

29 July 2014

QUARTERLY ACTIVITIES REPORT To 30th June 2014

Blue Energy Limited (ASX: "BUL") is pleased to report increased activity during the 30 June 2014 quarter across proven and emerging basins in Queensland and the Northern Territory in which the Company's key oil and gas projects are located.

KEY POINTS

Proven Basins

- **Bowen:** Work progressing on proposed Moranbah-Gladstone pipeline project
- **Surat:** New CSG play recognised in Blue's Permit
- **Cooper:** Blue Energy awarded four large Northern Flank Cooper Basin Blocks

Emerging Basins

- **Greater McArthur:** Drilling by European Majors heats up
- **Wiso/McArthur:** Geotechnical work extends prospective sequences

Corporate

- **Cost reduction strategy yielding savings**
- **Cash reserves \$9.0 million as at 30 June 2014**

Bowen Basin (ATP814P – 100% Blue Energy and Operator)

Blue Energy believes work is well advanced on the Front End Engineering and Design phase of the planned Moranbah to Gladstone pipeline. Construction of this pipeline link is crucial for the massive volumes of Permian CSG existing around Moranbah - including Blue Energy's 2P and 3P Reserves - to be sold as feed gas to any of the three massive LNG Liquefaction plants in Gladstone. It is expected that the first of these LNG facilities will commence supplying gas to the global market late in 2014.

The Company continues to work with Netherland, Sewell and Associates Inc (NSAI) on providing an update on the reserve and resources position for ATP814P. Delays have been experienced in the provision of a full data set by other parties to the data sharing agreement for the region. The reserve update is now scheduled to be completed by the end of current calendar year.

Surat Basin (ATP854P – 100% Blue Energy and Operator)

The prospect of an additional coal seam gas (CSG) play has been identified by the Company within the 100%-owned ATP854P block.

Based on available existing geologic data, the potential of the Early Permian Cattle Creek Group (see Figure 2) has been recognised by Blue Energy as an additional CSG prospect in the north east corner of ATP 854P – adjacent to the producing Spring Rock field operated by the GLNG consortium.

Blue Energy currently has 100 PJ of 3C Contingent Resource (assessed by NSAI) attributed to the Late Permian Bandanna Coal Measures in ATP854P (see Figure 1), which is located immediately west of the Fairview CSG field, the main feed gas source for GLNG's Gladstone export LNG facility.

Data from the Spring Rock wells indicates net coal thickness in the Cattle Creek up to 25 metres with measured gas contents up to 17 m³/tonne (from available desorption data). The depth of the Cattle Creek Coals in the Spring Rock area average approximately 450 metres. Blue Energy believes these coals extend into ATP 854P and is currently assessing the volumetric significance of the play for Blue Energy.

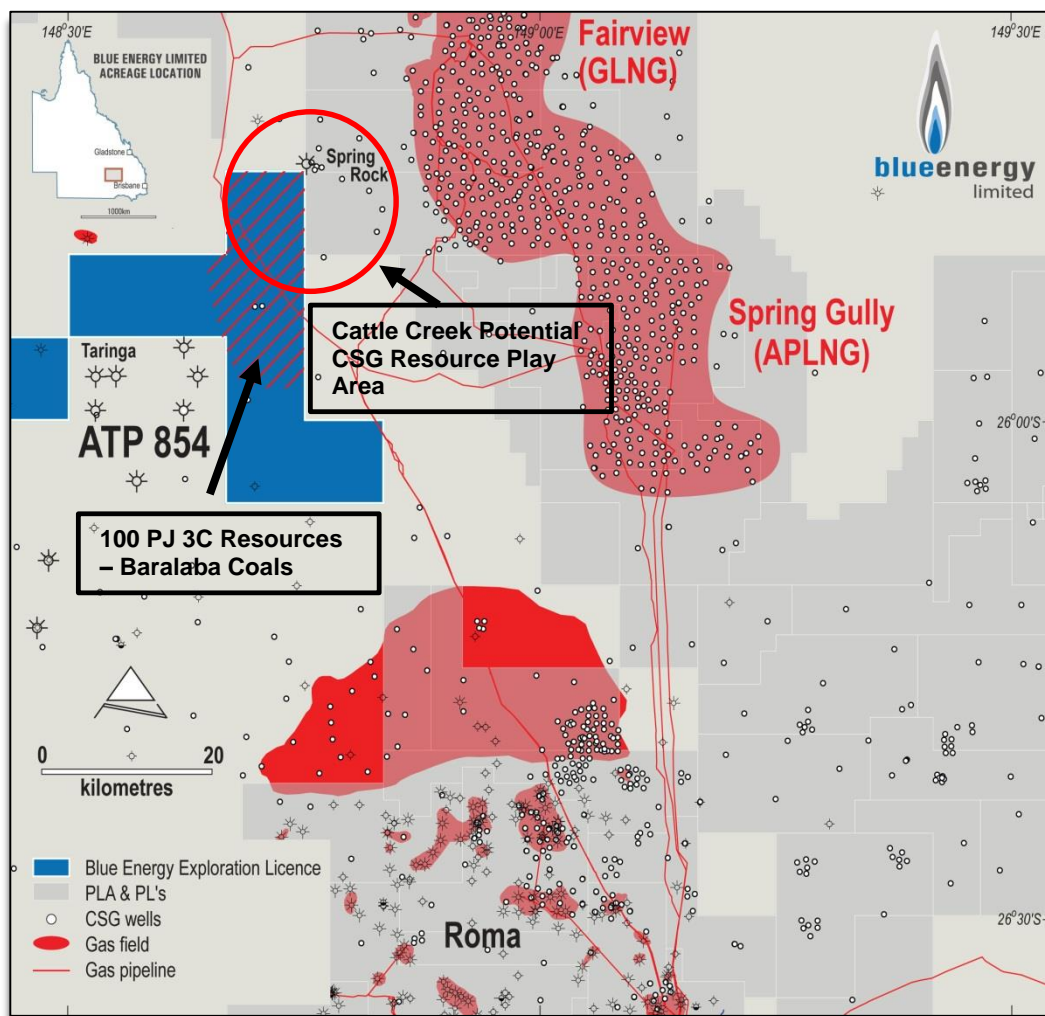


Figure 1: ATP854P Cattle Creek Play area

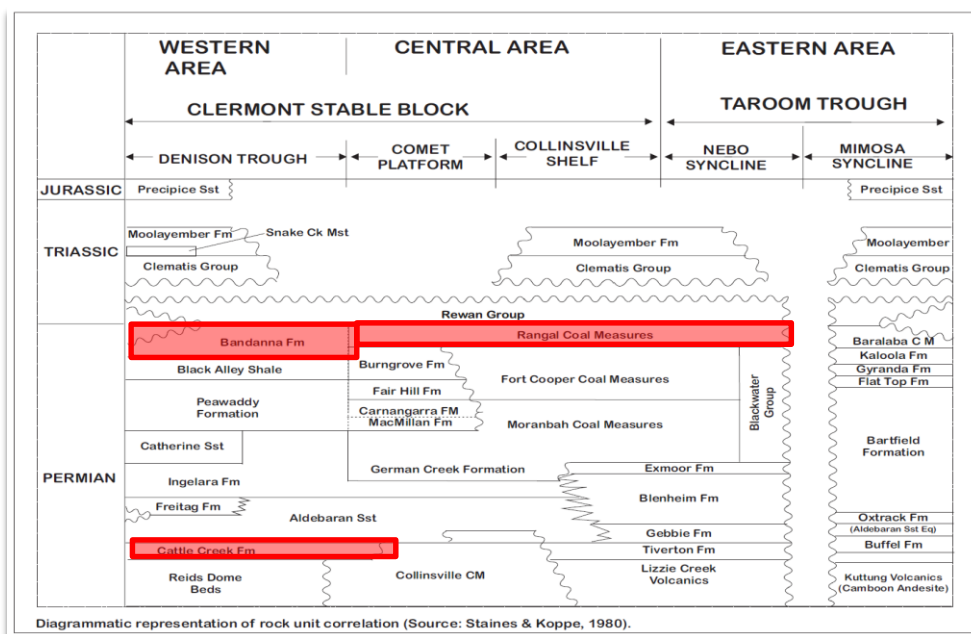


Figure 2: Generalised Stratigraphy showing relationship of Cattle Creek Fm to Late Permian Rangel and Bandanna Coals

Cooper Basin (ATP 656A, 657A, 658A, & 660A Blue Energy 100% - and Operator)

As announced to the market in June, Blue Energy has been granted 4 large ATP's on the under-explored Northern Flank of the Cooper/Eromanga Basins in Queensland. The effective grant date for all four permits is 1st July 2014.

The Company notes increased interest in the Northern Flank by other explorers, including Beach Energy and Drillsearch which earlier this week announced a commitment to this sparsely explored area of the Cooper Basin.

The Blue Energy permits encompass an area of 5,200 square kilometres with the Ballera-to-Mt Isa gas pipeline traversing one of the permits, ATP657P (see Figure 3).

The Inland Oil field is immediately adjacent to the permit areas, and the Santos-operated Cook and Cuisinier oil fields are on trend and in close proximity to Blue Energy's ATP656P (see Figure 3).

<u>Granted Permit</u>	<u>Area Km²</u>	<u>BUL Equity/Operator</u>
ATP656P	694 km ²	100% / Blue Energy (Qld) Pty Ltd
ATP657P	1,627 km ²	100% / Blue Energy (Qld) Pty Ltd
ATP658P	1,397 km ²	100% / Blue Energy (Qld) Pty Ltd
ATP660P	1,482 km ²	100% / Blue Energy (Qld) Pty Ltd
	5,200 km² (1.28 million acres)	

These permits have had no exploration conducted over them since the mid-1990s, when they were part of the areas required to be relinquished by the Santos/Delhi-led Joint Venture.

Since that time, the Cooper Basin 'flank oil play' has developed beyond the original Jackson-Nacowlah trend in Queensland and is now well understood and seen to occur on all margins of the basin. As evidenced by the newly-discovered exploration/production fairway along the western flank in the South Australian part of the Basin.

The Bridgeport operated Inland oilfield (discovered in the mid 1990's) lies immediately north of Blue's ATP 657P and highlights the proven nature of the Northern Margin oil play. The lack of a concerted and sustained exploration effort over the last 20 years has led to this play being severely under exploited. Modern seismic will be key to un-locking the potential of this Northern Basin Margin.

Despite only being granted the permits on 1st July this year, Blue Energy is nearing completion of its initial Geological and Geophysical data compilation and remapping exercise (ie the Year 1 work program) to quantify prospectivity of the blocks. Other Operators are actively acquiring 3D seismic surveys adjacent to the Blue Energy permits, and it is expected that drilling by those Operators in the area will also commence soon.

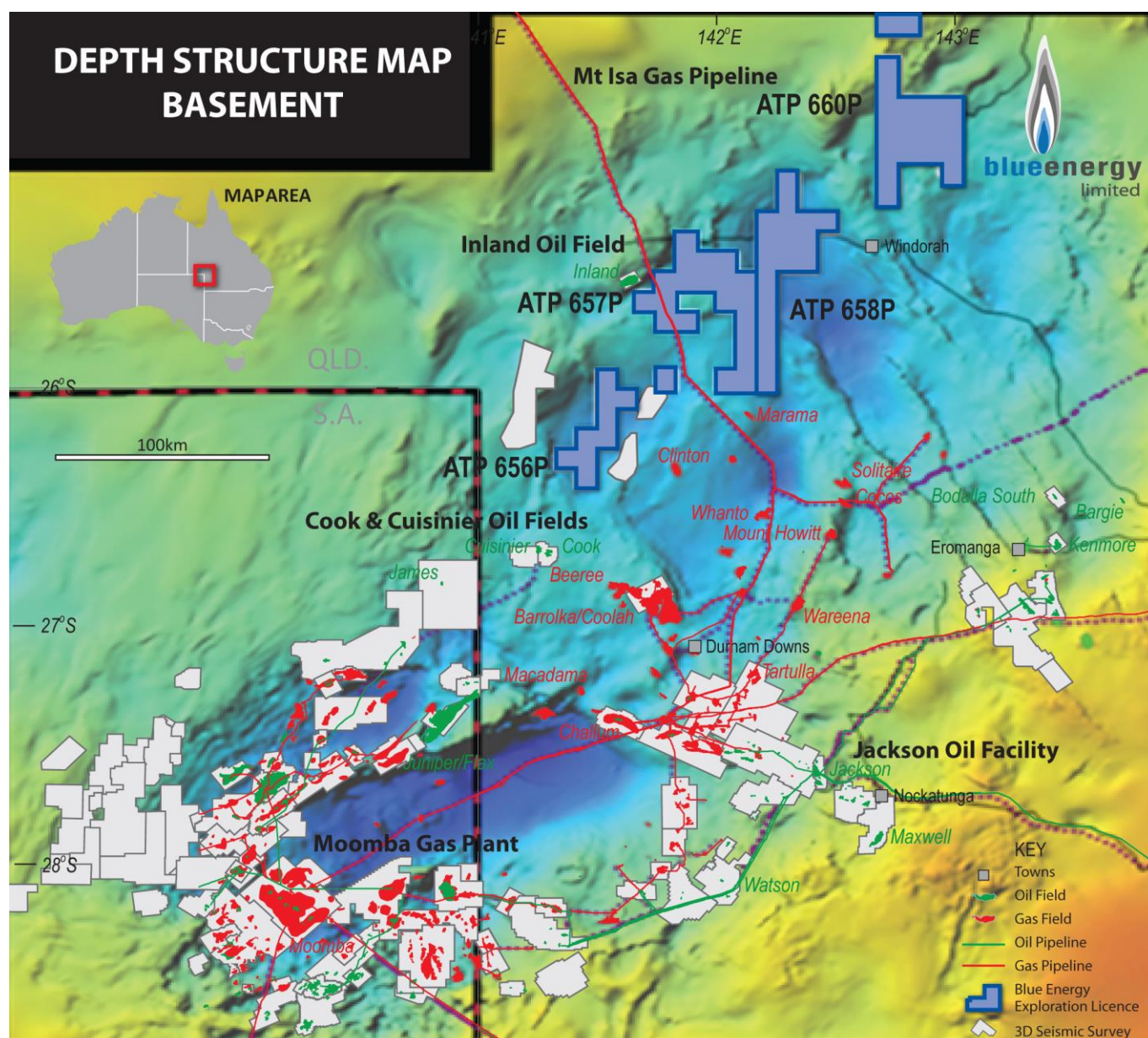


Figure 3: Location of Blue Energy's newly awarded Cooper Basin Permits, 3D seismic survey coverage and pipeline infrastructure.

Emerging Basins

Greater McArthur Basin: Drilling by European Majors and others heats up

It is most pleasing to see exploration of the Southern Georgina Basin in both the Northern Territory and Queensland gaining pace with the Statoil/Petrofrontier Joint Venture drilling its fifth well targeting the Lower Arthur Creek Shale play (See Figure 6).

Significant amounts of core have been collected from several of the wells in the campaign and this is being analysed by the Joint Venture. Reports by Petrofrontier suggest that its independent petrophysical analysis of the acquired data from the OzAlpha 1 and Oz Beta 1 wells identifies net oil pay in these two wells which are located adjacent to Blue Energy's ATP 1123A application block. It is also reported by Petrofrontier that Statoil plans to return to these two wells and conduct completion and fracture stimulation operations to establish potential for hydrocarbon flow from the target formation.

In addition to the Statoil/Petrofrontier activity, the Total/Central Petroleum Joint Venture commenced a four well drilling program in the Southern Georgina Basin with the spudding of the first well Whitely 1, in ATP 912P. This permit is immediately adjacent to Blue Energy's ATP 1123A application block (Figure 6).

The dry season in the northern parts of the Northern Territory has also seen spudding of several exploration wells in the Greater McArthur Basin area. The focus of the drilling activity is the potentially massive hydrocarbon resources of the unconventional plays in the Roper Group (Velkerri Shale) and the McArthur Group (Barney Creek Shale and its equivalents).

Santos spudded its Tanumbirini 1 farm in well with Tamboran Resources in EP 161 and is to target the Velkerri Shale in the Beetaloo sub-basin. Pangaea (private company) completed a fully cored stratigraphic well targeting the McArthur Group equivalent sequences in EP 168 and Beach Energy was drilling its Cullen 1 well in the onshore Bonaparte Basin targeting the Carboniferous (Milligans Formation and Langfield Group) and the Devonian (Ningbing and Cockatoo Group) sequences (Figure 6).

The activity highlights the growing geological interest and farm in deal commitments in these northern basins.

Wiso/McArthur Basin: Geotechnical work extends prospective sequences

As reported to the market previously, Blue Energy's detailed Gravity and Magnetic modelling over its vast acreage holding in the Northern Territory Wiso Basin area highlights the extension of the McArthur Basin Sequences into the western parts of the Territory, where previously these rocks were not thought to exist. This crystallises the prospect that McArthur Basin play types will exist in Blue Energy's acreage area in the NT (see Figures 4 & 5). This extension of the McArthur play was also independently confirmed by the NT Geological Survey.

In addition to this technical work, Blue is also currently continuing work with the Northern and Central Land Councils to reach Native Title Agreements with Traditional Owners of these regions. Successful agreements will facilitate grant of these application areas.

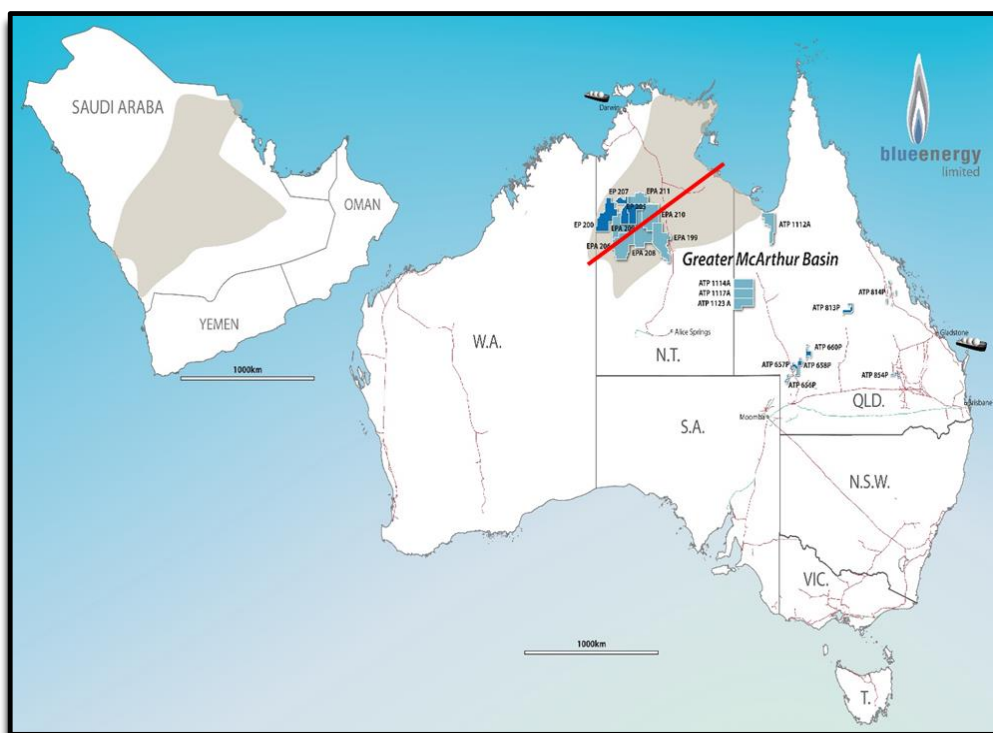


Figure 4: Blue Energy's Northern Territory acreage position and relative size comparison.

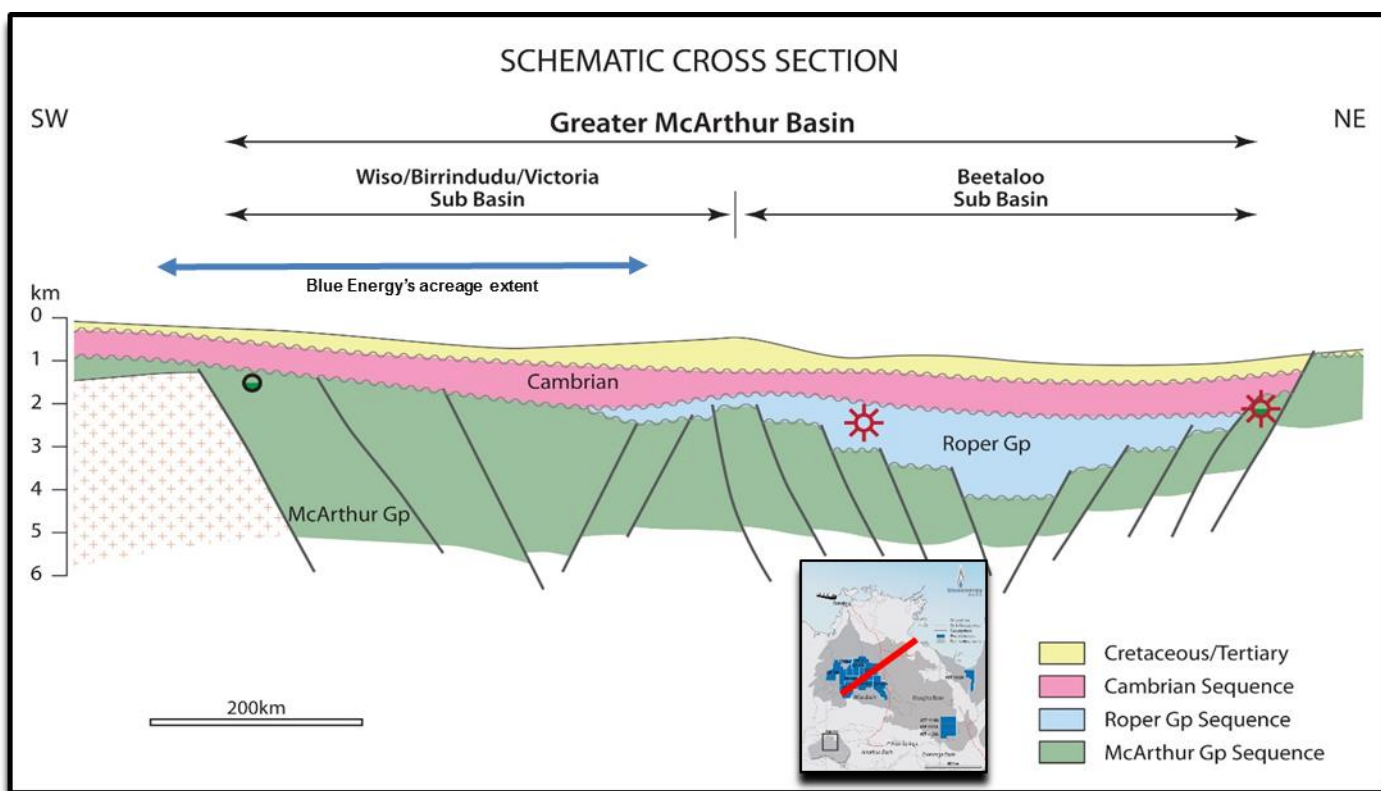
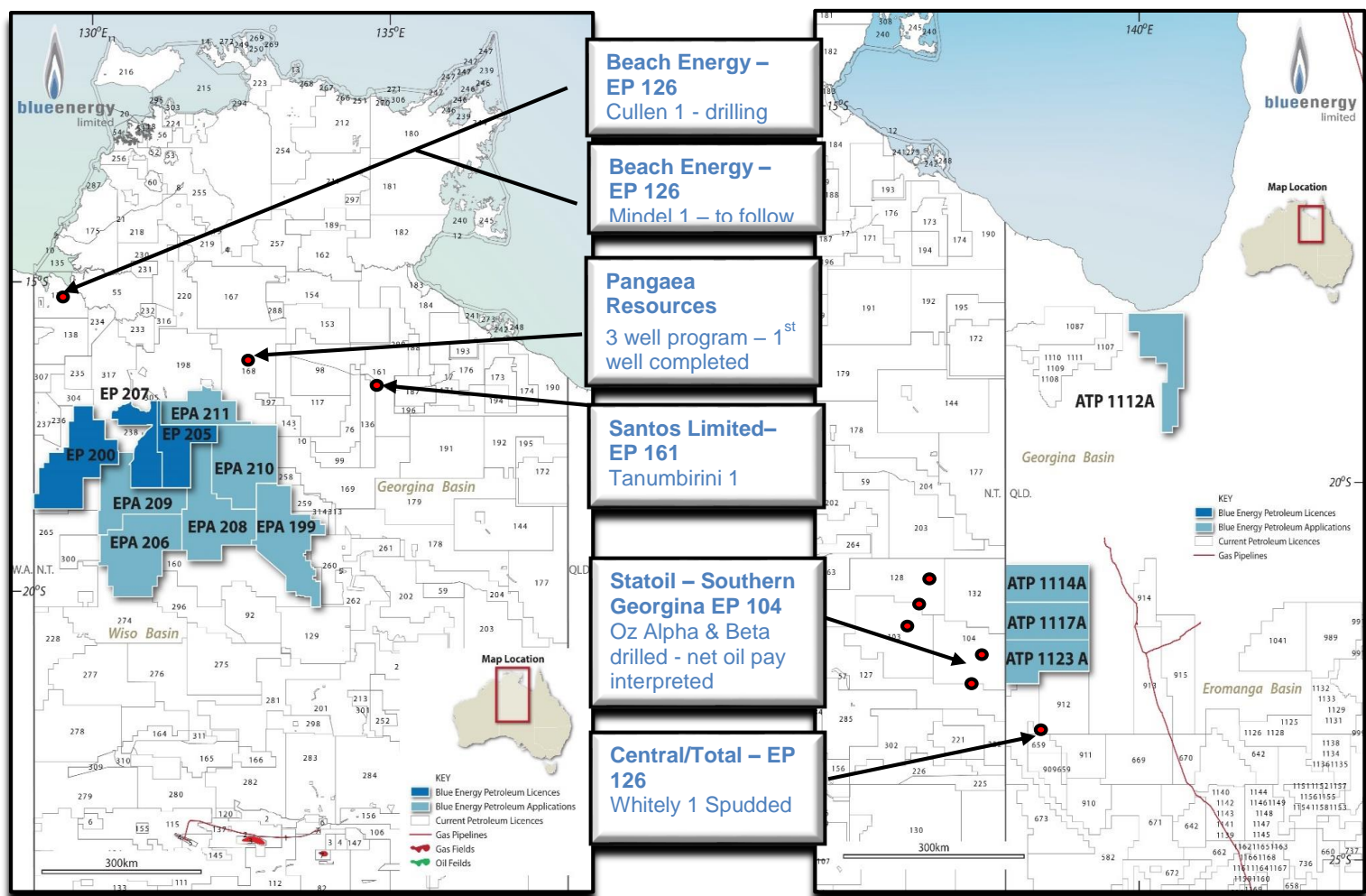


Figure 5: Schematic Cross-section showing the extension of the McArthur Basin sequences and Blue's acreage extent.

Figure 6: Activity map



CORPORATE

Cost reduction strategy yielding savings

The concerted and ongoing cost reduction strategy embarked on by Management and the Board is yielding real savings. The company's annual administration costs have been in decline over the last several years as every line item of expenditure is regularly reviewed.

As previously reported the contract for our Managing Director and CEO, Mr John Phillips, has been extended by two years. The previous CFO/Company Secretary's contract was not renewed and the CFO role has not been replaced. The Company Solicitor, who was previously also Blue Energy's Company Secretary until 2010, has been reappointed to the role of Company Secretary.

Cash Position

Cash on hand at the end of the 30 June 2014 quarter was \$9.0m with the net cash spend for the quarter of \$0.2m. This consisted of general operating costs of \$0.47m and other G&G and permit related expenditures of \$0.5m. Blue received an R&D exploration rebate of \$0.6 million during the quarter.

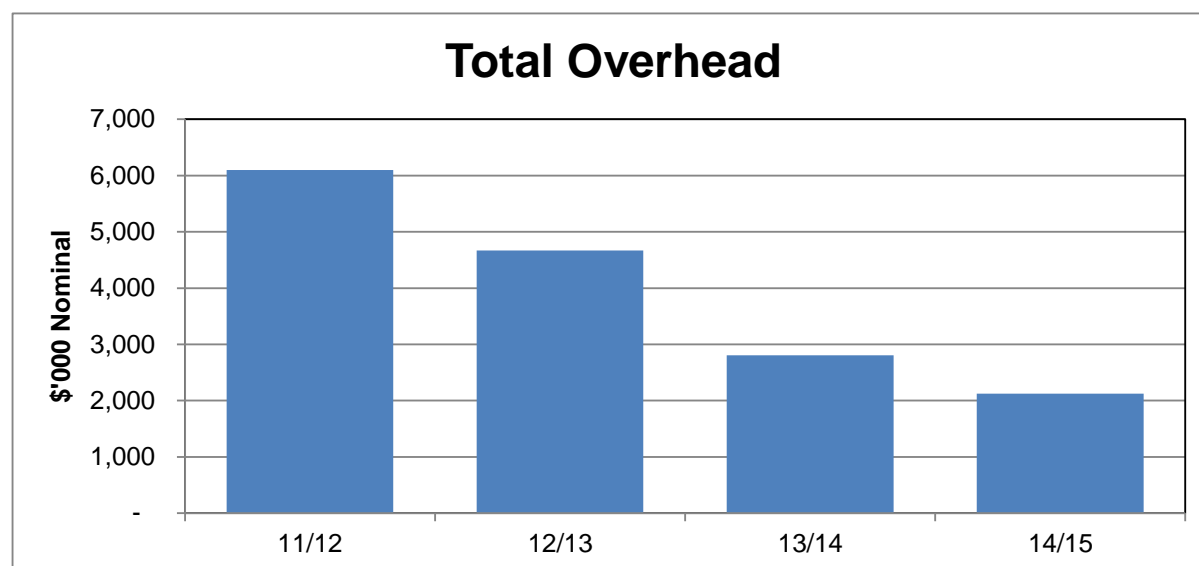


Figure 7: Blue's Annual Corporate overhead reduction

Shares, Rights & Option Issues

During the quarter 20,618,250 options lapsed. In addition, a total of 4,693,000 incentive Rights lapsed during the Quarter.

END

Petroleum Tenements Held

Permit	Location	Interest Held Previous Quarter	Interest Held Current Quarter	Comment
ATP613P	Maryborough Basin (Qld)	75%	100%	
ATP674P	Maryborough Basin (Qld)	75%	100%	
ATP733P	Maryborough Basin (Qld)	75%	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%	
ATP817P	Surat Basin (Qld)	100%	0%	Relinquished during quarter
ATP819P	Surat Basin (Qld)	100%	0%	Relinquished during quarter
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%	

Beneficial Interests Held via Farm in's

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

Note 1 – Blue has the ability to earn up to 50% equity in these blocks subject to completion of farmin work program.

Reserve and Resource Position

Permit	Block	Assessment Date	Announcement Date	1P (PJ)	1C (PJ)	2P (PJ)	2C (PJ)	3P (PJ)	3C (PJ)
ATP854P		30-06-12	19-03-13	-	22	-	47	-	101
ATP813P		31-12-10	29-06-11	-	-	-	42	-	548
ATP814P	Sapphire	31-12-12	26-02-13	-	75	50	127	178	224
ATP814P	Central	31-12-12	19-03-13	-	27	-	81	-	438
ATP814P	Monslatt	31-12-12	19-03-13	-	-	-	476	-	1,693
ATP814P	Lancewood	30-09-13	30-10-13	-	7	5	11	15	421
ATP814P	South	30-06-13	29-07-13	-	15	-	27	6	30
Total (PJ)				-	146	55	811	200	3,454
Total (bcf)				-	146	55	811	200	3,454

All numbers are net to Blue Energy.

Competent Person Statement

The estimates of reserves and contingent resources 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), utilising a deterministic methodology.