

29 July 2016



Level 3, 410 Queen Street,
Brisbane QLD 4000
t +61 7 3270 8800
f +61 7 3270 8899

QUARTERLY ACTIVITIES REPORT

To 30th June 2016

Blue Energy Limited (ASX: "BUL") is pleased to report on progress in the June 2016 quarter 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

- **Blue is one of only 3 focused companies with uncontracted 2P reserves on the onshore east coast**
- **Bringing gas to southern Queensland market with Bowen Basin pipeline link proposed by Blue Energy**
- **Blue broadens discussions with southern gas buyers, as**
- **Sydney and Melbourne spot gas prices spike to \$30/GJ and retailers scramble for supply**

Proposed Bowen Basin pipeline link

Blue Energy is proposing a gas pipeline to link the Bowen Basin gas province to the south east Queensland gas market (see Figure 1).

Discussions on the new pipeline are being conducted in parallel with Blue's continued liaison with potential gas buyers, which now include southern buyers.

Blue is seeking interest from pipeline construction companies to fund the construction of the proposed new link, which is part of the effort to commercialize Blue's gas reserves and resources in the Moranbah area.

The Moranbah gas province is a known Eastern Australian gas producing area, with commercial gas production having commenced in the mid 2000's and which to date has been directed into the Townsville industrial market as well as providing feedstock for the local Moranbah ammonium nitrate business. Blue's reserves are only some 400m from this neighbouring production.

Gas exploration by Blue, Arrow Energy and others in the Moranbah region has delineated a very large gas resource which exceeds the current local demand and, with no direct pipeline connection to either Gladstone or Wallumbilla, this resource currently remains untapped. Changes in the global corporate landscape for some of the Gladstone LNG Operators mean that the priority of Arrow's Bowen Basin gas volumes may have been re-assessed, and as such Arrow's timing to bring its gas to Gladstone also re-assessed.

Blue sees this as an opportunity to engage with southern gas users, who have been vocal about their inability to secure any long term gas supply in the face of unprecedented gas export demand from Curtis Island. Accord between these end users and the non LNG export aligned upstream party's will enable development of established resources in a more timely manner than having to rely on the full exploration process to yield new gas supply. Successive State and Federal Governments have presided over the Policy and Regulatory complication of the onshore exploration and production process, to the point where it is now effectively not possible to explore in NSW, Victoria or Tasmania. In those states where exploration is still possible, this process complication has lengthened the timeframe from exploration to production to the extent that it is no longer possible to have confidence that sufficient gas can be brought to market when the market needs the gas.

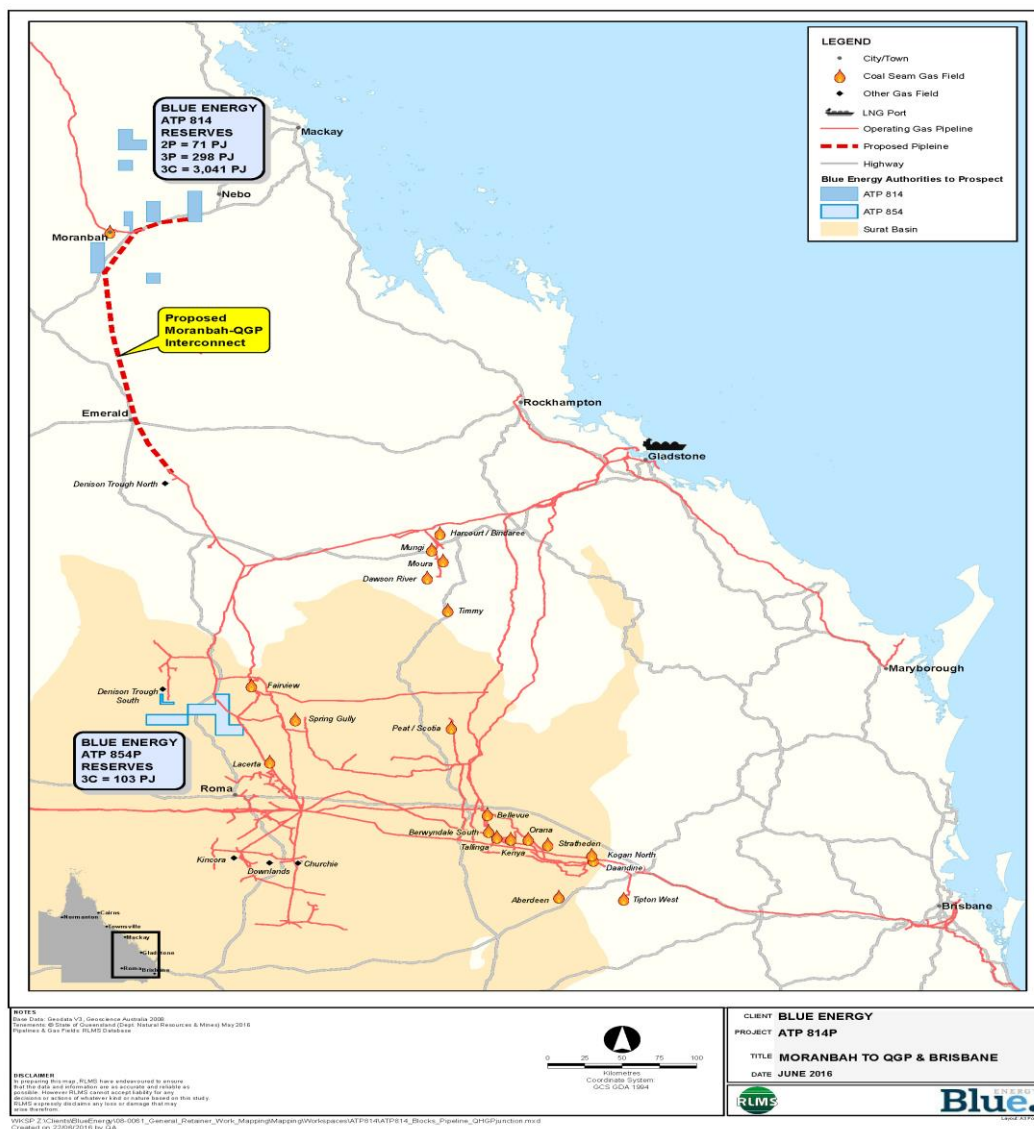


Figure 1. Location of ATP814P and proposed pipeline link to Wallumbilla and Gladstone

Global oil market

Global oil prices have been trading in the US\$44-50/bbl range over the last month or so, and it does appear that the politics and unrest in the Middle East (Turkey etc) are having less of an effect on oil prices than the US domestic situation. The oil price is being impacted by factors like the strength of the US dollar, US crude and refined product inventory numbers and the US rig count. It is intriguing to note that about 3 million barrels per day of oil transits through the Bosphorous Straits (Istanbul) yet the attempted coup and potential for supply disruption created hardly a ripple. At the time of writing, oil had dipped to 3 month low on the back of a perceived return to oversupply, a perceived premature end to the US summer driving season, increased inventory numbers and a minor rebound in the US rig count in response to the apparent sustained stronger oil price.

Meanwhile the fallout of the sustained depressed oil price continues to gain pace with a total of 85 North American oil and gas producers (as of 30 June 2016) filing for bankruptcy since the beginning of 2015. 50% of these filings have occurred in 2016 to date, and represent approximately 72% of the \$61.2 billion in secured and unsecured debt resulting from the collapses. As oil price hedging contracts continue to expire and oil prices remain in sub \$50/bbl territory, it is expected that the bankruptcy numbers will continue to increase (despite the moderate recovery in the oil price from the lows of \$27/bbl in February).

Given that the traditional financiers to the oil and gas sector in the US (the banks) are the main holders of the secured debt to a lot of these bankruptcies, this traditional source of funding for merger and acquisition activity at the bottom of the oil price cycle has been reluctant to step back in and pick up well valued assets. This has allowed private equity to step in and acquire producing assets at reasonable prices. Anecdotal evidence suggests that Private Equity is active in the Australian oil and gas asset space presently and is employing some of the recently redundant former oil company employees in due diligence processes. However, getting asset sales to complete has become somewhat problematic in some jurisdictions with recent amendments to environmental laws, and the uncertainty that these unilateral changes have introduced.

East Coast Gas

Recent cold weather in the southern states of Australia, has highlighted the “uncertain” nature of gas supply (and its impact on price), as suggested by the recent ACCC report into the East Coast Gas market.

The combination of high winter demand (for heating) and a disruption to supply for a key gas retailer resulted in spot gas prices in Sydney and Melbourne

reaching up to \$30/GJ – nearly triple the normal spot price. The cost to that retailer for having to purchase on spot is not insignificant.

With limited gas storage capacity available on the east coast, any future disruption to supply, high winter demand and all 6 export LNG trains on Curtis Island pulling 3,800-4,000 TJ/day out of the supply system, it would be reasonable to expect potential future serious disruption to the domestic retail and wholesale gas market.

Hopefully the impact of the 1996 Longford plant outage has not been forgotten by Regulators or policy makers (notwithstanding the tragic death of the two Longford workers).

This recent situation (gas shortage and resulting high gas prices) dramatically demonstrates Blue Energy's consistent contention (echoed by the ACCC) that more gas supply needs to be brought to market, and that regulatory roadblocks to basic exploration will have the inevitable consequence of it taking longer for new gas resources to be found and developed.

Whilst the traditional gas producing areas like the Cooper, Gippsland and Otway Basins have variously stepped into the breach at the time of supply shortage, these shortages have occurred in the very first "normal winter" since Curtis Island commenced LNG exports, and with only 4 of the 6 export trains at full capacity. Considering that there are a further 20 years (plus) of this export demand level, it is ominous for domestic gas users that we see this level of gas supply pressure and price response (in the spot market) at the first sign of a cold snap. Strategically, the policy makers and regulators should be developing a better vision for Australia's future energy security.

Indeed industry estimations from Queensland Operators suggest that it can take up to 12 years to go from a request for gazettal of prospective acreage for exploration through to commercial production as a result of the time it takes to get land gazetted, negotiate native title agreements, actual award of the acreage then the regulatory requirements to get work on the ground completed (be that landholder agreements, environmental approvals, production testing approvals, Environmental Impact Studies for Production Licence application etc).

When considering the requirement for future gas supply development identified by the ACCC (see Figure1 and 2 below), and the enormous capital investment required to develop this supply (once discovered) it seems irresponsible for Governments to impede the rate of exploration activity (and hence new gas discoveries through restrictive policy (Fracture stimulation moratoria etc). It should also be remembered that most of the so called "conventional gas" resources in onshore Australia require fracture stimulation for economic production.

With the above timeframe in mind, any additional disruption to exploration activity levels will further seriously extend that timeframe to get to production. Unfortunately therefore, the recent dramatic fall in global oil price has resulted in similarly dramatic falls in capital investment in oil and gas exploration (which is seen as largely discretionary by major oil and gas producers) across the globe. As a result of this oil price fall, capital markets/investors have also been reluctant to invest in exploration projects. This has affected the ability of small to mid-sized explorers to raise the necessary capital to undertake exploration programs.

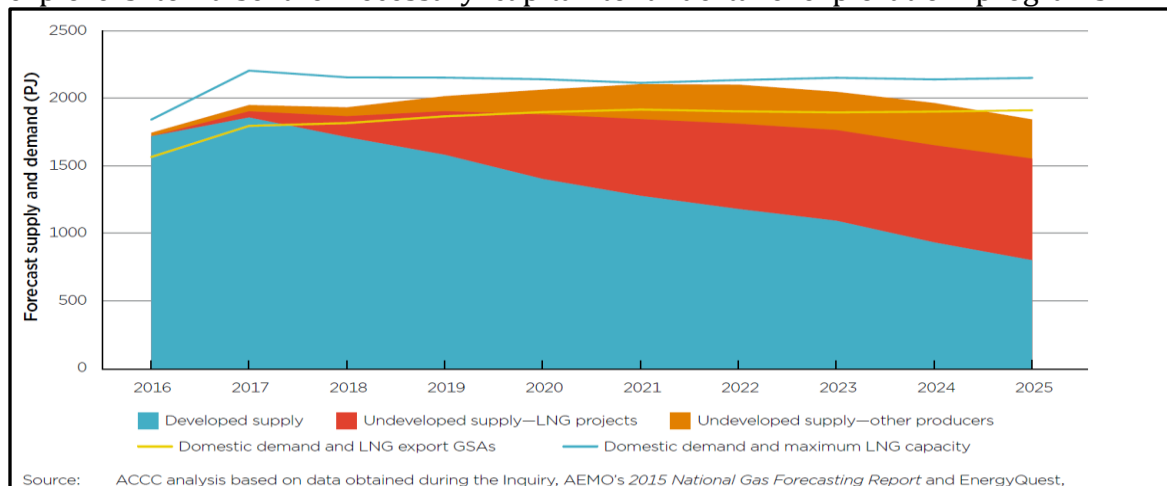


Figure 2: Forecast East Coast Gas Supply and Demand – ACCC 2016

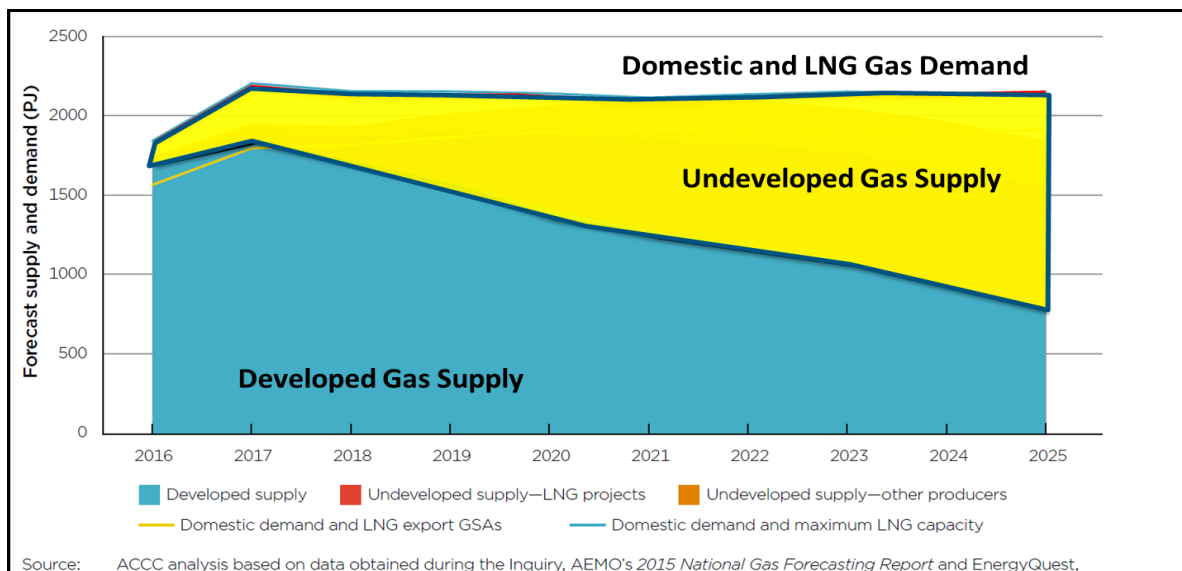


Figure 3:– Developed versus Undeveloped Supply

Companies with discovered but uncontracted gas reserves and resources will benefit from any gas shortages as they will bypass the full (and lengthy) exploration process.

Proven Basins

Bowen Basin, Queensland



Level 3, 410 Queen Street,
Brisbane QLD 4000
t +61 7 3270 8800
f +61 7 3270 8899

(ATP814P – 100% Blue Energy and Operator)

This permit currently has certified 2P reserves of 71 PJ and 3P reserves of 298 PJ (as independently estimated by Netherland, Sewell and Associates). It consists of 7 separate blocks, with the Sapphire Block holding the majority of the 2P and 3P reserves. Given its close proximity to existing infrastructure, the Sapphire Block would be used to provide gas to potential domestic customers, should Blue be successful in concluding a Gas Sale Agreement from its ongoing negotiations.

Blue Energy has initiated discussions with pipeline constructors to seek interest in building (and funding) a gas export pipeline from Moranbah to the Northern Denison Trough and therefore link the Bowen Gas Province to the Brisbane and Gladstone markets. In the absence of concrete activity by Arrow to build its much contemplated link to Gladstone, Blue has initiated these discussions for an inland route to the southern market to progress the development of the Bowen Gas Province and start bringing this untapped resource to the southern market.

Blue continues work toward commercialising ATP814P and securing production licence tenure over the Sapphire Block area.

Cooper Basin

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

As noted in the last quarterly report, activity in the Cooper Basin has slowed markedly as a result of the global downturn in the industry, courtesy of the dramatic drop in the oil price. Even the main players in the Cooper have significantly reduced drilling activity levels.

Real Energy's fracture stimulation program on its Tamarama 1 discovery well has been interrupted by unseasonal wet weather, with post frac flow testing of the well now delayed until early August.

A 5 well development and near field exploration drilling program has recently been announced by the Santos led JV operating the Cuisinier Oil Field in PL 303. These wells will target the Murta Member and Hutton Sandstone targets which are productive in Cuisinier. PL 303 lies immediately southwest of Blue's ATP656P

Blue Energy continues to work with the Regulator to amalgamate its four Cooper Basin permits into a single project area for administrative efficiency and work program synergy.

Emerging Basins

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

(various permits and equities levels - Blue Energy Operator)

Origin Energy has commenced operations on its Beetaloo W-1 well in EP 117 (30 km east of Blue Energy's Application area EPA210). The Origin well is targeting the Middle Velkerri Formation and will be designed to allow production testing of the target zone in due course.

The Northern Territory Election is due to be held in late August and with the Labor Party running an energy policy which will see a moratorium on Hydraulic Stimulation. The result of the election is eagerly awaited by the oil and gas industry. The introduction of the Hydraulic Stimulation (Fracking) Moratorium will have serious ramification for exploration activity levels in the Northern Territory.

Blue Energy continues to progress Native Title discussions on the outstanding Application areas in the Greater McArthur Basin, whilst also undertaking planning work for seismic acquisition in the already granted tenure.

CORPORATE

Discussion with potential gas buyers

Blue is in discussions with several potential gas buyers and pipeline constructors with respect to the company's Bowen Basin gas reserves and bringing that gas to the southern market. Should concrete agreement be reached with a party or parties, the market will be duly informed.

Cash Position

Cash on hand at 30 June 2016 was \$4.6m. Spend for last quarter was less than forecast to the market in March 2016.

Cost Reduction

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

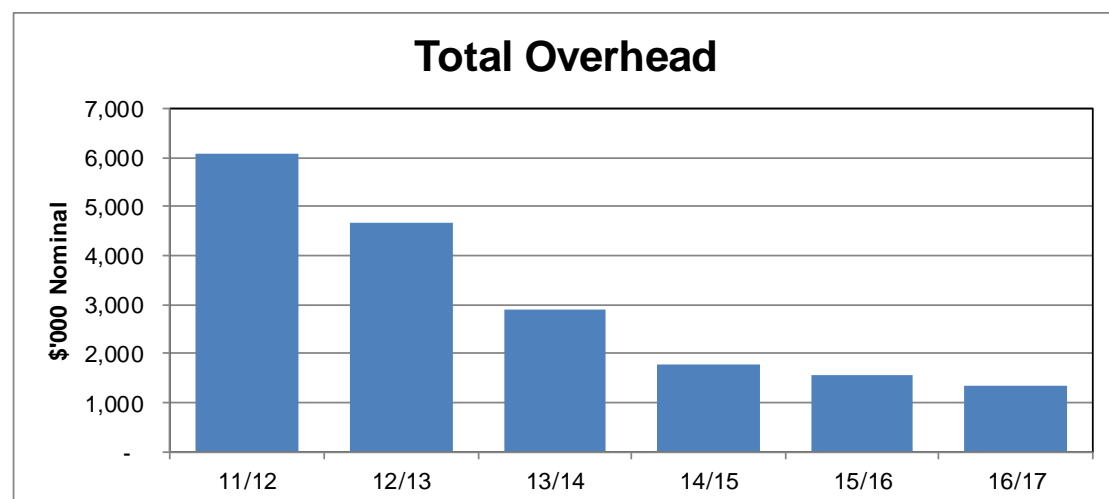


Figure 4: Blue Energy's cost reduction results (FY16/17 is a budget figure)

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	Monsiatt	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 MMBOE						0	27	12	168	51	672

Table 1: Blue Energy net Reserves and Resources

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%

Table 2: 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

Table 3: Exploration blocks Blue is farming into to earn up to 50% equity

Contact: + 61 7 3270 8800

John Phillips
Managing Director
Blue Energy Limited