

30 October 2015



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QUARTERLY ACTIVITIES REPORT To 30th September 2015

Blue Energy Limited (ASX: "BUL") is pleased to report on September 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

- Blue Energy in discussions with gas buyers
- Current cash position \$6.1 million
- GLNG Train 1 commences LNG production - increases gas demand to 1,800 Tj/day in Gladstone. APLNG first train due to commence in November 2015
- Progress on Arrow Energy's Moranbah to Gladstone pipeline continues
- North American interest in the Northern Territory Macarthur Basin plays
- Beach Energy's Maroochydhore 1 well in the Queensland Cooper Basin
- Merger and Acquisition activity increasing

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

General

Blue Energy notes with continuing interest the activity surrounding the Australian gas and oil areas in which the Company has interests, including milestone development achievements and heightened exploration work.

The Company is now in discussions with gas buyers as part of its strategic positioning to yield the best possible returns to Blue Energy and its shareholders.

East Coast Gas

GLNG Train 1 start up

LNG production from Train 1 at the GLNG facility on Curtis Island commenced during the period with the first shipment occurring on 16th October. Gas demand by Train 1 currently is likely to be in the order of 450-500 Tj/day as it ramps up to name plate capacity of 3.9 Mmtpa. The feed gas supply for this initial train is likely being derived from a combination of GLNG's Fairview Gas Field together with third party gas (likely taking gas from APLNG ramp up) and also withdrawal from gas storage capacity in the conventional Roma gas fields.

This now brings the current Gladstone LNG precinct total to 50% of its designed capacity (three trains of six under construction now operational) with the current combined gas consumption in Gladstone standing at approximately 1,800 Tj/day – or equivalent to the entire east coast current domestic consumption alone.

The tripling in east coast gas demand postulated almost 5 years ago is now being realised. The market backdrop to this is one of concerned domestic gas users trying to secure long term supply from producers (largely LNG exporters) who themselves are attempting to shore up deliverable molecules for their LNG feed gas supply requirements. Meanwhile, explorers - the next gas producers - are looking to take geological risk and find new sources of gas to bring to market but face a higher regulatory impost, higher costs, regulatory delays and depressed capital market, market sentiment and commodity prices. Adding to the woes of the industry, there is a complete lack of political support for the gas exploration industry in Tasmania, NSW and Victoria, and growing regulatory restrictions in the other jurisdictions. So the irony is stark – large volumes of clean gas being shipped to an energy starved Asia at global gas prices, a domestic gas supply squeeze, potential shortages and higher prices in NSW, yet no support for explorers to find more gas to ease supply concerns, or worse, regulators making it even harder for explorers to employ risked capital to find more gas.

ACCC enquiry into the Shell-BG transaction

Along with the East Coast Gas enquiry the ACCC is assessing the potential effects on competition in the east coast gas market that the proposed Shell-BG transaction may have. This includes, in particular, the effect of the consolidation

of Arrow Energy's gas reserves and exploration acreage position and that of QGC's position and gas supply requirements for the QCLNG liquefaction facility in Gladstone. Accordingly the ACCC has received many submissions from gas users, gas producers and explorers and to this extent it is envisaged that the results of its deliberations will be known in mid-November. In addition to this, it is understood that the Foreign Investment Review Board is also undertaking its own assessment of the transaction.

Industry Developments

Increased international interest in the Northern Territory

The last few months have seen added interest in Northern Territory frontier acreage, with two significant North American shale players taking substantial positions in acreage held by Australian explorers in the MacArthur and Beetaloo Basins. These positions have been taken with a clear view of the quality of the source rocks contained within these Proterozoic sediments and is further evidence of the world class nature of these geological sequences in the Northern Territory. Whilst these new entrants are not household names, their principles are well known in the global oil and gas industry, being associated with Exxon oil and Chesapeake,

Merger and Acquisitions

There has been constant speculation in the market regarding consolidation within the domestic and international oil and gas sector, particularly at this low point in the commodity cycle. The Shell-BG acquisition was seen as the catalyst for a potential raft of other M&A transactions and we are now seeing these start to materialize. They include the Beach-Drillsearch friendly merger driven by the Seven Group's equity position in both organisations; the Woodside offer for Oil Search (rejected); and now the cash offer for Santos by Scepter Partners. The fundamental rationale for a merger or acquisition strategy is one of scale, reserve growth, balance sheet, market share, cost reduction, a compelling value proposition and synergies. In addition to the corporate deals that are emerging, the larger companies that are under balance sheet duress are offloading selective assets to assist with debt reduction. Accordingly, there are significant asset opportunities that are in the market place.

Proven Basins

Bowen Basin, Queensland

(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. Work on design and alignment of this pipeline is close to completed by Arrow Energy. 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.

The opportunity for small volume domestic gas sales from Blue Energy's ATP814P asset are materializing and the Company is engaging with several potential gas buyers accordingly. Whilst this is part of a normal monetization strategy, there has been keen interest from a variety of gas buyers to secure gas in the North Queensland area. The market will be informed should any of the current discussions result in material agreements.

Blue Energy's reserve certifier, Netherland, Sewell and Associates (NSAI) has been engaged in the task of reviewing a large dataset from adjacent operators from which Blue will benefit. This process is currently underway and is expected to be completed in mid-November. The unique data sharing arrangement has delivered resource and reserve upgrades to Blue Energy over the past several years at an exceptionally low cost (in reality the holding cost of the permit and the cost of NSAI services). This is a significant benefit to our shareholders.

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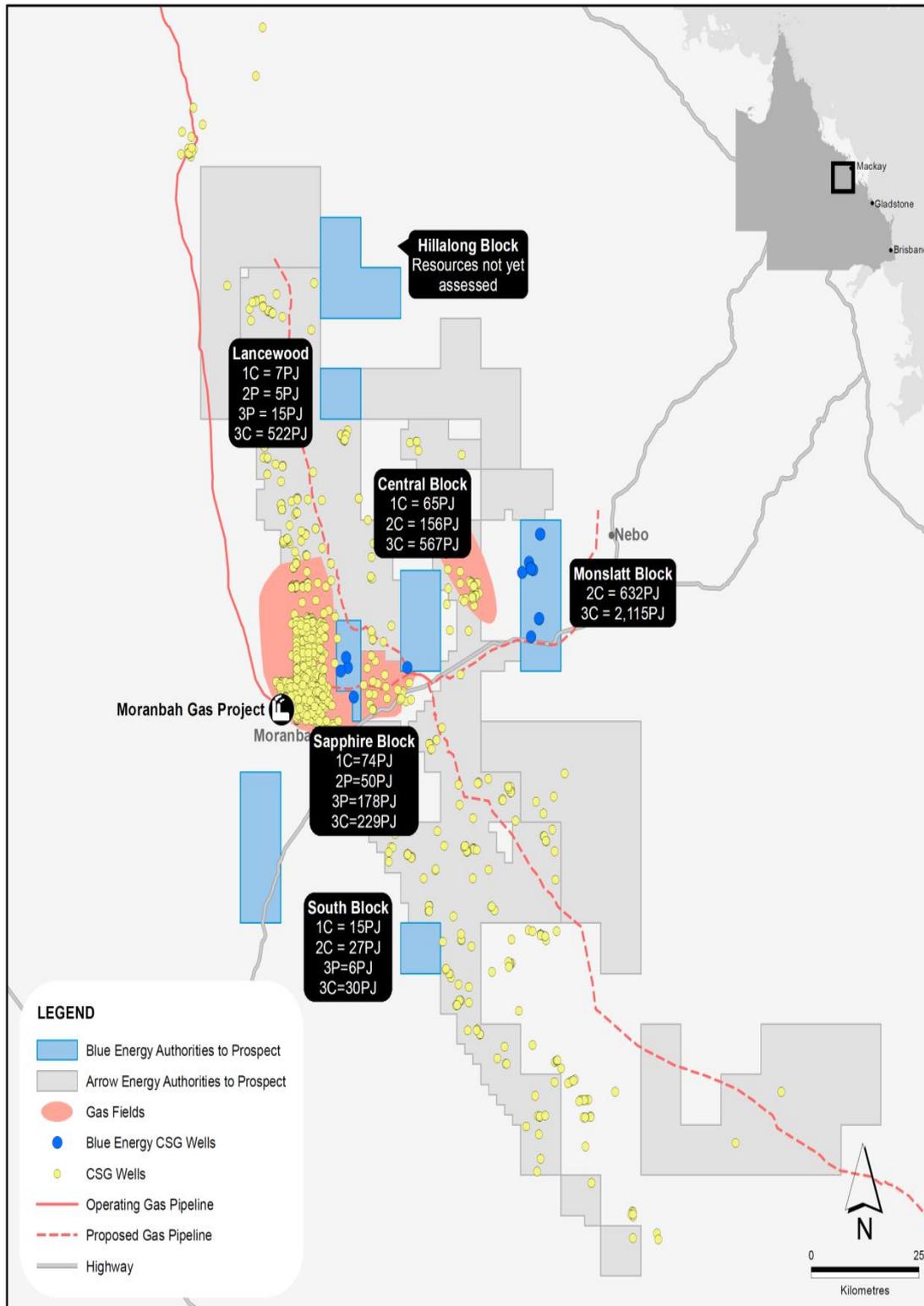


Figure 1. Location of ATP814P relative to the Arrow Energy Moranbah Gas Project area

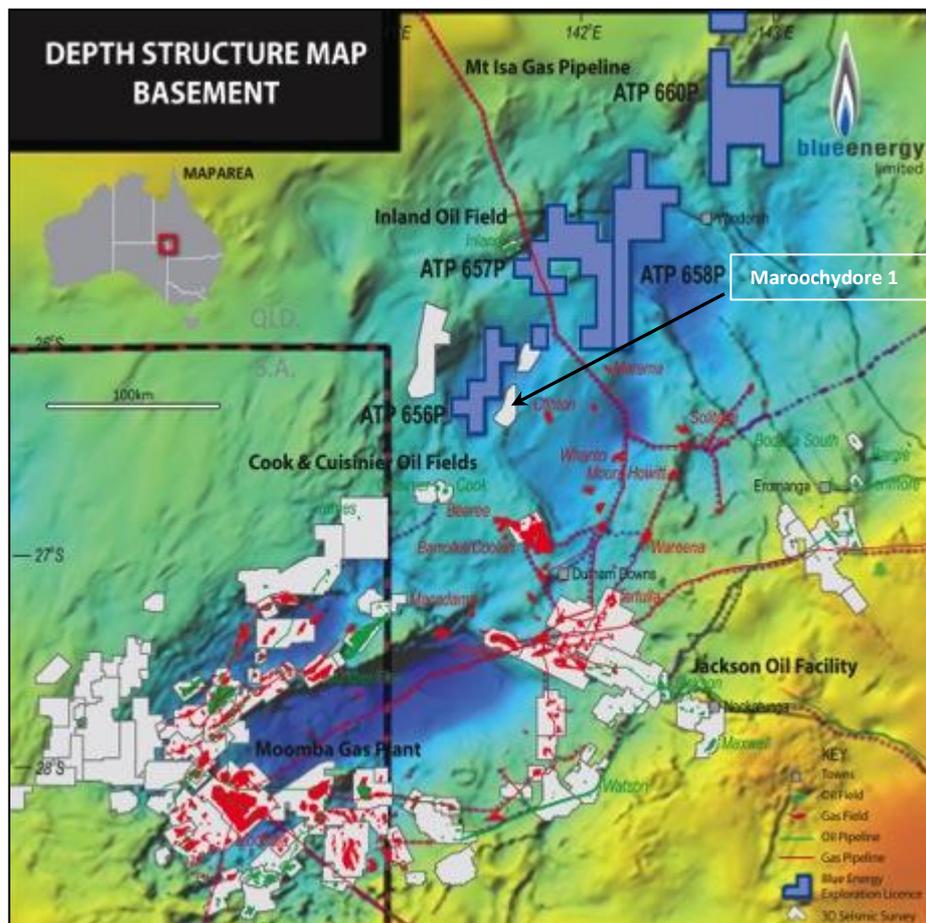
Cooper Basin

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

Despite the low oil price environment, several Operators around Blue Energy's Cooper acreage are becoming active, with both seismic acquisition and drilling currently occurring in the vicinity of the Blue Energy acreage.

Of particular relevance to Blue's acreage is the Maroochydore 1 exploration well being drilled in adjacent ATP 924 by Beach Energy. Maroochydore 1 is targeting the Jurassic Hutton Sandstone which is productive at the nearby (and along trend) Cook oil field.

Blue Energy is currently working with the Regulator to amalgamate its 4 Cooper Basin permits into a single project area for administrative efficiency and work program synergy. The Company is also developing a regional seismic acquisition program to undertake next year as part of the statutory work program for its 4 permits.



Emerging Basins

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

(various permits and equities levels - Blue Energy Operator)

As has been reported to the market and in other publications, there have been several large farm in transactions executed (some non-binding) in recent months over acreage in frontier Proterozoic basins in the Northern Territory.

American Energy Partners (AEP) has entered into non-binding agreements with both Armour Energy and Imperial Oil and Gas to earn equity in multiple large permit areas (granted permits and applications) in the McArthur Basin region of the Northern Territory. In addition to these potential transactions, the privately held Pangaea Energy entered into a binding agreement with Energy and Minerals Group (EMG) to earn into Pangaea’s Beetaloo Basin acreage. It is understood that EMG funded Pangaea’s 2015 Beetaloo work program consisting of 2D seismic acquisition and the drilling of 4 wells. Should these agreements become binding, several hundred million dollars of exploration work will be undertaken across this large area.

The recent Origin operated Amugee 1 well in the Beetaloo is reported to have intersected a 500 metre sequence of shale in the Middle Velkerri and some 150 metres of “net pay”. This further enhances the prospectivity of the Proterozoic section in the Northern Territory

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

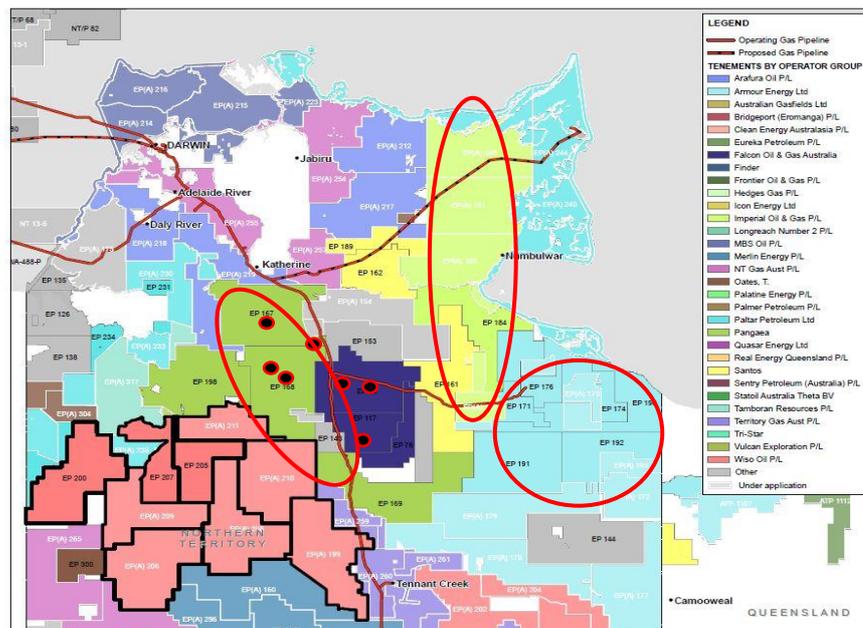


Figure 2: Northern Territory acreage map

Maryborough Basin

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

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

The Company notes with interest the recent commitment by the Queensland Government to fund the building of gas pipeline infrastructure into the port of Bundaberg. This clearly acknowledges the importance of gas to the Wide Bay and Burnett region and the development of industry and jobs. The discovery of commercial quantities of gas in the Greater Maryborough region would be a catalyst for manufacturing growth, economic development and reduced unemployment in the region.

Blue Energy continues to pursue exploration 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 to select the optimal geological location and minimise duplication of effort and surface impacts.

CORPORATE

Discussion with potential gas buyers

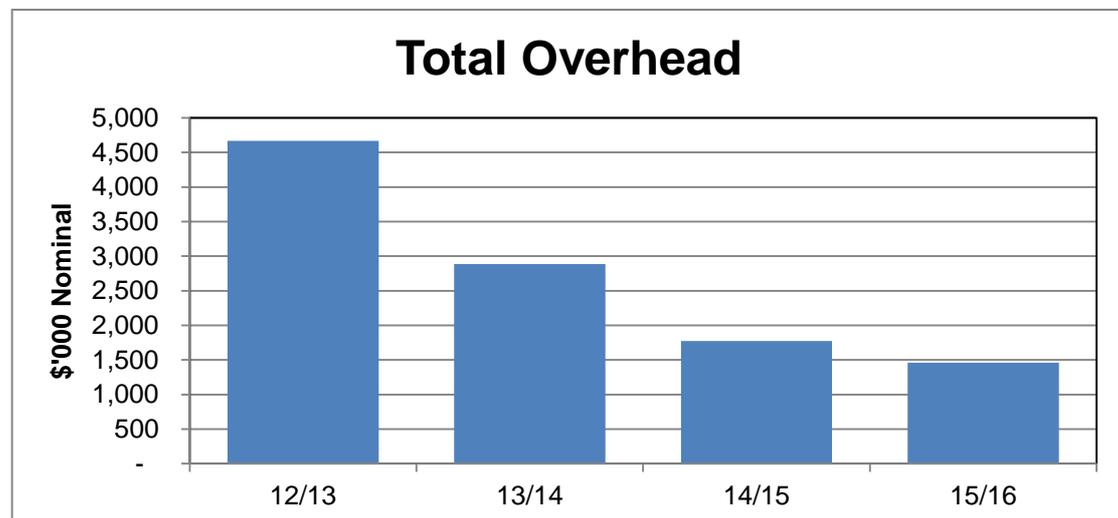
As part of its monetization strategy, Blue advises that the Company is in discussion with several potential gas buyers. Should concrete agreement be reached with a party or parties, the market will be duly informed.

Cash Position

Cash on hand at the end of the 30 September 2015 quarter was \$6.1m. Spend for last quarter was on budget and as forecast to the market in June 2015.

Cost Reduction

Blue Energy continues to steward its available cash and drive down its overheads. This continues to be a priority for management.



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

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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