

26 October 2012

QUARTERLY ACTIVITIES REPORT September 2012

KEY POINTS

- **Encouragement in Georgina Basin**
- **Blue looking to Farm down Interest in Shale Blocks**
- **Gas-flow testing continues at Monslatt and Sapphire pilot wells**
- **Blue signs Native Title Agreements in Cooper Basin Permits**
- **Settlement of Odin Case legal dispute**
- **Mr John Ellice-Flint appointed Acting Chairman**
- **Cash Reserves \$20m at 30 September 2012**

Blue Energy Limited (ASX: "BUL") is pleased to update the market on its Queensland coal seam gas (CSG) and shale projects for the three months ended 30 September 2012.

Exploration activity undertaken in the highly-prospective Georgina Basin continues to show encouraging results with activity in adjacent permits confirming oil within the target shale sequence.

Several major international oil and gas companies have either entered into farm in agreements within the region or shown interest in doing so and Blue Energy intends to pursue farmout opportunities within our shale acreage to spread and diversify the company's risk.

Stimulation to increase gas flow rates on the Sapphire 4 pilot production well within the Sapphire Block of ATP814P is scheduled to occur shortly. The achievement of commercial flow rates from the fracture stimulation should deliver significant increases in reserves.

Mr John Ellice-Flint, the former Santos Managing Director who joined the Blue Energy Board in April 2012, has been appointed Acting Chairman following the retirement Mr Peter Cockcroft.

EXPLORATION

ATP1114A, 1117A, 1123A – Southern Georgina Basin Qld (BUL 100%)

As reported last quarter, the Company was successful in securing three large exploration blocks in the Queensland sector of the Southern Georgina Basin. The blocks secured by Blue Energy cover an area of approximately 5,630,000 acres (22,788km²). At this stage, award of the blocks requires both Native Title Agreements to be negotiated and Environmental Authorities to be issued by the Queensland Government. Blue Energy has initiated discussions with the representatives of the Bularnu Waluwarra and Wangkayujuru People with a view to commencing negotiations shortly.

Meanwhile Blue has been encouraged by the activity (both corporate and on ground) occurring in the Southern Georgina Basin immediately adjacent to Blue's application areas. Petrofrontier recently announced that they had confirmed oil in the Lower Arthur Creek Formation in the Owen 3H exploration well, and having successfully completed a ten stage fracture stimulation on the interval, was preparing to production test the well.

Blue Energy's Georgina Basin blocks are located on the Queensland / Northern Territory border and partly adjoin the permits recently farmed out by Petrofrontier to Statoil, the Norwegian national oil company, for US\$210million. The potential of the basin has been documented by Ryder Scott in a report for Petrofrontier which estimates potential of up to 40 billion barrels of oil (unrisked high side prospective resource) in their acreage.

GAS PRODUCTION PILOTS

Sapphire Block (ATP814P)

Production testing of the Sapphire 4 Pilot Production Test well, (drilled late 2011) continued during the quarter, with gas flowing continuously (unstimulated), but at rates which remain below commercial levels. As previously reported, the well has been perforated in the Fort Cooper Coal Measures. Accordingly, Blue is preparing to conduct a hydraulic fracture stimulation process on the perforated interval in the well to enhance the gas flow to a level of commerciality. This is a similar approach to that of adjacent Operators who have achieved commercial gas flow rates. These operations are scheduled to occur at the end of October.

Monslatt Block (ATP814P)

The de-pressuring and production testing of the Company's Monslatt 7/8, continued during the quarter. Gas continues to be produced at a low rate.

Monslatt 5P continued to be production tested to mid-way through the quarter, at which time it was decided to shut the well in, having not recorded any significant or sustained gas flows, and with water rates constant at approximately 100bpd.

Monslatt 6 remains shut in for pressure build up.

With achievement of commercial flow rates from the production testing activities, in the Monslatt and Sapphire Blocks, the Company will be able to convert current Contingent Resources to Reserves. .

Sapphire 4 Flaring Gas



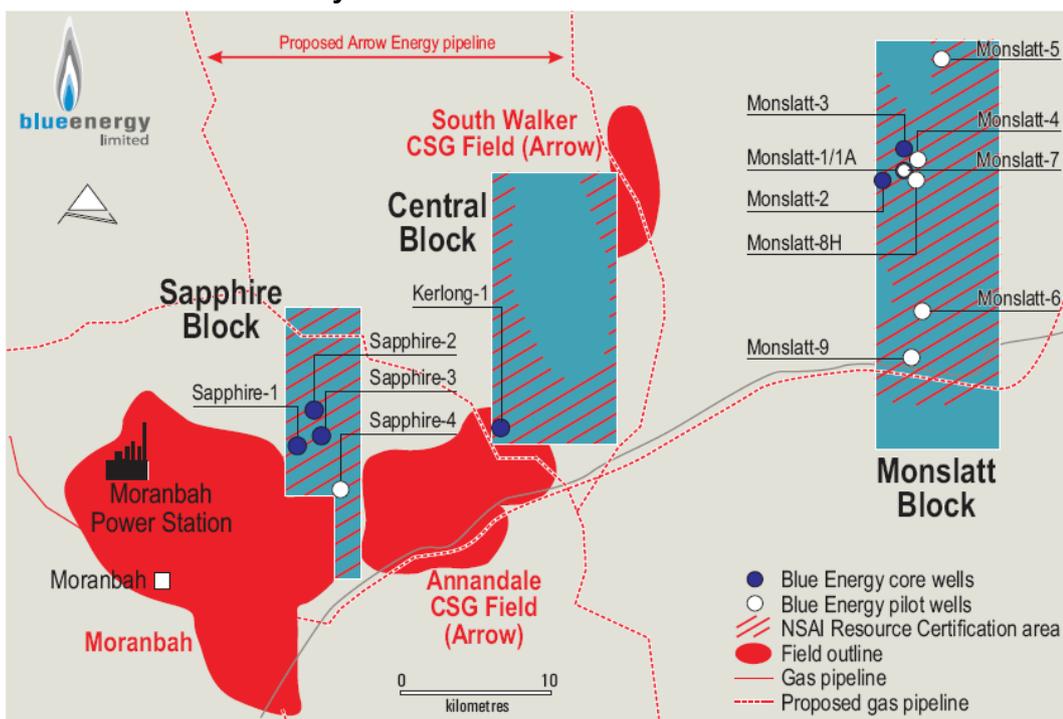
FORWARD WORK PROGRAM

ATP814P

As mentioned above, preparations are underway to conduct a hydraulic fracture stimulation of the Fort Cooper Coal measure sequence in the Sapphire 4 well. This should commence in the next few days.

Planning is continuing for the drilling of the Sapphire 5 production test well the Sapphire block. The well location has been formulated in conjunction with advice from Netherland and Sewell and Associates (NSAI) to optimise resource and reserve additions in the Block. The area is surrounded by significant coal mining and export infrastructure (open cut mines and rail networks) and adjoining CSG production licences. Accordingly the process of land access has been slowed by the need to obtain approval to traverse some of this infrastructure and also the new land access regulatory requirements.

ATP814P Area of Activity



Maryborough Basin (ATP613P, ATP674A and ATP733A)

The application areas are still awaiting award and Blue continues to work with Government to expedite this process.

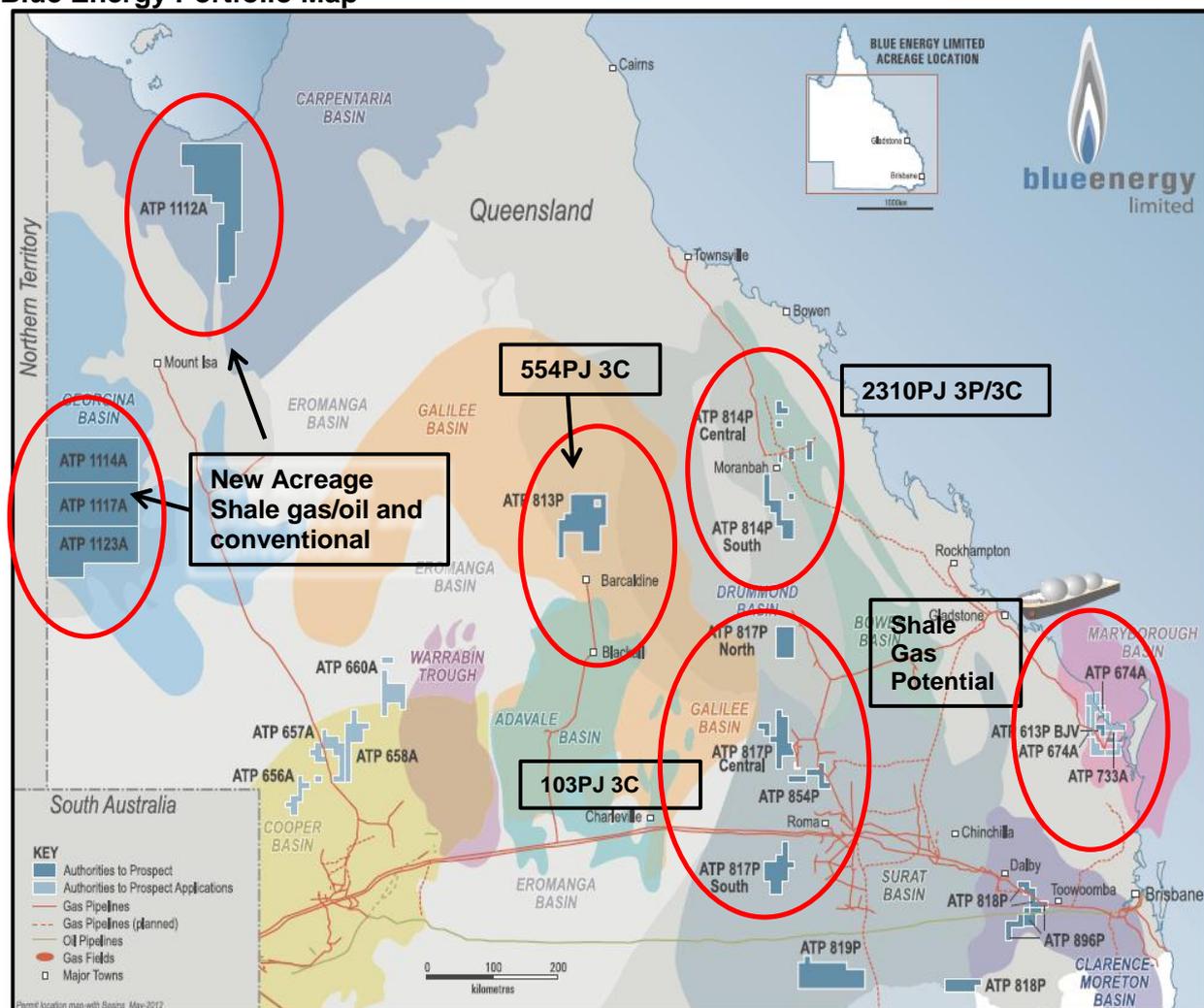
Cooper Basin (ATP656A, 657A, 658A, & 660A)

The Company has executed Native Title Agreements with the Mithaka People covering 3 of the above application areas. These negotiations were conducted in very good faith and will ensure that Blue Energy and the Mithaka People will work together to uphold Cultural Heritage values in Mithaka Country. These areas have been under application since 1998 and were acquired by Blue Energy through a vend in process to Blue by separate entities held by founding Directors of the time. Blue will now lodge application for Environmental Authorities to the Queensland Government, which should then facilitate award of these application areas.

Other ATP's

Blue Energy continued to undertake geological studies on the remainder of the Company's ATP's to prioritise exploration expenditure and ensure the most cost effective and timely establishment of reserves.

Blue Energy Portfolio Map



Blue Energy Portfolio

Block	CSG	Oil	Gas	Shale Gas w liquids	Shale Gas	Area Km ²	3P PJ*	3C PJ*
Galilee ATP813	✓	✓	✓	?	?	4,158		554
Bowen ATP814	✓	✗	✗	✗	✓	2,236	75	2,234
Bowen ATP817	✓	✓	✓	✓	✓	4,449		
Surat ATP818	✓	✗	✗	✗	✗	1,599		
Surat ATP819	✓	✓	✓	✓	✓	3,358		
Surat ATP854	✓	✓	✓	✗	✗	828		103
Maryborough	✓	✓	✓	✓	✓	3,358		
Cooper	?	✓	✓	✓	✓	5,357		
Carpentaria	?	✓	✓	✓	✓	7,996		
Georgina	✗	✓	✓	✓	✓	21,351		
Total						54,690	75	2,891

CORPORATE

Annual General Meeting

Blue Energy Limited's 2012 Annual General Meeting is scheduled for 11.00 am on Thursday, 15 November and will be held at The Morgan Room, Christie Conference Centre, Level 1, 320 Adelaide Street, Brisbane with all shareholders encouraged to attend.

Board Restructure

Subsequent to the end of the quarter the Chairman, Mr Peter Cockcroft, advised the Board that due to personal circumstances he would be standing down as Chairman as of 10 October 2012 and will retire from the Board effective 31 December 2012. The Board has also been advised that Dr Paul Massarotto has elected to retire from his position as Non-Executive Director of Blue Energy effective as of the close of the Company's 2012 Annual General Meeting to be held on 15 November 2012.

The Company is currently undertaking a process to find a suitable replacement for Mr Cockcroft as Chairman, and an announcement on his successor will be made in due course.

In the meantime Mr John Ellice-Flint will serve as Acting Chairman of the Board and Mr Rodney Cameron has been appointed Deputy Chairman.

KOGAS Exercise Farmin Option

KOGAS has exercised its farm-in option in relation to ATP814P, bringing the option period to a close. Discussions between the parties, on a non-exclusive basis, on potential farm-in terms for ATP814P are continuing. To date terms have not been finalised and Blue Energy cannot say with any certainty that an agreement on terms will be reached.

Settlement of ODIN Litigation

In November 2008 Odin Energy Limited (Odin) commenced proceedings in the Federal Court in Perth relating to a Sub-Farmin Agreement between Odin and Blue Energy regarding the Spinel Block on PEL 106. Odin and the Blue Energy have reached a mediated settlement, on terms confidential to the parties, of the proceedings which are otherwise dismissed.

Shares, Rights & Option Issues

During July 2012 167,000 incentive rights that vested on 30 June 2012 were converted to 150,870 ordinary shares and the payment of \$1,000 cash in accordance with the Employee Incentive Rights Plan rules. No other shares or options were during the quarter.

Competent Person Statement

The estimates of 3P reserves and contingent resources for have been provided by Mr John Hattner of Netherland, Sewell and Associates Inc. Mr Hattner is a full time employee of NSAI, has over 30 years of industry experience and 20 years of experience in reserve estimation, is a licensed geologist, and has consented to the use of the information presented herein. The estimates in the report by Mr Hattner have been prepared in accordance with the definitions and guidelines set forth in the 2007 Petroleum and Resource Management System (PRMS) approved by the Society of Petroleum Engineers (SPE).

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