quarter				
(a) Increases through issues	-	-		
(b) Decreases through securities matured, converted	-	-		
7.7 Options			<i>Exercise price</i>	<i>Expiry date</i>
A40 cent Incentive Options	666,666	-	0.40	16/02/09
B50 cent Incentive Options	666,667	-	0.50	16/02/10
C60 cent Incentive Options	666,667	-	0.60	16/02/10
A17 cent Incentive Options	5,666,667	-	0.17	30/03/10
B25 cent Incentive Options	5,666,667	-	0.25	30/03/11
C30 cent Incentive Options	5,666,666	-	0.30	30/03/11
A25 cent Options	5,750,000	-	0.25	25/09/09
A25 cent Incentive Options	575,000	-	0.25	02/09/09
A25 cent Incentive Options	750,000	-	0.25	13/09/09
B30 cent Incentive Options	575,000	-	0.30	02/09/09
C35 cent Incentive Options	2,000,000	-	0.35	02/09/12
C35 cent Incentive Options	750,000	-	0.35	13/09/10
A26 cent Incentive Options	50,000	-	0.26	09/03/13
B31 cent Incentive Options	50,000	-	0.31	09/03/14
C36 cent Incentive Options	50,000	-	0.36	09/03/14
25 cent Incentive Options	10,000,000	-	0.25	11/03/13
Issued during Qtr1 08-09	9,670,000	-	0.25	08/09/12 - 17/08/13
7.8 Issued during quarter				
Issued during quarter	-	-	-	-
7.9 Exercised during quarter				
Exercised during quarter	-	-	-	-
7.10 Expired/cancelled during quarter				
Cancelled during quarter	150,000	-	-	31/03/11 - 17/08/11
7.11 Debentures (totals only)	-	-		
7.12 Unsecured notes (totals only)	-	-		

+ 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 ~~/does not*~~ (delete one) give a true and fair view of the matters disclosed.

Sign here: Date: 30 January 2009
(Company Secretary)

Print name: Brian J McGillivray

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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+ See chapter 19 for defined terms.