

Chairman's Letter

Fellow Shareholders

I am pleased to provide, in the attached documents, the Notice of Meeting for the 2014 Annual General Meeting of Blue Energy Limited. It will be held this year on Wednesday the 19th on November at the offices of our Auditor Ernst and Young at Level 51, 111 Eagle Street Brisbane CBD Queensland.

I look forward to seeing you there.

Also in the pack is a form which encourages you to supply your email address details to the Company. In order to better communicate with our shareholder base, it is important that you provide your email addresses to the Company either by filling out the form attached, registering at our website www.blueenergy.com.au, or providing your email address details when lodging your voting forms. If you are intending to attend the AGM, there will also be an opportunity to leave your email address with us on the day. Blue Energy Ltd ("Blue") has been systematically revamping the Company's website over the last few months and we hope the new look meets with your approval. Should you have any suggestions on how to further improve it, please feel free to drop the Company an email with your thoughts.

The Journey

I am sure you do not need me to tell you that it has been a rocky road for the resource sector over the last several years, with investor patience being sorely tested. Commodity prices in Australia are, to a large extent, at the mercy of the Chinese economy whilst exchange rates are beginning to reflect the strengthening US economy.

However, it is worthwhile noting that the world currently derives more than 70% of its energy from fossil fuel. Developing economies like China and India are bringing their vast populations up from impoverished standards of living to better lives; these efforts require food, water, shelter and energy. At the most basic levels, the raw energy provides electricity to power heating and cooling, cooking and communications. The volumes of energy required are vast, and most of the developing economies must supplement their domestic energy production (if any) with large imports of energy. In general these economies are intrinsically indigenous and poor in raw energy, thus they look to stable and reliable suppliers to provide this basic building block. In the past this has been largely filled by coal imports, but gas is now commanding an increasing share of the energy mix as these countries' leaders face the environmental challenges of providing a cleaner atmosphere and cheap reliable energy for their citizens.

As you are seeing with the development of Queensland's export LNG facilities in Gladstone, Queensland is now able to diversify its energy exports away from coal, and especially with gas currently having a vital part in providing energy in the form of LNG to these developing economies. With the higher international price now available to explorers and producers in Queensland, resources

that would probably have remained sub-economic are now more likely to be developed, and the royalties from that production will flow to the State through the technology of LNG and by accessing markets that value gas more highly than our own domestic markets.

When Blue Energy listed, it was the height of the first phase of the CSG to LNG industry evolution. At that point Blue had no reserves, and the acquisition of the small local companies with reserves by the large offshore international companies was occurring. This effectively meant that Blue was too late for the first phase. During the following years, with the major CSG-LNG players going to FID on their respective projects, the assumption was that they had sufficient gas to make these projects happen. Although an LNG project had never been built where its feed gas supply was based on gas from coal, all the proponents took on the risk of not just building a single liquefaction train, but building two trains. To compound this risk, each proponent undertook to build their own infrastructure – export pipelines, marine crossings, jetty facilities, etc. The duplication was astonishing.

All this is old news, but it has added to the economic risk of these projects which are reliant on a dry gas stream for feed gas (ie – there are no petroleum liquids that can be stripped from the gas stream to augment the economics).

As we now see, the effort required to establish an adequate gas supply to start these Liquefaction trains, and then keep them filled over the 20 year contract life has become problematic for some projects. This has meant that they are searching for third party gas.

With its assets close to the eastern seaboard at Moranbah and in the Surat Basin, and potentially the Cooper Basin tenements as well, Blue is well positioned to supply gas into both the domestic and export gas markets. Blue also has longer dated options like the Maryborough Basin acreage, for the eastern gas market, which will require a more concerted community engagement process before exploration gets underway.

It is expected that first LNG cargoes from Gladstone will occur by year end 2014, and with the Arrow project in Moranbah proceeding rapidly toward connection to Gladstone, it is clear that Blue will have access to these markets.

More broadly, your Company's portfolio is not only positioned well to capture the growing gas demand on the east coast, but also gas demand in Darwin and the liquids potential of the under-explored basins of the Northern Territory and western Queensland.

As the demand for gas has escalated, so too has the price that customers are required to pay, hence timing is everything in such a market.

The Journey for Blue Energy is one of seizing the moment to monetise our gas assets (which will bring cash in the door) in a rising gas market, whilst ensuring the next phase of exploration growth projects are identified, and acquired. Therefore you have seen Blue at the forefront to acquire shale play exploration tenements in Phase 1 of this play in Australia. This play has been very successful in the United States. We will systematically work through the Native Title processes to secure the award of these permits.

Strategy

The strategy for Blue over the last several years has been to minimise our own cash outflows, both in CAPEX and running costs, whilst to leveraging the balance sheets of our competitors who are drilling around our acreage. In essence this strategy adds value to Blue's acreage and its shareholders for minimum cost. For example, Arrow are drilling around us in the Moranbah area and are proving up

reserves for Blue in the process; GLNG are drilling around Blue's ATP854 permit in the Surat Basin; Central/Total and Statoil are de-risking our southern Georgina Basin acreage; REAL Energy has made gas discoveries in the Northern Cooper play – a Basin Centred Gas play concept; and Pangaea, Santos and Armour have been drilling in the McArthur Basin near our Greater McArthur Basin tenements in the Northern Territory. This strategy has been very effective to date; at a time when the Capital Markets are not conducive to securing capital for the resource sector activity.

Another factor is the management of our mandatory work programs. Your Company has managed its non-discretionary work obligations carefully such that we are in good standing in our permits and the call on our cash reserves is currently small, which, at a time when industry costs are high, works in Blue's favour. However, the flip side of this is that our activity levels are low and therefore some might see this lack of operational news flow as having a negative impact on share price. , Despite these current lows on ground activity levels though, your Company continues to post reserve and resource growth, which are the key value drivers for any resource company.

Blue Energy has assets with 2P and 3P gas reserves from a top tier reserve certifier, Netherland and Sewell and Associates (NSAI), and the value of these reserves has increased as the east coast gas demand has increased.

In addition to these near term assets, longer dated options in the under explored basins in Blue's portfolio gives the Company the ability to grow significantly. Recent transactions in some of these areas by other parties reflect sums that exceed Blue's market capitalisation, three and four fold.

Financial Key Performance Indicators

Clearly the preservation of cash is a KPI for management and our stewardship of our cash balance has been strong, whilst still providing growth opportunities. In an environment where small resource companies are being marked down for low cash balances, Blue still retains a strong financial position, with \$8 million in the bank at the end of the September Quarter.

Management's strong financial stewardship has been further acknowledged with another positive audit result, this year from Ernst and Young – a top tier Global Auditor.

In addition, Management has continued the trend over the last several years of reducing its running costs substantially to ensure our companies capital is maximized for exploring and not with administering.

Future funding requirements for the Company can potentially be accommodated from the proceeds of commercial transactions that we may undertake on our 100% owned assets. In summary, your Company is in good financial shape from a cash position and non-discretionary CAPEX perspective, and with a culture in place to continually reduce our running costs.

With the assistance of Ernst and Young Blue will transition to a Cloud based accounting system to further reduce the cost of administration and enable remote access of our financial data.

Your Board

Your Board continues to operate effectively and efficiently, with current Non-Executive Directors' fees (including Risk and Audit Committee) totaling \$130,000 per annum, which is well within the Shareholder approved limit. The full Board undertakes all functions with the exception of Risk and

Audit Committee activities. Board performance is constantly assessed both internally and externally as we strive to achieve best practice operation.

The assessment of Board performance looks not only at cost, but also at the skillset mix needed for our current exploration focus. Continual review of the skills mix possessed by our Board is part of the Board performance process

The Path Forward

Clearly the current east coast gas market is in a state of flux, and Blue will optimise the timing of monetising our gas assets to ensure maximum value to shareholders. This will include monetisation of the Contingent Resource category plus the 2P and 3P reserves. Historically, transactions have dealt with 2P and 3P reserve valuations and conventional conversion ratios. Blue will ensure that in any transaction, we fully value our Contingent Resource base to maximize the benefit to shareholders.

Once the first LNG cargos start leaving Gladstone, it is my opinion that the market for gas sales will be optimal. The current press referring to near zero gas prices is a temporary and short lived aberration caused by the logistics of bringing on the LNG trains in QGC's LNG plant in Gladstone. QGC's gas wells are ramping up, but the plant is not yet ready to receive the gas, so their only option for disposal of this ramp gas has been to put gas into the Braemar pipeline and almost give away what they cannot put through the power stations at Braemar. This situation will rapidly change when the LNG tanks are required to be filled prior to first cargo.

Blue will continue to attract high value partners for our other exploration assets, whilst retaining control of the operational aspects of these tenures and leveraging Blue's strong onshore operational and regulatory abilities.

In summary, whilst this past year has been a quiet one operationally, the market for gas is improving and the interest in Northern Territory acreage is increasing. This activity is adding value to Blue's permits through de-risking the play concepts and putting metrics to transactional values.

I look forward an exciting year of value creation in 2015 as the many moving parts of gas business begin to mesh, and interest in the under-explored basins of central Australia increases.

I look forward to meeting with you at the AGM in Brisbane on the 19th of November.

Yours sincerely

A handwritten signature in black ink, reading "John Ellice-Flint". The signature is fluid and cursive, with the first name "John" being the most prominent.

John Ellice-Flint
Executive Chairman
Blue Energy Limited