

31 July 2015



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QUARTERLY ACTIVITIES REPORT

To 30th June 2015

Blue Energy Limited (ASX: "BUL") is pleased to report on June 2015 quarter activities across proven and emerging basins in Queensland and the Northern Territory in which the Company's key gas and oil projects are located.

Key Points

- **Cost reduction program continues, with overheads down by 53% year on year**
- **Reserve and resource review underway by Netherland, Sewell and Associates**
- **Industrial gas demand not being met – opportunity for Blue**
- **Current cash position \$4.7 million - about to be strengthened by receipt of a \$1.85 million R&D tax rebate already processed by the ATO – awaiting funds transfer 31 July 2015**
- **Low non-discretionary work programs continue to allow cash preservation**

Competitor activity relevant to Blue Shareholders

- **QCLNG Train 2 commences LNG production - increases gas demand to 1,260 Tj/day in Gladstone. APLNG and GLNG first Trains will increase this to approx. 2,300 Tj/day by September**
- **Moranbah-Gladstone pipeline (Arrow Energy) progressing to constructor tender process phase – still in FEED**
- **Large basin centered gas resource confirmed in REAL Energy acreage immediately south of Blue Energy's Cooper Basin permits – de-risks Blue's acreage**
- **Drilling season in the Northern Territory sees several operators drilling in acreage adjacent to Blue Energy's – further de-risking Blue's acreage**

Blue Energy Reserve and Resource Position (net to Blue)

Table 1

Permit	Block	Assessment Date	Announcement Date	1P (PJ)	1C (PJ)	2P (PJ)	2C (PJ)	3P (PJ)	3C (PJ)
ATP854P		30/06/2012	19/03/2013	-	22	-	47	-	101
ATP813P		29/10/2014	30/10/2014	-	-	-	61	-	830
ATP814P	Sapphire	13/01/2015	15/01/2015	-	74	50	129	178	229
ATP814P	Central	13/01/2015	15/01/2015	-	65	-	156	-	567
ATP814P	Monslatt	13/01/2015	15/01/2015	-	-	-	632	-	2,115
ATP814P	Lancewood	13/01/2015	15/01/2015	-	7	2	25	15	522
ATP814P	South	30/06/2013	29/07/2013	-	15	-	27	6	30
Total (PJ)				-	184	52	1,077	200	4,392
Total (bcf)				-	184	52	1,077	200	4,392

Industry Developments

ACCC enquiry – East Coast Gas and Shell-BG transaction

The ACCC is currently conducting an enquiry into the East Coast Gas market, with submissions from interested parties (producers, users and industry groups) received and public hearings scheduled to commence 31st July 2015.

Not surprisingly, the predominant position of gas users is that there is a shortage of available gas into the east coast market and that this has been caused by the dominant gas producers (predominantly also LNG plant owners) wishing to direct their gas into their respective LNG facilities, which require substantial daily gas volumes to be maintained over the life of the plant and its offtake contracts. The gas users argue that the market is not transparent and that they are having difficulty negotiating new gas supplies at an acceptable price. They further argue that gas suppliers have little interest in negotiating the more traditional long-term domestic gas contracts, and that they are unable to even engage gas producers to negotiate such potential contracts.

By contrast, the gas producers make the argument that there is sufficient gas for the domestic market, but that the price needs to be compatible with a) the costs of production and b) a price that matches their export market alternative. It has to be acknowledged that the cost of gas production and supply in Australia has escalated significantly over the past several years due to a combination of increased labour costs (both internal and external), contract services costs, regulatory requirements and also gas transmission costs. A further aspect of the enquiry is that of gas transportation costs.

Blue Energy's position is that to reduce pressure on supply, more gas must be brought to market. Accordingly, the exploration effort for gas must be stepped

up and supported by the respective Regulators. The compounding issue is that the mainstay of frontier exploration for the east coast has historically been undertaken by predominantly small to mid-sized ASX listed companies. Acknowledging that the consolidation process that has occurred over the last decade has reduced the numbers of these companies, those remaining find themselves in a difficult capital market environment, compounded by low global commodity prices. Therefore if more gas is required to be found and brought to market, the activities of these gas explorers should not be unduly impeded by unnecessary regulation. Delays to basic, low impact exploratory drilling which provide the chance of making gas discoveries, will only exacerbate the current gas supply situation in the medium and longer term. Situations that exist in NSW and Victoria (ie bans on exploration and drilling for gas), largely driven by misinformation (about the effects of exploratory drilling on aquifers and farm land), spread in communities by anti-fossil fuel activists, will be detrimental to the long term energy security of Australia, those remaining manufacturing industries that we have in Australia (ie jobs and GDP), and indeed the retail price of gas in eastern Australia (cost of living).

Highlighting one of the issues facing domestic gas users, particularly in the Northern Bowen Basin, is the focus of the LNG proponents on proving up export-based gas reserves, potentially at the expense of the domestic markets. An example of this is the recent advice to the market by Incitic Pivot Limited that it is expecting a significant shortfall in gas supply to its Bowen Basin Ammonium Nitrate business, due to declining gas delivery from its contracts with Arrow Energy and their Moranbah Gas Project (MGP). Arrow is moving quickly however on the Front End Engineering and Design of the Moranbah to Gladstone pipeline and broader Bowen Gas Project (BGP), specifically designed to deliver field gas to that pipeline and the Gladstone LNG market (QCLNG in particular – in light of the Shell-BG merger proposal).

The second enquiry being undertaken by the ACCC specific to the gas industry in Australia relates to the proposed acquisition by Shell of the BG Group, and its potential impact on the domestic gas markets. Whilst this is a transaction between two global energy players, its completion is dependent on approvals by several overseas national regulatory bodies (including Australia). Principally, the issue for the east coast gas market of this potential transaction will be the impact of the transaction on the gas production and reserves of Arrow Energy Limited (Arrow) in both the Surat and Bowen Basin of Queensland, which is currently supplying gas into the domestic markets. The proposed acquisition by Shell of BG means that Arrow's gas (Arrow is a Joint Venture between Shell and Petrochina) will now have a dedicated LNG facility in Gladstone (QCLNG will be owned by Shell following the acquisition) into which Arrow's gas can be fed, thus potentially further limiting the availability of Arrow's gas for the domestic market.

QCLNG 2nd Train start up

The BG Group advised the market that the second liquefaction train at its Curtis Island QCLNG plant has now begun production and is shipping LNG cargos. These trains constitute a total of approximately 1,250 Terra-joules per day of gas demand. It is expected that the first trains of both the GLNG and APLNG liquefaction projects will commence production in the September quarter, thus nearly doubling the current Gladstone gas demand to 2,300 Tj/day, putting further pressure on gas supply into the non LNG East Coast gas market. In addition, the remaining trains for APLG and GLNG will add another 1000 Tj/day of demand in 2016.

Oil price

There continued to be considerable volatility in the oil market during most part of the quarter, with the previous upward trends in prices proving to be temporary. The US drilling rig count decline has been arrested somewhat in the last month but the most recent estimate shows a year on year decline of 54% in North American drilling rig numbers (annual decline of 1007 rigs as at 24 July). The price effect of regional instability in the middle-east has been largely offset by the potential lifting of sanctions on Iran, as a result of the nuclear settlement between Iran and the international community (but which is yet to be ratified by the US). It would appear that this potential additional supply has been factored into the current oil price, although sanctions have not yet been lifted and it is uncertain how long it will take for Iranian production to ramp up. Other factors weighing heavily on the oil price are the slow down in Chinese growth and manufacturing and hence their demand for oil. Saudi Arabian production is also reflecting stronger seasonal domestic demand for energy during the peak summer season (ie cooling). Another theory postulated for Saudi Arabia's recent increased production is that it is an attempt to preserve its own OPEC quota in light of Iran's production potentially coming online relatively quickly. Several OPEC member states still appear to be under significant financial stress following the prolonged period of low oil prices and hence lower revenue. What impact this has on the longer term cohesion of the cartel is uncertain.

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

This asset is surrounded by Arrow Energy's Moranbah Gas Project (MGP) (supplying gas to the domestic market in Townsville) and its broader Bowen Gas Project (BGP), which is earmarked to provide gas to the Gladstone LNG hub. Following approval of the acquisition by Shell of BG Group, Arrow Energy (a joint Venture between Shell and Petrochina) will be in a position to supply gas into the QCLNG facility (owned by BG Group and CNOOC) in Gladstone with the sanction and construction of the Moranbah – Gladstone gas export pipeline. Blue Energy would therefore have the ability (given access to the proposed Gladstone pipeline) to place its gas into both the southern and local Townsville markets.

There are several opportunities for Blue Energy to market its reserves in this region. This is particularly relevant following the disclosure by a major industrial user (Incitec Pivot Limited) that it expects its gas supply from the Arrow Energy operated MGP to be reduced by up to 20%.

It is noteworthy that Blue Energy's reserve and resource estimates are provided by the highly regarded and independent Dallas based, Netherland, Sewell and Associates (NSAI) which also undertakes the reserve and resource estimates for Arrow Energy's MGP and BGP assets. NSAI has a long history and deep regional and detailed specific understanding of the Moranbah Coal Seam Gas assets in both an exploration and production sense. NSAI is presently working through a large regional data set of information gathered over the last 2 years by Arrow Energy. It is expected that the analysis of these data by NSAI will lead to a reserve and resource upgrade for Blue Energy's Bowen Basin assets.

Arrow Energy is also progressing its Front End Engineering and Design (FEED) project for both the Moranbah to Gladstone Pipeline and the broader Bowen Gas Project, which aims to develop feed gas supply and infrastructure to deliver gas to Gladstone. It is understood that the pipeline construction tendering process is underway by Arrow and that final pipeline alignment is almost complete, with cultural heritage clearances progressing. Following the completion of the FEED process the Joint Venture (Shell and Petrochina) will be in a position to take a Final Investment Decision (FID)

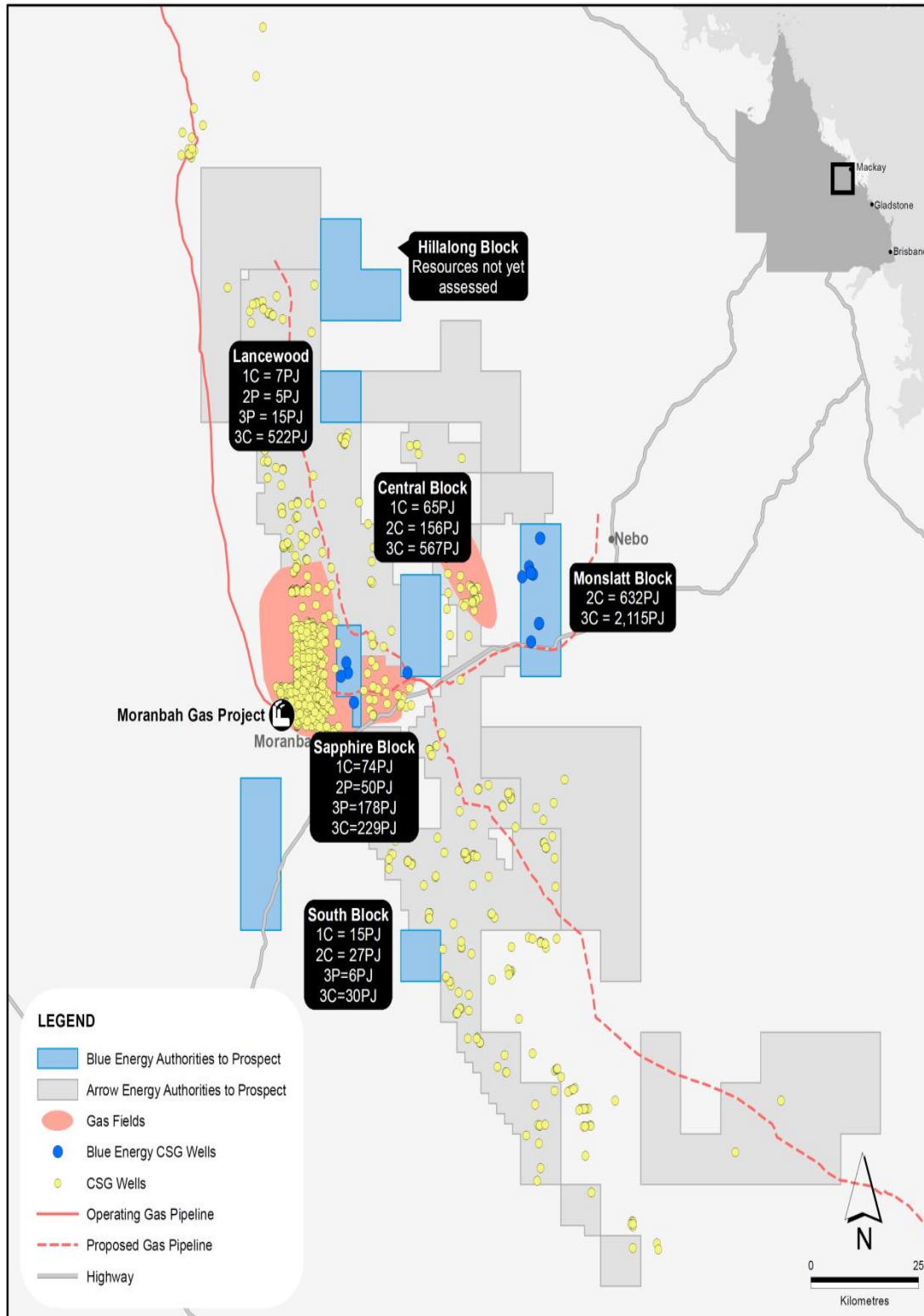


Figure 1. Location of ATP814P relative to the Arrow Energy Moranbah Gas Project area

Cooper Basin

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

Play development continues in this region. Blue Energy has watched with interest the resource assessment by REAL Energy, which operates permits immediately to the south of Blue Energy's ATP657P, and has delineated a basin centered gas play in the Permian Toolachee and Patchawarra Formations. Their resource assessment of 672 Bcf of 3C conducted by DeGoyler and McNaughton suggests the play and therefore potential resource base to be widespread.

Of particular interest to Blue Energy is how the hydrocarbons generated in this Permian sequence have migrated to the north and into the largely unexplored Triassic stratigraphic section.

Emerging Basins

Greater McArthur Basin (Wiso sub-basin and Southern Georgina Basin)

(various permits and equities levels - Blue Energy Operator)

The current drilling season in the Northern Territory will see several operators drill significant wells into the Paleozoic sequences of the McArthur Basin section to assess the potential of the shale sequences to contain moveable hydrocarbons. This follows the significant results of the Santos consortium's Tanumbirini 1 well late last year, together with Pangaea's 3 well campaign. Currently both Origin Energy and Pangaea are drilling wells, which will de-risk some of Blue Energy's acreage as the wells lie in close proximity to Blue's eastern and northern application areas.

Blue Energy continues to progress Native Title negotiations in these areas to facilitate grant of these permits.

Maryborough Basin

(ATP 613, 674 & 733P 100% Blue Energy and Operator)

Blue Energy continues to pursue tenure issues with the Queensland Regulator in this Basin, namely, to seek a project based consolidation of the existing 3 permits to allow flexibility of work program and relinquishment obligations across a combined project area. This consolidation will allow the ability select the optimal geological location and minimize duplication of effort and surface impacts.

Blue Energy's permits in the Maryborough Basin are located only 150 km south of the Gladstone LNG complex. The Maryborough Basin is significantly under explored (frontier) but is thought to contain significant gas potential.

CORPORATE

Cash Position

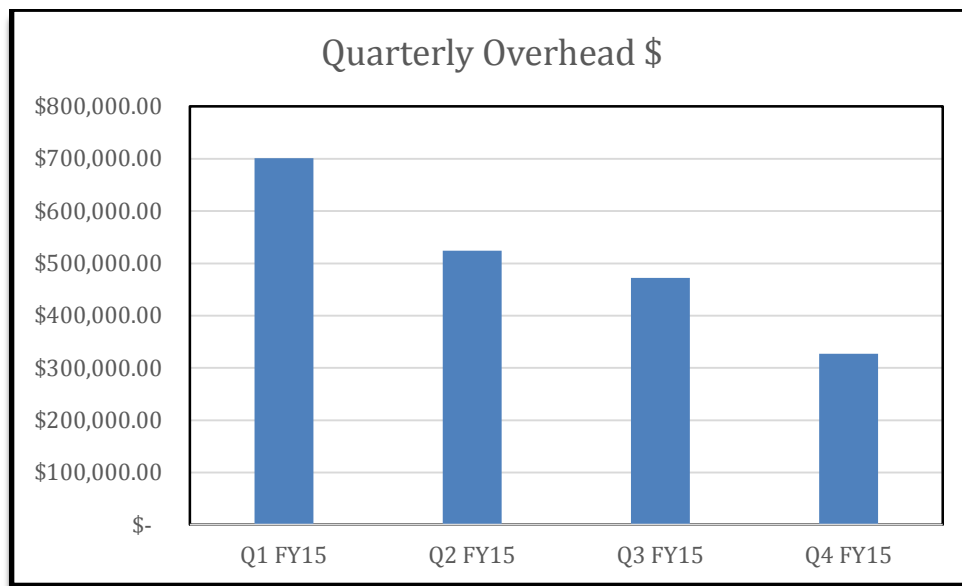
Cash on hand at the end of the 31 March 2015 quarter was \$4.7m. Spend for last quarter was on budget and as forecast to the market in March 2015.

Research and Development

Blue Energy lodged a claim for Research and Development rebates available to industry under the current federal legislation. This claim has been processed by the Australian Taxation Office (ATO), and Blue Energy is awaiting notification of payment. The market will be notified once the payment has been received from the ATO.

Cost Reduction

Blue Energy has continued to steward its available cash and drive down its overhead, to the extent that running costs for the company have been halved in the last 12 months. This continues to be a priority for management.



Appointment of Director

During the Quarter the Board of Blue Energy Limited resolved to appoint Mr Choongho Je as a Director of the Company. This follows the resignation of Mr Jooho Maeng following his return to South Korea in his role with KOGAS. Mr Je is the Managing Director of Kogas Australia Limited and is Kogas' nominee Director on the Blue Energy Board.

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	Comment
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

Beneficial Interests held via Farm in's

Note 1-Blue can earn up to 50% equity in these blocks subject to completion of a farm in work program.

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