Blue. ENERGY
Level 3, 410 Queen Street,
Brisbane QLD 4000
t +61 7 3270 8800
f +61 7 3270 8899

28 April 2017

# QUARTERLY ACTIVITIES REPORT

## To 31st March 2017

**Blue Energy Limited (ASX: "BUL")** is pleased to report on activities during the March 2017 quarter across the proven and emerging basins in Queensland and the Northern Territory in which the Company's key gas and oil projects are located.

**Key Points**

- **Development Plan for Sapphire Project nears completion**
- **Gas commercialisation and pipeline discussions continue**
- **Prime Minister confirms East Coast gas shortage**
- **Domestic gas prices increasing - $16/Gj paid in Melbourne**

### ATP814P Development Plan – Current Focus

The Development Plan for Blue Energy's Sapphire Coal Seam Gas (CSG) resource is nearing completion and will be lodged as part of the Production Licence Application. The plan is a designed to initially develop the Sapphire Field, but has the capacity to be extended to include the large contingent resource base in Blue's broader ATP814 permit.

### Gas commercialisation and pipeline discussions – Current Focus

Blue Energy continues to be actively engaged with several parties interested in purchasing gas from the Company. The parties include both existing gas users and new entrants. The volumes offered by Blue range from several PJ/annum to volumes up to Blue Energy's entire ATP814P reserve and resource base (currently 300 PJ of 3P reserves and 3,000 PJ of Contingent Resource). The market will be updated should concrete agreement be reached. In parallel with these discussions, Blue is also engaged with pipeline constructors to negotiate the design and construction of gas export infrastructure from the Bowen Gas Province to the southern market.

Blue. ENERGY
Level 3, 410 Queen Street,
Brisbane QLD 4000
t +61 7 3270 8800
f +61 7 3270 8899

**East Coast Gas Shortage – Gas from the Bowen Basin is the solution**

The intervention of the Federal Government (through the Prime Minister) into the gas market confirms the severity of the gas shortage on the East Coast of Australia, which has been talked about for years. This action whilst not providing any additional molecules of gas to the market, does however suggest that the domestic gas price will conform to the international gas price going forward (ie the domestic market will be provided with gas at a price, thus installing an oil link mechanism across the domestic market), to "fairly reflect international export prices as they should". Whilst this may seem reasonable at $50/bbl oil, it could be challenging for gas users at $70-80/bbl oil. It is also hoped that the Government will adopt a consistent approach of making other commodities, like petrol available to Australians at a price they can afford, by reducing the government tax take per litre, given Australians pay some of the highest prices for petrol in the world?

The initial demand by the Federal Government for immediate action from gas producers to solve this crisis seems now to have become redundant by this interventionist action. The problem however, is a more long term one and is a combination of several factors;

1) increased gas demand (from LNG exports);

2) over-built capacity of the LNG plants (a story for another time);

3) banning of, and regulatory impost on, exploration across the country;

4) the failure of the demand side to effectively contract their gas requirements.

As many in the industry have been saying for several years, the current situation of short gas supply has been a long time coming. The recent ACCC enquiry found just last year that there could be issues of supply in future years and that more exploration was needed (hampered by moratoria) and also that pipeline regulation should be reviewed to make tariffs more competitive. On top of this, AEMO failed to identify the seriousness of the supply problem (in its 2016 GSOO document) that would warrant such extreme intervention. So neither of these taxpayer-funded organisations predicted the dire situation that has apparently lead to the sudden need for extreme government intervention in the market.

Domestic gas producers have been price takers for over 30 years, and the small relative volume of domestic demand resulted in the lack of efficient gas developments and loss-making gas production (cross-subsidised by liquid production) out of the Cooper and Gippsland Basins over those decades. Indeed Australian gas producers have been subsidizing manufacturing with (globally) cheap gas prices for decades. The creation of an immense new market with superior (oil linked) pricing was therefore a significant and visionary step that allowed the development of the vast new Coal Seam Gas resources in Queensland. This new east coast export industry provides significant royalty revenue to the State of Queensland. These resources would not have been developed without such a deep and better-priced market. It has also fostered renewed interest in developing the more marginal gas reserves in offshore Victoria, where the Sole gas field has been dormant for decades, for instance.

Blue. ENERGY
Level 3, 410 Queen Street,
Brisbane QLD 4000
t +61 7 3270 8800
f +61 7 3270 8899

It should be remembered that production of LNG had never been attempted using Coal Seam Gas, anywhere in the world. Curtis Island was to see three such attempts constructed simultaneously. There was no real understanding of how the feed gas from CSG Fields would supply these plants, over the lives of these plants. It seemed to be more an engineering exercise at the time to just build the liquefaction infrastructure. No CSG Field in Australia had been run to depletion, and hence there were no real production performance analogues from which to model feed gas supply over the long term. Modelling of future CSG Field performance was based on limited well performance data, and an expectation of consistency of that well performance for both gas and water production. Massive investment in upfront water handling plant was also predicated on limited data, and has proved costly to the economics of the projects. Final Investment Decisions on the three projects were undertaken on the back of Proved and Probable Reserves (2P), which by definition have a 50% probability of ultimate recovery. The movement of the 2P reserves into the more certain Proved category would require development pattern drilling and large CAPEX commitment. As such there was always going to be reserve risk to these LNG projects, and as has been shown, that reserve risk has not been evenly distributed between the projects.

It was no secret that the construction of the 23 million tonnes of export LNG capacity on Curtis Island would need substantial feed gas from the onshore reserves and resources. The construction of these facilities and the associated upstream feed gas supply went through a very public expose of who had enough gas and who didn't.

By the time Final Investment Decision (FID) was taken on these projects, about 85% of the East Coast's 2P reserves were held by the LNG proponents. These companies actually understood the need to secure the energy inputs to their business (just overestimated how much they had). In addition, most had contracted the LNG outputs from the plants on long term contracts to overseas energy buyers, who have undertaken huge long term expenditure commitments to secure strategic long term gas supply for their nations.

Australian industrial gas users on the other hand failed to re-contract their required "stay in business" gas volumes when there was the opportunity (5-7 years ago) at $5/GJ. It is clear that the Boards of the industrial gas users thought there would be a glut of cheap gas available in Wallumbilla come 2016. What costly decisions these have been.

As the LNG feed gas supply picture became clearer to the LNG Operators, and though not ideal, they variously contracted additional third party gas to cover the deliverable molecule risk identified from their own gas production portfolio. This process is ongoing as development continues and production variability of different regions beconmes better understood.

It is noteworthy that even some existing domestic gas buyers took advantage of this situation, by reselling legacy contract (ie cheaper) gas to the export LNG proponents and thus returning a handsome profit to their shareholders (some of which are government owned).

The proposal by industrial gas users to look at the feasibility of importing LNG to satisfy their manufacturing needs, is a drastic step away from the historic conservative low

Level 3, 410 Queen Street,
Brisbane QLD 4000
t +61 7 3270 8800
f +61 7 3270 8899

price requirement of Australian gas users. It highlights the failure of their collective gas contracting strategy that it has come to this. To now consider relying on importing LNG cargoes to meet their demand is a high-risk strategy. Taking foreign exchange risk in a long term LNG contract is a brave move by manufacturers, and seems to just add a different supply risk to their business model. It should also be noted that whilst the Henry Hub headline price might seem an attractive comparison at ~US$3/mmbtu currently, actual delivered gas to the east coast of the US has averaged about US$ 12.50 over the last 15 years. The use of the Henry Hub bench market (or even prices paid by Japanese gas users who have committed to long term contract volumes underwritten by billions of dollars and national governments in some cases) is therefore somewhat misleading, but has been applied as a (non-normalised) comparison for leverage on governments by gas users to act against the gas producers.

If it were not so serious, it would be comical that the imposition of the RET (subsidised unreliable electricity), the active and deliberate destruction of coal fired generation capacity and the emergence of a better priced market for gas producers, has all occurred whilst the Regulators and politicians have been slowly ratcheting up the regulatory compliance requirements for exploration (or outright banning exploration altogether), such that it would now take about 12 years from gazettal to production of a greenfield resource - and we are surprised we have an energy crisis in Australia?

The answer to the gas supply crisis on the east coast is - more gas supply. The short term fix now imposed by Government has further increased the sovereign risk of Australia as an investment destination for resource projects. However, restarting gas exploration will not be immediate, as the whole service sector has been decimated and the skills drain from industry has been immense as a result of the dramatic oil price fall. Whilst the politics remain polarized, industry will be cautious in investing time, effort and capital given the lack of tangible political bipartisan and meaningful support (not withstanding occasional opportunistic rhetoric) toward the exploration sector. The simple fix in the medium term to get more gas to market is the development of the known Bowen Basin Gas reserves and resources.

Australia needs an adult debate on what our standard of living expectations requires from an energy perspective and what has to be done to secure that energy provision. Reducing the country to wind mills and solar panels is a recipe for reduced living standards and will target those who can least afford it. Governments need to develop, communicate and implement an effective Energy Vision and Strategy for the whole country. This must include as many efficient energy sources as possible. We import all our liquid fuels, export our gas, our uranium oxide and coal, and have no real storage capacity, should a liquid fuel supply (or gas) disruption occur. Such disruption would bring Australia to its knees within weeks.

Blue. ENERGY
Level 3, 410 Queen Street,
Brisbane QLD 4000
t +61 7 3270 8800
f +61 7 3270 8899

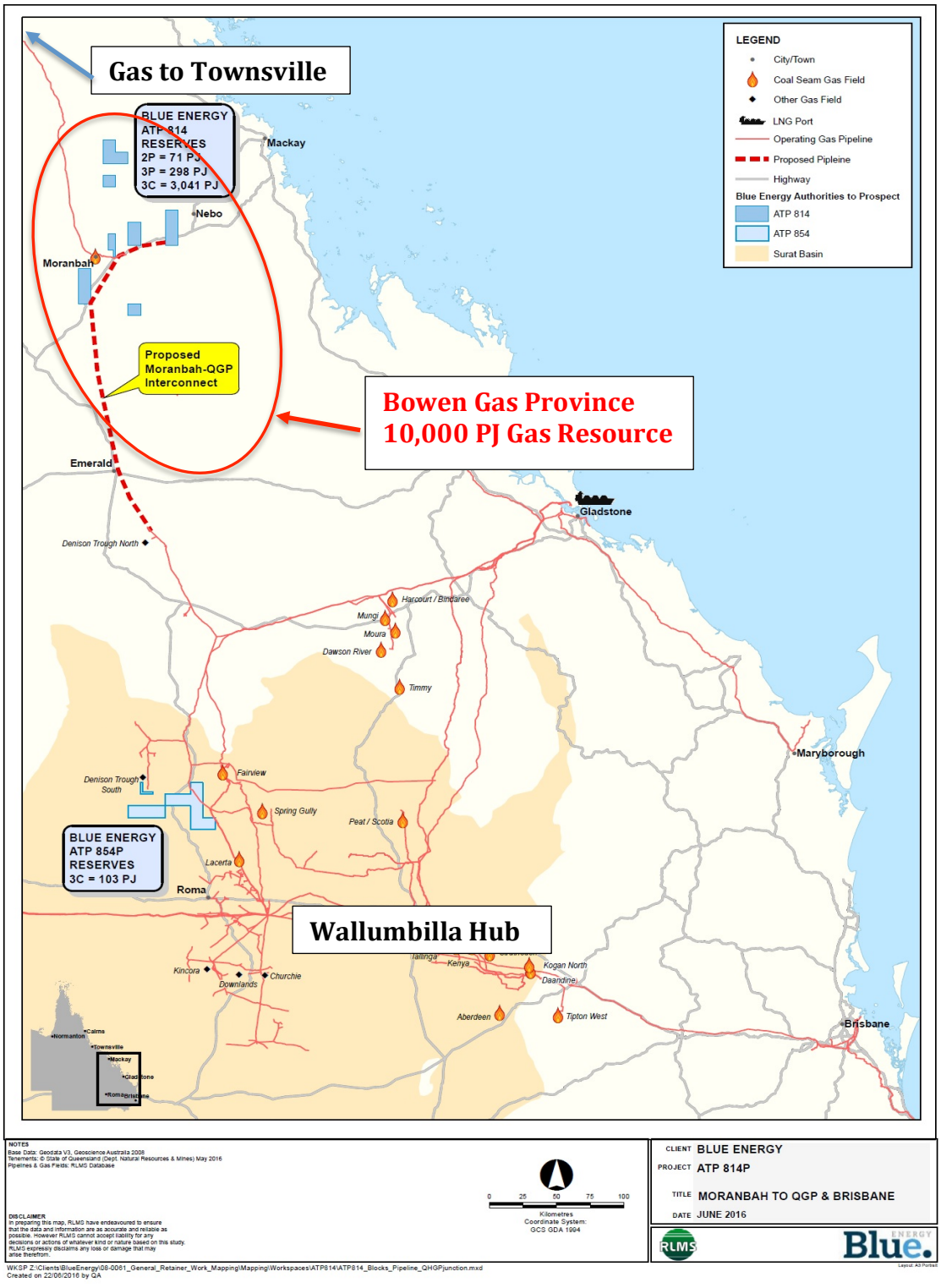


Figure 1: Proposed pipeline link between the Bowen Basin and the southern market.

Level 3, 410 Queen Street,
Brisbane QLD 4000
t +61 7 3270 8800
f +61 7 3270 8899

## Proven Basins

### Bowen Basin, Queensland

### ATP814P (Blue Energy 100% and Operator)

This permit currently has certified 2P reserves of 71 PJ and 3P reserves of 298 PJ (as independently estimated by Netherland, Sewell and Associates (NSAI)). It consists of 7 separate blocks, with the Sapphire Block holding the majority of the 2P and 3P reserves. There is also significant upside within the other constituent blocks comprising the Permit with a combined 3,011 PJ of Contingent Resources estimated by NSAI.

With the addition of Blue Energy's gas reserves and resources, the Bowen Basin holds in excess of 10,000 PJ of gas resource which can provide a timely solution to the East Coast gas shortage in the short and medium term.

Blue Energy is in discussions with several potential buyers who are interested in securing gas supply.

Blue continues working toward completion of a Field Development plan for the Sapphire Block (see Figure 2) which will enable the application and grant of a Production Licence.

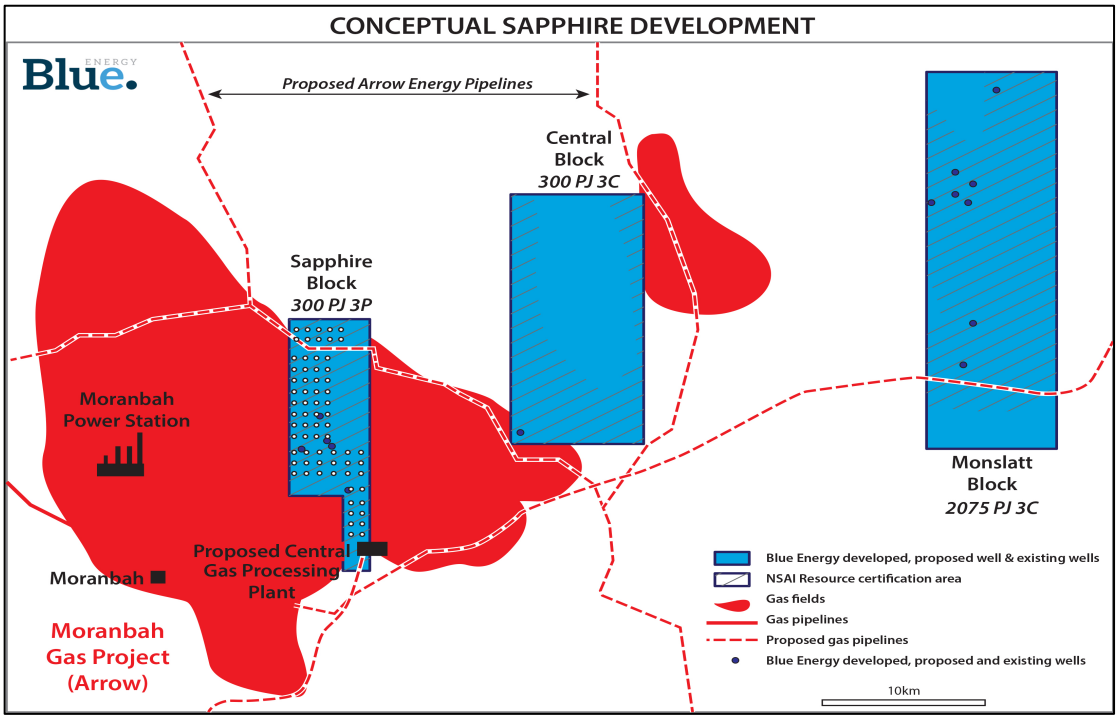


Figure 2: ATP814P Bowen Basin Queensland and conceptual well locations for Sapphire Development. Blue has 3,000 PJ of Contingent Resources plus 2P and 3P reserves

Level 3, 410 Queen Street,
Brisbane QLD 4000
t +61 7 3270 8800
f +61 7 3270 8899

**Bowen-Surat Basins, Queensland**

**ATP854P (Blue Energy 100% and Operator)**

This permit lies immediately west of the main gas fields supplying APLNG (Spring Gully) and GLNG (Fairview) – see Figure 3. Blue currently has 100 PJ of Contingent Resources in this permit (as per NSAI estimates). Gas export infrastructure also runs through the permit, giving access to both Wallumbilla and Gladstone.

Blue continues to market the gas resources in this permit to potential customers, in parallel with efforts in ATP814P.

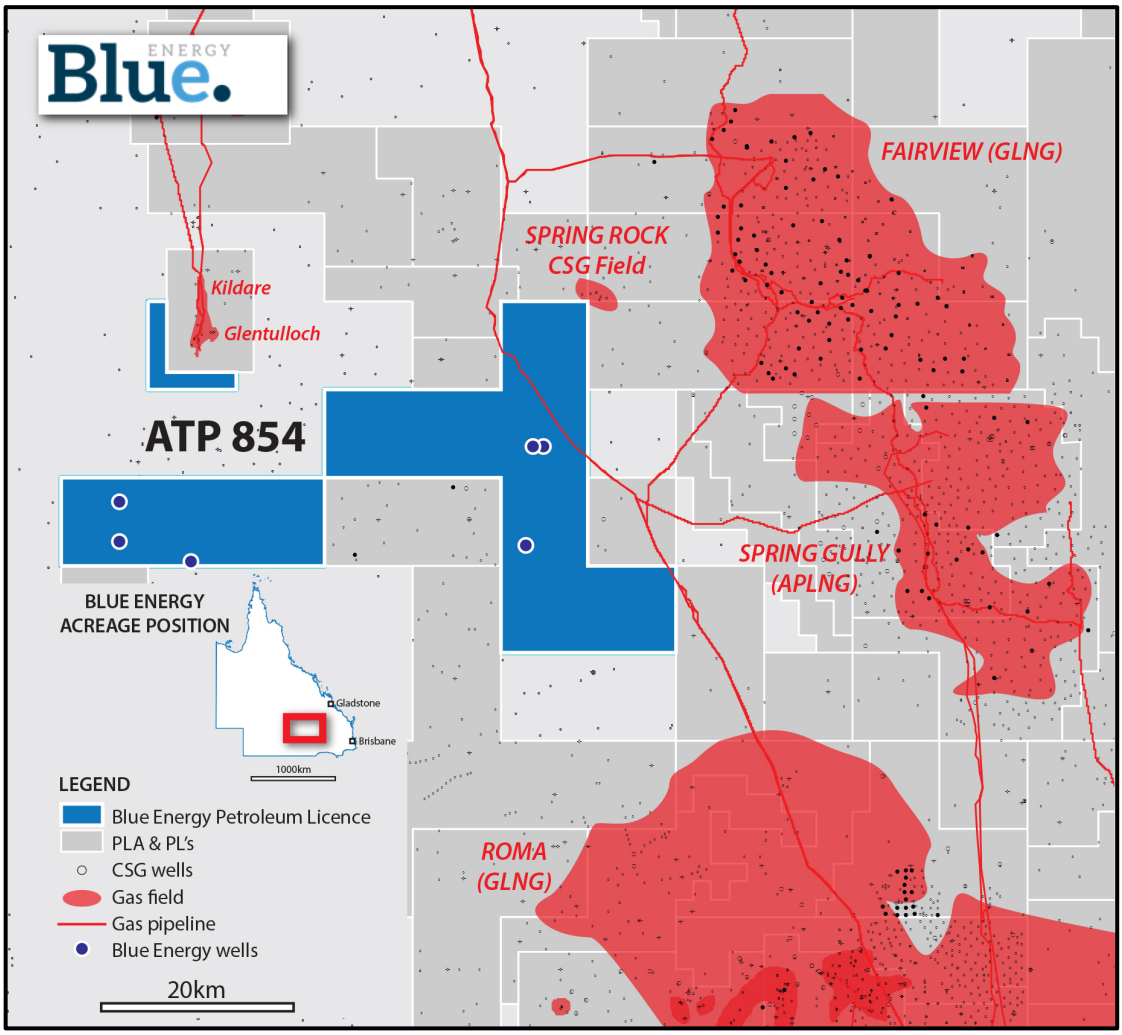


Figure 3: ATP854P Surat/Bowen Basin

Blue. ENERGY
Level 3, 410 Queen Street,
Brisbane QLD 4000
t +61 7 3270 8800
f +61 7 3270 8899

## Emerging Basins

### Greater McArthur Basin

### (various permits and equities levels - Blue Energy Operator)

Industry awaits the outcome of Justice Pepper's Inquiry into Hydraulic Stimulation and the unconventional gas industry in the Northern Territory. Consequently, exploration activity in The Northern Territory remains stagnant until such time as the Government receives the Inquiry's recommendations

## CORPORATE

### Cash Position

Cash on hand at 31 March 2017 was $3.0m.

### Cost Reduction

Blue Energy continues to steward its available cash and find ways to reduce overheads. This continues to be a priority for management.

| Permit | Block | Assessment Date | Announcement Date | Methodology | Certifier | 1P (PJ) | 1C (PJ) | 2P (PJ) | 2C (PJ) | 3P (PJ) | 3C (PJ) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| ATP854P | | 30/06/2012 | 19/03/2013 | SPE/PRMS | NSAI | 0 | 22 | 0 | 47 | 0 | 101 |
| ATP813P | | 29/10/2014 | 30/10/2014 | SPE/PRMS | NSAI | 0 | 0 | 0 | 61 | 0 | 830 |
| ATP814P | Sapphire | 5/12/2015 | 8/12/2015 | SPE/PRMS | NSAI | 0 | 66 | 59 | 108 | 216 | 186 |
| ATP814P | Central | 5/12/2015 | 8/12/2015 | SPE/PRMS | NSAI | 0 | 50 | 12 | 99 | 75 | 306 |
| ATP814P | Monslatt | 5/12/2015 | 8/12/2015 | SPE/PRMS | NSAI | 0 | 0 | 0 | 619 | 0 | 2,054 |
| ATP814P | Lancewood | 5/12/2015 | 8/12/2015 | SPE/PRMS | NSAI | 0 | 5 | 0 | 23 | 1 | 435 |
| ATP814P | South | 30/06/2013 | 29/07/2013 | SPE/PRMS | NSAI | 0 | 15 | 0 | 27 | 6 | 30 |
| **Total (PJ)** | | | | | | **0** | **158** | **71** | **984** | **298** | **3,942** |
| **Total MMBOE** | | | | | | **0** | **27** | **12** | **168** | **51** | **672** |

Table 1: Blue Energy net Reserves and Resources

Blue. ENERGY
Level 3, 410 Queen Street,
Brisbane QLD 4000
t +61 7 3270 8800
f +61 7 3270 8899

## Competent Person Statement

The estimates of reserves and contingent resources have been provided by Mr John Hattner of Netherland, Sewell and Associates Inc (NSAI). NSAI independently reviews at least quarterly the Company's Reserves and Contingent Resources. 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 a member of the Society of Petroleum Engineers (SPE), 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 SPE, utilizing a deterministic methodology.

**Petroleum Tenements Held**

| Permit | Location | Interest Held Previous Quarter | Interest Held Current Quarter |
|---|---|---|---|
| ATP613P | Maryborough Basin (Qld) | 100% | 100% |
| ATP674P | Maryborough Basin (Qld) | 100% | 100% |
| ATP733P | Maryborough Basin (Qld) | 100% | 100% |
| ATP656P | Cooper Basin (Qld) | 100% | 100% |
| ATP657P | Cooper Basin (Qld) | 100% | 100% |
| ATP658P | Cooper Basin (Qld) | 100% | 100% |
| ATP660P | Cooper Basin (Qld) | 100% | 100% |
| ATP813P | Galilee Basin (Qld) | 100% | 100% |
| ATP814P | Bowen Basin (Qld) | 100% | 100% |
| ATP854P | Surat Basin (Qld) | 100% | 100% |
| ATP1112A | Carpentaria Basin (Qld) | 100% | 100% |
| ATP1114A | Georgina Basin (Qld) | 100% | 100% |
| ATP1117A | Georgina Basin (Qld) | 100% | 100% |
| ATP1123A | Georgina Basin (Qld) | 100% | 100% |

| Permit | Location | Interest Held Previous Quarter | Interest Held Current Quarter | Comment |
|---|---|---|---|---|
| EP199A | Wiso Basin (NT) | 10% | 10% | See Note 1 |
| EP200 | Wiso Basin (NT) | 10% | 10% | See Note 1 |
| EP205 | Wiso Basin (NT) | 10% | 10% | See Note 1 |
| EP206A | Wiso Basin (NT) | 10% | 10% | See Note 1 |
| EP207 | Wiso Basin (NT) | 10% | 10% | See Note 1 |
| EP208A | Wiso Basin (NT) | 10% | 10% | See Note 1 |
| EP209A | Wiso Basin (NT) | 10% | 10% | See Note 1 |
| EP210A | Wiso Basin (NT) | 10% | 10% | See Note 1 |
| EP211A | Wiso Basin (NT) | 10% | 10% | See Note 1 |

**Table 3: Exploration blocks Blue is farming into**
**Note 1: Subject to Farm in Agreement which upon completion will result in Blue Interest becoming 50%**

**Contact:** + 61 7 3270 8800
John Phillips
Managing Director
Blue Energy Limited