

Chairman's Letter to Shareholders

11 October 2019

My fellow Shareholders,

I have taken the opportunity to write to you again this year, in conjunction with the Notice of Meeting for this year's Blue Energy Annual General Meeting (AGM), as I appreciate that not everyone has the time or the ability to attend the AGM. It is my hope that this letter will enable all shareholders to gain an insight into where the Company is and how it is currently positioned to take advantage of Australia's under-supplied east coast gas market.

The global Energy industry is currently undergoing the largest change in the past 100 years. The key issue for the global and domestic Australian energy industry has shifted to being able to supply safe, low cost sustainable energy to customers. Increased concern around air quality, climate and carbon emissions will re-prioritize how we look at opportunities and those with the most attractive profile will attract capital and gain market share. According to the International Energy Agency *"Natural gas has an important role to play in complementing low-carbon energy solutions by providing the flexibility needed to support a growing renewables component in power generation."*

Blue Energy's Bowen Basin resource base provides an attractive and compelling opportunity, our natural gas is of a high quality (zero CO₂), is in a shallow Permian reservoir setting, that does not produce high volumes of associated water and could be produced to market with a very low CO₂/PJ. Using this valuable gas resource in conjunction with renewable energy sources can have a profound impact in helping Australia meet our decarbonization goals.

As most of you will recall, Blue Energy received a "First Strike" from shareholders against the Company's Remuneration Report at the 2018 AGM. The Board and I took this very seriously and as a result, in analyzing the vote, your Directors have sought to address the concerns of shareholders as subsequently expressed to us.

At last year's AGM, 32.23% of the votes cast on the resolution to adopt the 2018 Remuneration Report were cast against it. Hence, the Company received a "First Strike". Since then the Company has consulted broadly with stakeholders in order to seek to understand the concerns that led to the "First Strike" vote and the Board has also undertaken a comprehensive review of Blue Energy's remuneration framework.

Details of the changes implemented during FY2019 are set out in the Remuneration Report. However, suffice to say that based on the shareholder feedback, the single issue that was of most concern was the operation of the Company's Employee Incentive Rights Plan (EIRP).

Although the plan was originally formulated by Godfrey Remuneration, voted on and endorsed by shareholders in 2012 and re-approved by Shareholders in 2016, the consequence of the fluctuations in the Company's share price had the consequence that the plan's structure generated awards of rights that

were viewed as excessive and due to the time delay in the vesting period was out of sync with annualised Total Shareholder Returns at the time of vesting (3 years after original award). Hence the view of a significant minority of shareholders was that the EIRP and Rights awards were not linked closely enough to current shareholder returns.

As a consequence, the Board has suspended the operation of the EIRP for 2019, and the Directors have chosen to waive the right to seek shareholder approval for the award of any performance rights, ordinarily calculated by the application of the EIRP rules. In addition, the Board felt that, in order to tangibly demonstrate to shareholders, the seriousness which we have placed on the First Strike, they elected to not seek members' approval for the 2018 award of Rights under the plan.

Going forward, Directors will now conduct a broad review of industry peers and remuneration practices in general to assist the Board in developing an incentive plan that will provide best practice total remuneration for our key management team, but which is better aligned with nearer term shareholder return. I look forward to bringing you further details of this strategy when concluded.

Operationally, Blue continues to be focused on realizing value from developing its gas assets. Firstly, the Northern Bowen Basin gas assets (namely ATP814P). This basin, as a whole, has independently certified gas resources of 15,000 PJ, which is enough gas to supply the east coast domestic gas demand for 30 years at current rates.

The current lack of southern pipeline infrastructure out of the basin to the dominant east coast gas market, together with the reluctance of those Operators with Government approved projects (gas developments and pipeline approvals) to commence work on these projects in a timely manner continues to impede the development of this vital gas resource. All that is needed is a pipeline. Blue is currently in discussions with the Northern Australia Infrastructure Fund and other potential infrastructure players together with domestic and export gas buyers to develop an alternative route to market. Blue continues to look at different alternatives to accelerate this value realization for the North Bowen Basin, because there is a large static gas resource contained in the region which will have a manifestly good effect on domestic gas users and industry when it is brought to market.

The other key area of progress is in the Northern Territory. Now that there is a little more clarity around the regulations governing oil and gas activity in the Territory, companies are beginning to re-engage with their stakeholders with a view to conducting on ground activity in the near future. Blue's large acreage position in the fledgling Greater MacArthur Basin is well located to benefit from the re-started exploration activities of Santos and Origin, following the Moratorium, Pepper inquiry and regulatory upgrade process – a period of nearly 3 years. Blue is re-engaging with Traditional Owners, Land Councils, commencing the desk top studies for the new environmental requirements for oil and gas activity, as well as talking with landholders and pastoralists to establish a social licence with which we can hopefully resume some on-ground activity in the next dry season.

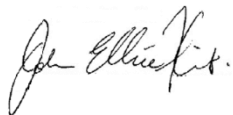
Blue's Galilee Basin assets (ATP813) lie between those of Galilee Energy and Comet Ridge, and so the production testing proof of concept being undertaken to our west by Galilee Energy is being watched closely by your Company.

The Domestic gas market on Australia's east coast continues to be tightly supplied for gas users and industry. It continues to rely on the LNG exporters on Curtis Island providing gas to the domestic market.

All the while the words of ACCC Chairman Rod Sims from three years ago reverberate, “we need more new gas supply to be brought to market”.

I take this opportunity to thank you for your continued and valued support, and look forward to seeing those of you who are able to attend, at the AGM in November

Yours sincerely,

A handwritten signature in black ink, appearing to read 'John Ellice-Flint'.

John Ellice-Flint

Executive Chairman
Blue Energy Ltd