

25 October 2017

QUARTERLY ACTIVITIES REPORT

To 30th September 2017

Blue Energy Limited (ASX: "BUL") is pleased to report on activities during the September 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 on latest progress

- **Development Plan and Production Licence Application for the Monslatt Project lodged and accepted by Government**
- **Blue Energy and APA Group continue work on land access and route selection for the Bowen Gas Pipeline**
- **Commercialisation discussions continue**
- **National Energy Guarantee supports need for more gas**

ATP814P

Monslatt Production Licence Application and Development Plan - Submitted

Blue Energy's progress towards bringing its gas to southern markets via a Bowen Basin pipeline has continued with a second Production Licence Application now lodged with the Queensland Government.

The Development Plan for the Company's Monslatt Coal Seam Gas (CSG) resource has been submitted to the Queensland Department of Natural Resources and Mines (DNRM) as part of the Production Licence Application for the Monslatt Block of ATP814P. The plan is designed to develop the Monslatt Field, in conjunction with the recently announced Sapphire Production Licence Application and is designed to include the large contingent resource base in the Monslatt Block with the Sapphire development.

Blue Energy and APA Group MOU

Blue Energy and APA Group continue to work on route selection, land access and design components for the Bowen Pipeline ahead of negotiating a Gas Transmission Agreement.

National Energy perspective –

It has taken the blackout of an entire state (South Australia), the world's highest power prices and the intervention of the Regulator to stabilize the electricity grid, before policy action has even been contemplated. Arguably, this situation has been clearly unfolding over the last decade as there would seem to be a strong correlation between increased penetration of intermittent energy (renewables), grid stability, and increasing electricity prices during this period.

The Federal Government has now attempted to address faltering east coast energy systems with the introduction of the **National Energy Guarantee** (NEG) on the electricity supply front, and the **Australian Domestic Gas Security Mechanism** (ADGSM) to address gas supply issues.

As part of the Finkel Review recommendations, the Prime Minister has established the **Energy Security Board**, which assisted in devising the NEG. This government body can now be added to the list of government entities, regulators and industry bodies sitting over the Energy sector this country. This list includes:

- Energy Security Board
- Australian Renewable Energy Agency
- Australian Energy Regulator
- Australian Energy Market Commission
- Australian Energy Market Operator
- ACCC
- Department of Environment and Energy
- Clean Energy Regulator
- COAG Energy Council
- Clean Energy Finance Corporation
- Australian Solar Council
- Australian Energy Storage Council
- Clean Energy Council

The Regulators in this list have all overseen the unfolding of the energy saga on the east coast.

The NEG is designed to address electricity supply reliability and affordability whilst also trying to address a goal of CO₂ abatement, in line with Australia's Paris agreement undertakings. The Renewable Energy Target (RET) remains in place until 2020, but its mooted replacement, the Clean Energy Target (CET) proposed in the Finkel Report, will not be implemented. It appears that subsidies paid to existing renewable energy suppliers will not cease in 2020 with the RET, but will be phased out over the following 10 years (ie still being paid to 2030). The NEG will require pure renewable generators to source equivalent capacity from "Dispatchable" sources (either coal, gas or hydro generation). This should provide a need for more gas fired generation, which is the cleanest fossil fuel source of baseload generation and has near instantaneous start up.

With respect to the ADGSM, the presiding Federal Minister will now have the power to compel LNG producers in Gladstone to direct gas away from their export contracts and into the domestic market, based on the advice from AEMO of forecast gas shortfall in the forthcoming year. This measure however, does not develop any extra gas molecules to bring to market, but just takes from one market and gives to another. It has introduced real sovereign risk for resource developers and producers in Australia. In addition, Victoria, NSW and the NT still remain closed to exploration.

National Energy Strategy

There is still no attempt at developing a national vision or strategy for the provision of reliable, affordable, secure, on-demand energy to our industries, our homes, our mining operations, agriculture, our national trucking fleet or our defence forces, incorporating electricity and petrol/diesel/aviation fuel (and strategic reserves/storage of these fuels). This is strategically risky from a national security perspective given we import our refined petroleum products for transportation yet export all our uranium, coal and gas.

This impasse is entirely due to the partisan politics that now afflict energy debate in this country, and by default threatens energy security.

Energy poor nations, such as Taiwan, Korea and Japan have a defined strategy and balanced energy mix (including Nuclear, oil, gas, hydro, coal and renewables), sourced from a variety of suppliers, to spread the geographic and geopolitical supply risk. In Australia, by contrast, we limit our energy mix ideologically and politically to preference renewables, penalize fossil fuel sources, and ignore nuclear. despite exporting all our uranium, gas and coal to those very same energy poor countries.

East Coast Gas Market

As we have noted previously, the east coast gas market has fundamentally changed due to five main issues - all of which have been clearly evident over the last decade

1. Domestic gas users failed to contract forward their gas needs early enough (pre 2010),

these decisions were made in the boardrooms of the gas users, and the result has been they have missed out on the low priced gas of 7-8 years ago – they are now seeking assistance from governments, as gas producers have found other long term buyers (via LNG)

If domestic gas users aggregated their east coast demand over 1, 5, and 10 year timeframes, domestic explorers/producers could access funding to develop these potentially significant volumes. Until this happens, domestic gas users will be dependent on the LNG producers to provide gas.

2. Gas producers developed an alternate, bigger volume, better priced gas market (LNG export) and international buyers signed long term supply contracts (2010)

Without these large markets and long term gas contracts the CSG resources in Qld would not have been developed.

3. The LNG Consortia overbuilt (and Governments approved) LNG capacity in Gladstone (some without sufficient reserve coverage), resulting domestic reserves flowing to LNG plants for export.
4. Governments and activists have restricted the exploration for new gas supplies

With tightening supply (driven by overbuilt capacity in Gladstone), more gas was needed to be brought into the market. However, various State jurisdictions have restricted exploration activities and added significantly to the environmental regulations, will significantly delay the discovery and development process and add to the cost of new gas supply.

5. Insufficient capital has been deployed to develop discovered gas resources (a function of the world oil price collapse, capital markets and corporate balance sheets)

An aggregated gas demand profile from multiple domestic gas users would assist new producers bringing gas to market as finance would be more readily available for these larger aggregated volumes.

The oil and gas industry in Australia recorded losses of \$4.5 billion in 2015-16 (excluding write-downs). Clearly the ability for companies to fund exploration and development activities remains a challenge, notwithstanding the increased sovereign risk that over-regulation, exploration moratoria, and export restrictions have yielded.

According to AEMO, there is 33,487 PJ of 2P reserves in reach of the east coast gas market. Of this, only 8,084 PJ is **developed** as at 2017. This means that given neutral gas demand, the industry must spend approximately \$3 billion each year just to develop the 25,403 PJ of undeveloped 2P reserves between now and 2036 (see Figure 1) Gas demand in the neutral case is 40,000 PJ to 2036. Both undeveloped 2P, Contingent Resources and Prospective Resources are required to meet this demand.

Blue is well positioned to be a significant supplier of gas into the east coast with its uncontracted volumes in ATP814P in the Bowen Basin. The Bowen Basin has up to 15,000 PJ of discovered gas resource, is a producing basin, and could be rapidly developed as a priority to satisfy the east coast gas market

Given the overall state of east coast energy (gas and electricity), it behoves both sides of politics to put the national interest ahead of ideology. Industry is under severe energy cost stress, households are also under price pressures, and electricity grid stability is being compromised. Added to this we are exposed to significant economic and defence threat should our petroleum product supplies from South east Asia be disrupted. Stable, secure, affordable energy supply should be a top priority for all levels of government.

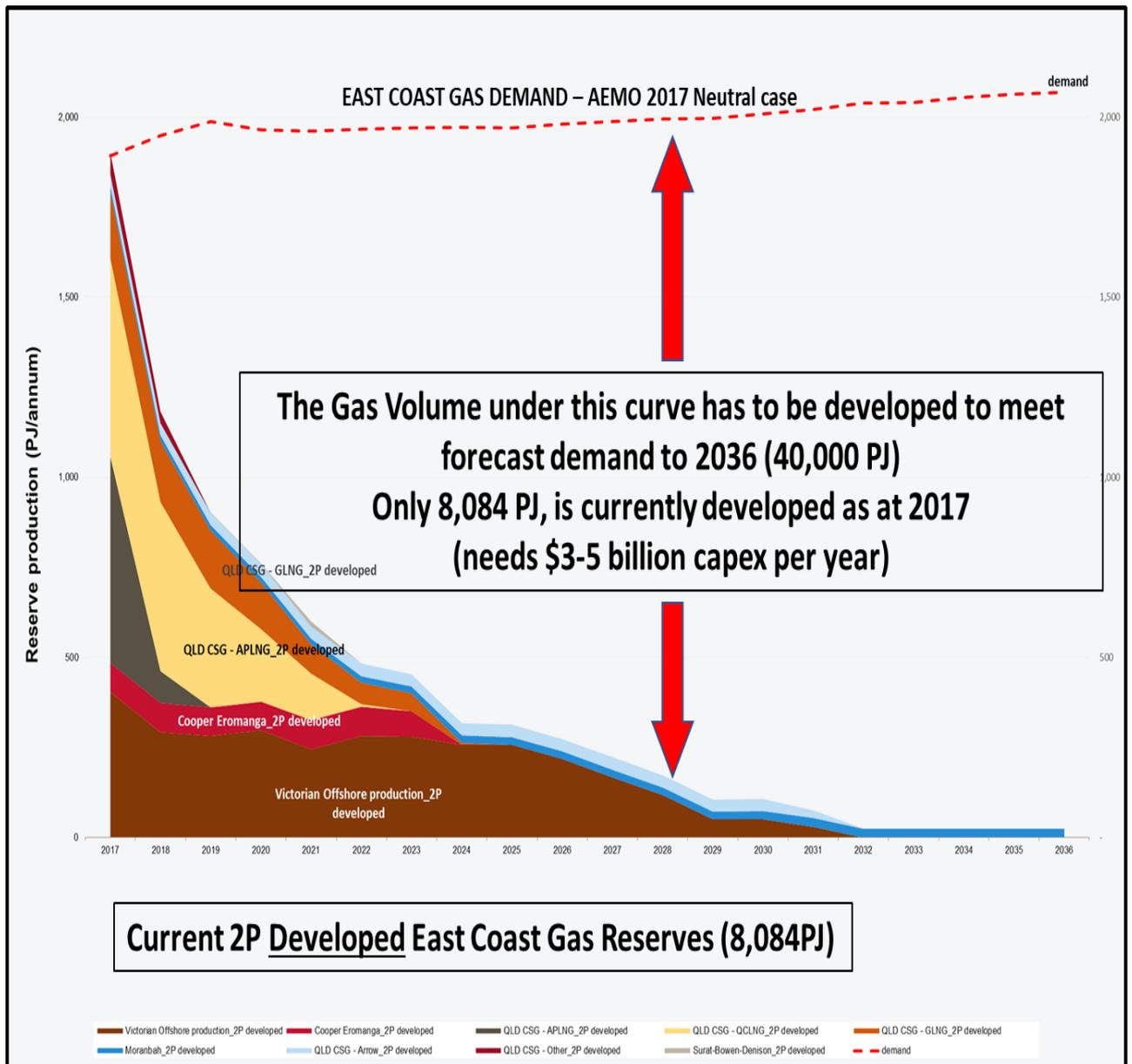


Figure 1: East Coast Gas Developed 2P Gas Reserves versus Demand (source: AEMO GSOO 2017-2036)

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 11,000 PJ of gas resource which if developed and brought to market, can provide a timely solution to the East Coast gas shortage in the medium and longer term.

Petroleum Licence Applications have now been lodged for both the Sapphire and Monslatt Blocks of ATP814P. This secures a large portion of Blue’s contingent resource base and additional applications for Potential Commercial Area status over the other blocks (Monslatt, -see Figure 2).

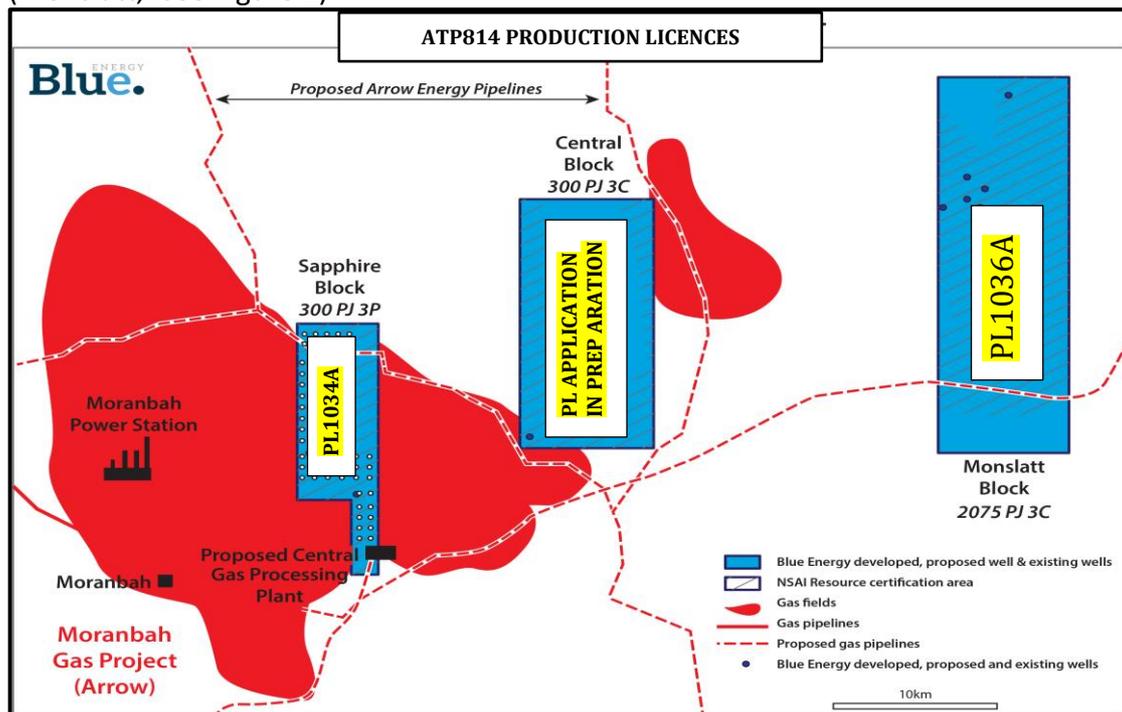


Figure 2: ATP814P Bowen Basin Queensland with PL Applications over Sapphire and Monslatt Blocks

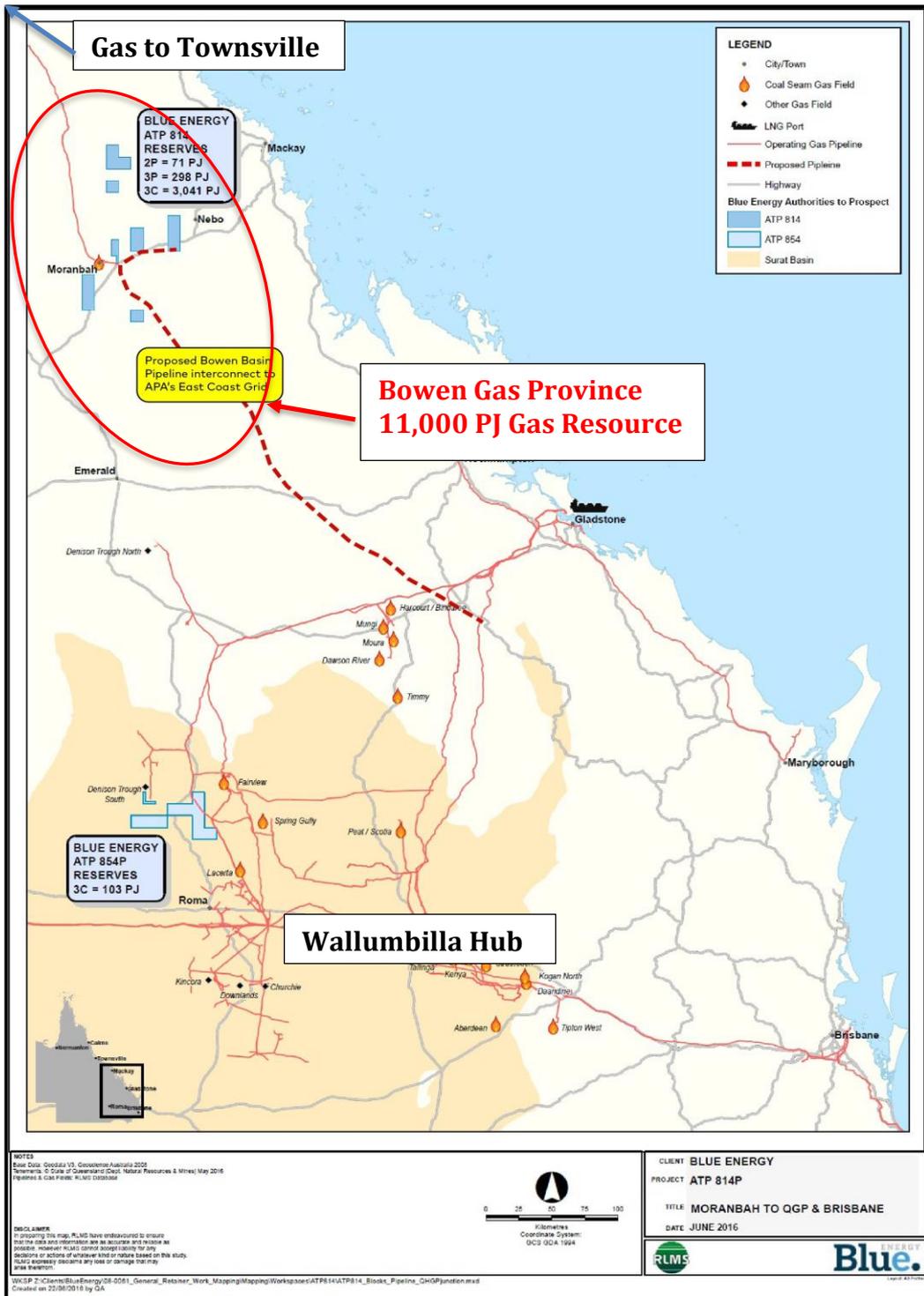


Figure 2: Bowen Gas Province and proposed pipeline route

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 103 PJ of Contingent Resources in this permit, as per NSAI estimates. This block would provide the Company with the quickest gas to market opportunity as existing gas export infrastructure runs through the permit, giving access to both Wallumbilla and Gladstone.

Blue has three Potential Commercial Area Applications over the permit which will secure the acreage and allow work to be undertaken to grow gas reserves and resources in parallel to the continued marketing of the gas resources to potential gas buyers.

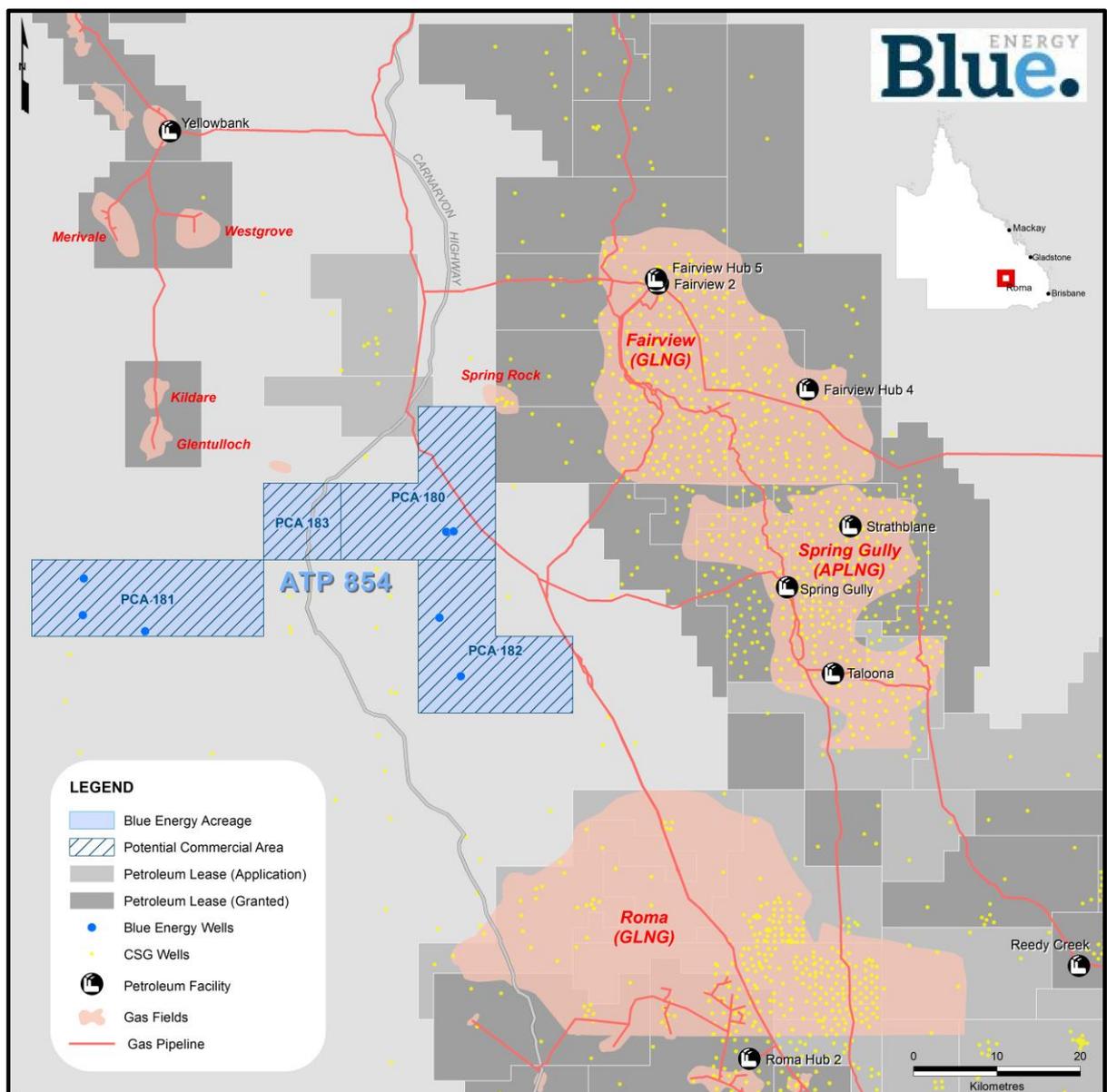


Figure 3: ATP854P Surat/Bowen Basin

Emerging Basins

Greater McArthur Basin

(various permits and equities levels - Blue Energy Operator)

The Greater McArthur Basin remains the hottest emerging hydrocarbon basin in Australia. Activity in the Territory is presently severely impacted by the enquiry into the Unconventional Gas industry, instituted by the new NT Government. The Scientific Inquiry into the Hydraulic Fracturing in the Northern Territory is due to hand down its final report and recommendations by calendar year end 2017. Blue Energy's permits have been placed into suspension, at the request of the Company, until such time as the NT Government indicates the stance it will take toward hydraulic fracturing.

Cooper Basin – ATP656, 657, 658 and 660 northern flank (Blue Energy 100% and Operator)

Activity by several adjacent Operators is de-risking the basin centered gas play in the areas well as other basin margin oil and gas plays that will directly impact Blue's acreage

CORPORATE

Cash Position

Cash on hand at 30 June 2017 was \$2.03m.

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

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%

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