

31 January 2011

QUARTERLY ACTIVITIES REPORT December 2010

KEY POINTS

- **Exploration Activities Continue**
 - **Effects from flooding**
 - **Drilling program continues in ATP814P**
- **Cash Reserves \$14m**

OPERATIONS

Effects from flooding

The flooding throughout Central Queensland has delayed work on the Monslatt Block during the quarter, with access to the well sites being restricted as a result of creeks flooding and poor road conditions. No damage or loss has occurred at the Monslatt sites from these flood events, and completion activities at the Monslatt wells have now recommenced.

Blue Energy is working with landowners and the local community to provide assistance in post-flood recovery where need.

Drilling Program Continues in ATP814P

Monslatt 4P, 5P and 6P

Completion of these pilot production wells, together with commencement of production testing was planned to be completed in the December quarter. This has been delayed due to the flooding in Central Queensland. Work on completion of the pilot production wells and commencement of the production testing program is anticipated to now occur during the first quarter in 2011.

Monslatt 7P

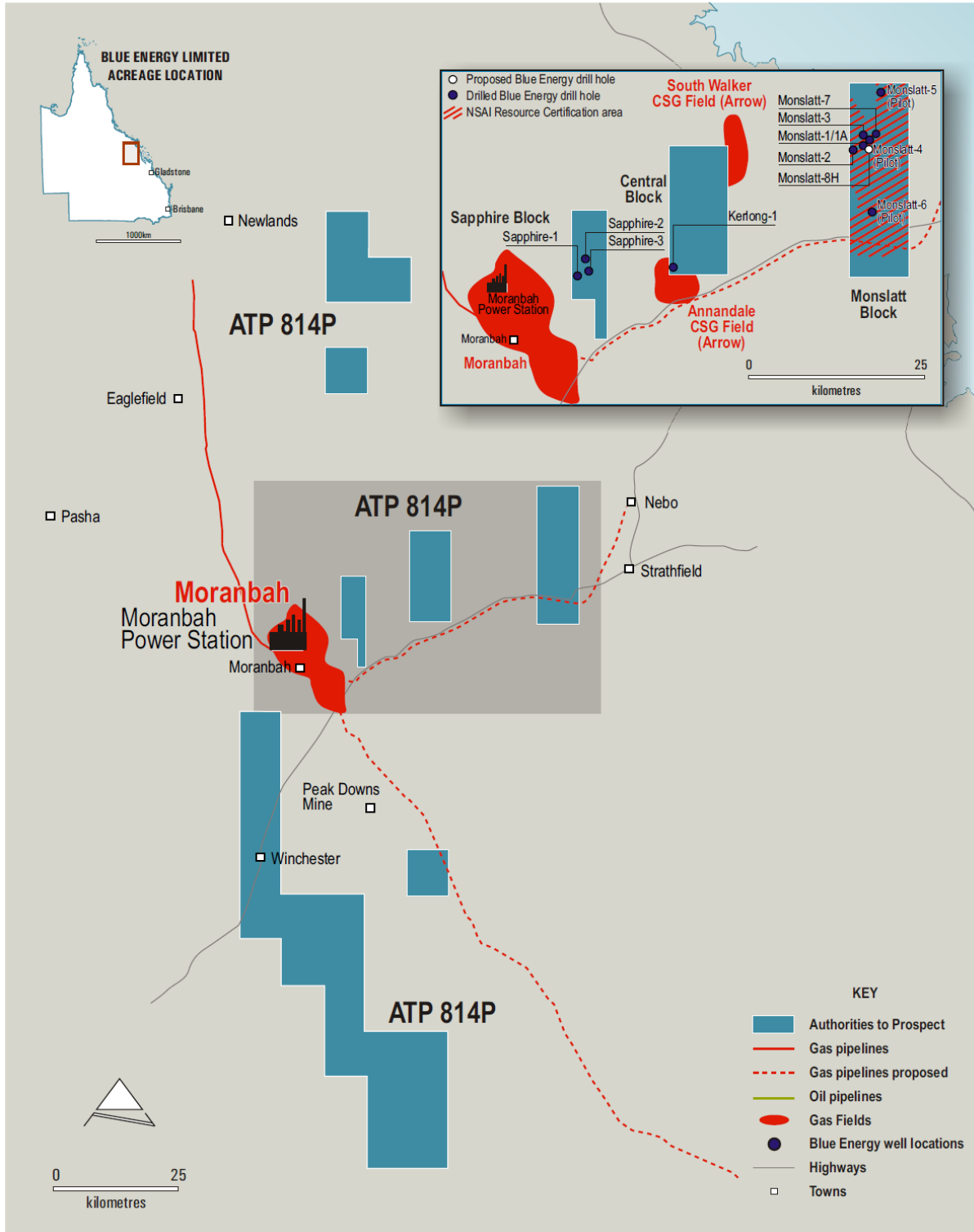
The Monslatt 7P production test well was drilled during the September 2010 to a total depth of 459 meters and cased to the top of the P Seam.

During the quarter the Monslatt 8H lateral well was successfully drilled to intersect the vertical Monslatt 7 well. Down hole pumps have been run in Monslatt 7, with surface equipment installation and pilot production testing to commence in the first quarter of 2011.

Monslatt 8H

Dominion Drilling Rig 2 successfully completed the drilling phase of the Monslatt 8H lateral well this quarter. The lateral well reached a total measured depth of 1,179 metres and intersected the Monslatt 7P vertical well (which will be used as the production bore for the lateral well), 8H intersected a total of 340 metres of gas saturated net coal in the P Seam.

Figure 1 – ATP814P



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.

CORPORATE

ANZ appointed receiver

The Company continues to closely monitor the legal proceedings relating to ownership of the Blue Energy Limited shares held by ANZ and is carefully considering its options in relation to the shares controlled by the Receiver. Blue Energy is not a party to these legal proceedings

Financial Position

The Company has cash reserves of \$14m as at 31 December 2010.

Share & Option Issues

The Company granted 9,026,000 rights 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, 01/06/10.

Name of entity

Blue Energy Limited

ABN

14 054 800 378

Quarter ended ("current quarter")

31 December 2010

Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (6 months) \$A'000
1.1 Receipts from product sales and related debtors	398	1,381
1.2 Payments for (a) exploration & evaluation	(3,511)	(14,809)
(b) development	-	-
(c) production	-	-
(d) administration	(1,257)	(2,519)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	159	538
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other (R&D Refund)	-	334
Net Operating Cash Flows	(4,211)	(15,075)
Cash flows related to investing activities		
1.8 Payment for purchases of:		
(a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	-	(71)
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	-	2,135
Net investing cash flows	-	2,064
1.13 Total operating and investing cash flows (carried forward)	(4,211)	(13,011)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(4,211)	(13,011)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, (less costs)	-	-
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 (provide details if material)	-	-
	Net financing cash flows	-	-
	Net increase (decrease) in cash held	(4,211)	(13,011)
1.20	Cash at beginning of quarter/year to date	18,156	26,975
1.21	Exchange rate adjustments to item 1.20	-	(19)
1.22	Cash at end of quarter	13,945	13,945

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**	175
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 Managing Directors salary payments of \$92,125

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	(2,000)
4.2 Development	-
4.3 Production	-
4.4 Administration	(1,200)
Total	(3,200)

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	1,782	2,966
5.2 Deposits at call	12,163	15,190
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
Total: cash at end of quarter (item 1.22)	13,945	18,156

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	N/A	Interests in mining tenements relinquished, reduced or lapsed		
6.2	N/A	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	647,488,256	647,488,256		
7.4				
Changes during quarter				
(a) Increases through issues	-	-	-	-
(b) Decreases through returns of capital, buy-backs	-	-	-	-
7.5				
+Convertible debt securities	-	-		
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>
B25 cent Incentive Options	5,666,667	-	0.25	30/03/11
C30 cent Incentive Options	5,666,667	-	0.30	30/03/11
25 cent Options Qtr1 08-09	4,180,000	-	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	1,960,000	-	0.25	11/03/15
25 cent Options Qtr 1 10-11	1,500,000	-	0.25	09/05/15
Rights Qtr 2 10-11	9,026,000	-	0.00	30/06/13
7.8				
Issued during quarter	9,026,000	-	0.00	30/06/13
7.9				
Exercised during quarter	-	-	-	-
7.10				
Expired during quarter	-	-	-	-
7.11				
Debentures <i>(totals only)</i>				
7.12				
Unsecured notes <i>(totals only)</i>				

+ 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:
(Director/Company secretary)

Date: 31/01/2011

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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