

29 January 2016



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QUARTERLY ACTIVITIES REPORT

To 31st December 2015

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

Key Points

- **Significant increase in 100%-owned Bowen Basin gas reserves (when most are writing down reserves):**
 - **71 PJ 2P (29% increase)**
 - **298 PJ 3P (49% increase)**
- **Blue Energy progressing discussions with gas buyers**
- **Current cash position \$5.6 million**
- **Gas demand in Gladstone now at ~2,660 Tj/day**
- **ACCC approves Shell – BG Merger**
- **NT shale plays continue to expand**

Blue Energy Reserve Growth

Despite both domestic and LNG export markets in tight supply, Blue Energy has continued to build its 2P & 3P reserves base with further solid growth.

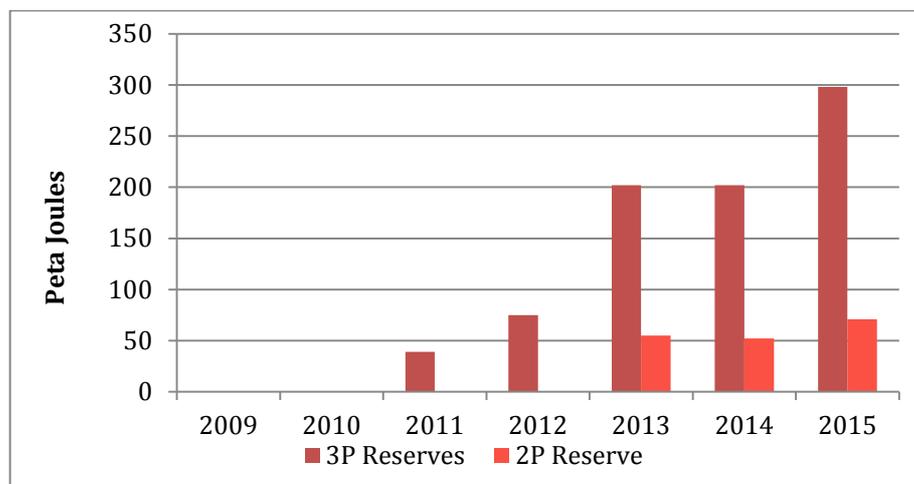


Table 1: Blue Energy Reserves Growth chart

Table 2: Blue Energy Reserve and Resource Position (net to Blue)

Permit	Block	Assessment Date	Announcement Date	Methodology	Certifier	1P (PJ)	1C (PJ)	2P (PJ)	2C (PJ)	3P (PJ)	3C (PJ)
ATP854P		30/06/2012	19/03/2013	SPE/PRMS	NSAI	0	22	0	47	0	101
ATP813P		29/10/2014	30/10/2014	SPE/PRMS	NSAI	0	0	0	61	0	830
ATP814P	Sapphire	5/12/2015	8/12/2015	SPE/PRMS	NSAI	0	66	59	108	216	186
ATP814P	Central	5/12/2015	8/12/2015	SPE/PRMS	NSAI	0	50	12	99	75	306
ATP814P	Monslatt	5/12/2015	8/12/2015	SPE/PRMS	NSAI	0	0	0	619	0	2,054
ATP814P	Lancewood	5/12/2015	8/12/2015	SPE/PRMS	NSAI	0	5	0	23	1	435
ATP814P	South	30/06/2013	29/07/2013	SPE/PRMS	NSAI	0	15	0	27	6	30
Total (PJ)						0	158	71	984	298	3,942
Total MBOE						0	27	12	168	51	672

Global Commodity prices

The continued global imbalance in oil supply and demand, primarily caused by Saudi Arabia's reluctance to resume its historical role as OPEC's swing producer (hence 'stabilize' world pricing), continues to see world crude prices languish at decade lows. This is further compounded by the slower than expected contraction of US shale production in response to price, the potential return of Iran as a substantial OPEC oil producer (and Saudi Arabia's response) and lower than expected growth in China.

The added feature of the current oil market that differentiates this price crash from previous cycles, is the significantly higher levels of physical storage capacity (up to 3 billion barrels globally). This represents approximately one month's global consumption and is having a buffering effect on prices, when traditionally destabilizing events occur (such as Middle Eastern unrest – conflict proximal to the Gulf states).

East Coast Gas

Gladstone LNG complex

Gas demand in Gladstone (Queensland) continues to escalate with the start-up of the region's APLNG train 1. The milestone first cargo from that project was achieved in early January 2016 and brings the total number of operating LNG trains in Gladstone to 4 (out of an eventual total of 6). At nameplate capacity, the total gas requirement in Gladstone is approximately 2,660 Tj/day across the 4 trains. This compares to September quarter domestic consumption in NSW alone of ~ 390 Tj/day.

It is expected that the two remaining LNG Trains still under construction in Gladstone (one each for APLNG and GLNG) will commence production in either the first or second quarter 2016. This will see total nameplate LNG demand increase to nearly 4,000 Tj/day.

AGL signs contract to supply gas to GLNG

In a further indication of the need for Gladstone LNG plant Operators to bolster their gas reserve and production bases, AGL executed a Gas Sale Agreement in mid-December with GLNG for the supply of 254 PJ of gas to GLNG at Wallumbilla. This oil linked contract will see delivery of the gas from AGL's Surat Basin CSG production over 11 years commencing January 2017.

While, clearly, there is gas available for sale by non-LNG producers, the market price is being set by international metrics, with the successful buyers prepared to compete on that basis.

ACCC enquiry into the Shell-BG transaction

During the period, the ACCC reached a conclusion on its enquiry into the impact on Australia's domestic gas market by the proposed Shell – BG Group merger.

“The ACCC's view is that the proposed acquisition would be unlikely to substantially lessen competition in the wholesale natural gas market, in either Queensland or eastern Australia more broadly”. “Consequently the ACCC will not oppose the proposed merger” said the ACCC in a statement announcing the decision.

Clearly, the key to supply of both big and small buyers is the availability of sufficient gas volumes. Whilst it appears that this is not particularly problematic, given this latest AGL –GLNG contract, it does signal that producers with available gas are attracting buyers who are prepared to deal in oil linked pricing mechanisms, which is not how most traditional/historic domestic gas contracts have been structured.

Domestic Gas

With escalating gas demand from LNG plants in Gladstone, there is continued pressure on supplies for new and renegotiated domestic gas contracts. It is clear that with the cost of production increasing over recent years (due to higher regulatory and environmental compliance costs together with higher service company input costs), gas pricing to the domestic users must reflect these higher costs. New gas supply to market is also dictated by exploration success and the ease and speed with which new discoveries can be brought into production. This latter variable (progression to production) is often determined by regulatory processes and approval timeframes.

Proven Basins

Bowen Basin, Queensland

(ATP814P – 100% Blue Energy and Operator)

This wholly-owned asset is surrounded by Arrow Energy's Moranbah Gas Project (MGP) which supplies gas to the domestic market in Moranbah and Townsville and its broader Bowen Gas Project (BGP), which is earmarked to provide gas to the Gladstone LNG hub.

Following completion of the Shell - BG Group merger, 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, CNOOC and Tokyo Gas) in Gladstone once the Moranbah – Gladstone gas export pipeline achieves FID and is constructed. Front End Engineering and Design work on the export pipeline route has been completed and the project now awaits a Final Investment Decision by Arrow Energy

The opportunities for small volume domestic gas sales from Blue Energy's ATP814P asset in Queensland are continuing to materialize and the Company continues discussion with several potential gas buyers.

Blue Energy's reserve certifier, Netherland, Sewell and Associates (NSAI), has recently completed a review of reserves and resources on the multiple separate blocks that make up Blue Energy's ATP814 P permit - notably the Sapphire, Central, Monslatt and Lancewood blocks.

In summary, 2P and 3P reserves in the Sapphire and Central Blocks have increased by 29% and 49% respectively to a total of 78 PJ of 2P and 298 PJ of 3P. Contingent Resources by contrast have declined as some have moved from the contingent category into the reserve category. A detailed breakdown of the reserve and resource picture for Blue is illustrated in Figure 1 and documented in Table 2.

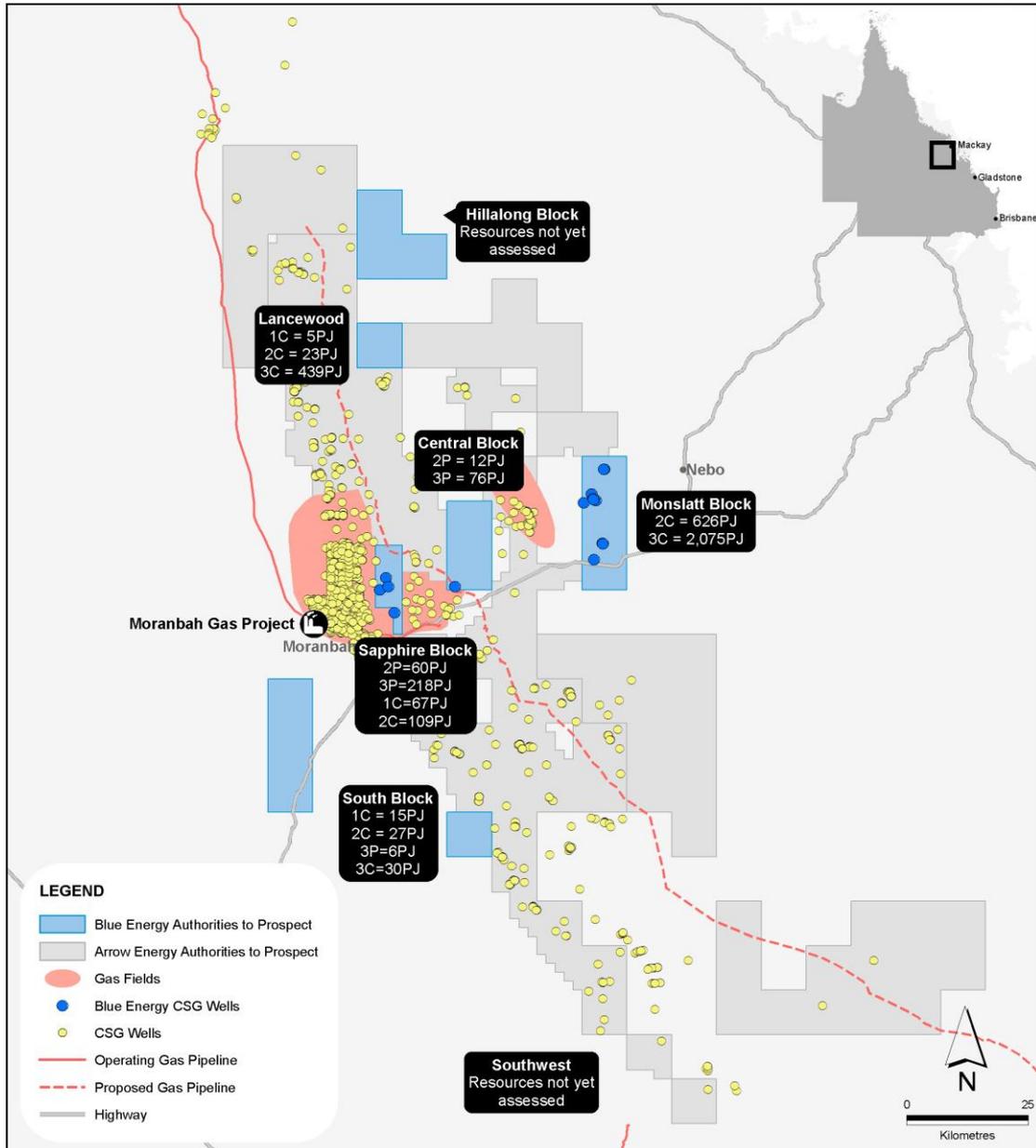


Figure 1. Location of ATP814P relative to the Arrow Energy Moranbah Gas Project area

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 Basin acreage are active, with both seismic acquisition and drilling occurring in the vicinity of the Company's acreage.

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 this year as part of the statutory work program for its 4 permits.

Exploration activity in the northern Cooper Basin area undertaken over the last six months by Beach Energy and others has confirmed the basin centered gas play, first identified by Real Energy. Beach drilled 5 wells in 2015 targeting the Permian section in this region and has established gas saturated section in the Permian and confirmed this play which we believe extends north into Blue Energy's permits.

The gas potential of the deep Permian coals in the Cooper Basin is developing as the next major emerging play for the basin as Operators in South Australia are progressing appraisal programs targeting these sequences. These coals extend into the southern

Emerging Basins

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

(various permits and equities levels - Blue Energy Operator)

The Proterozoic Basins of the Northern Territory continue to generate interest amongst the international and domestic oil and gas explorers. Whilst activity over the wet season in the Northern Territory is curtailed, analysis of the drilling results to date continues by those operators who drilled last year.

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 confirms the prospectivity of the Proterozoic section in the Northern Territory. It is anticipated that several of the wells drilled by a number of operators last season may be production tested in the coming dry season. This will give an indication of the potential productivity of the plays

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

CORPORATE

Discussion with potential gas buyers

Blue is in continuing discussions with several potential gas buyers. Should concrete agreement be reached with a party or parties, the market will be duly informed.

Cash Position

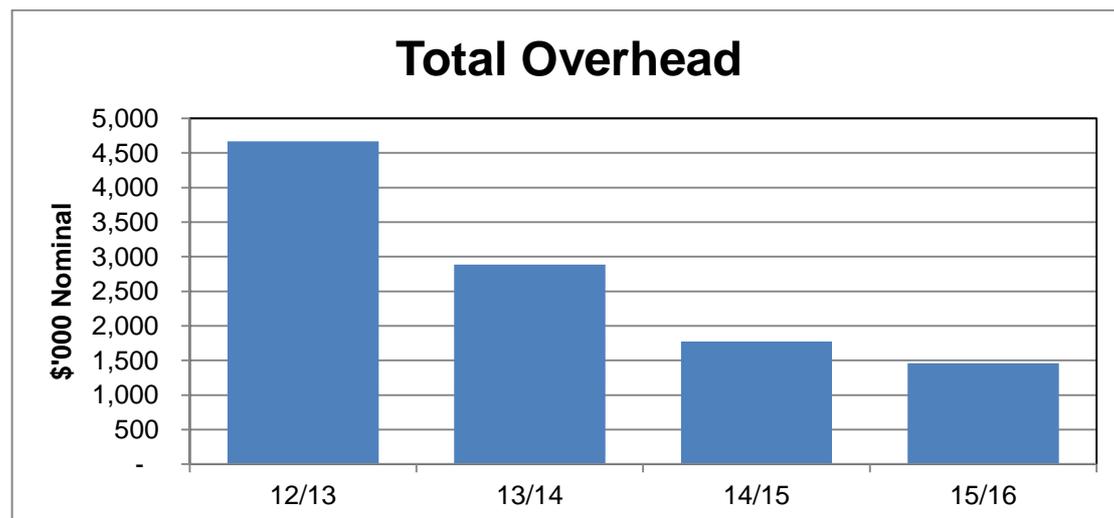
Cash on hand at 31 December 2015 was \$5.6m. Spend for last quarter was on budget and as forecast to the market in September 2015.

Cost Reduction

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

Asset Values

Consistent with prudent financial oversight in the current oil price environment, the company continues to review the carrying value of its assets.



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%

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.

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

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