

31 October 2016

QUARTERLY ACTIVITIES REPORT

To 30th September 2016

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

- **Gas commercialisation and pipeline discussions expand**
- **Positive signs from neighboring exploration activity**
 - **Greater McArthur Basin shale well flows gas - proof of concept – adjacent to Blue acreage**
 - **Galilee Basin activity shows promise. Galilee Energy flow tests horizontal well – good permeability established**
 - **Basin centered gas play in Cooper – REAL Energy well flows gas**
 - **Senex Energy's Western Surat Gas Project moves forward with Glenora Appraisal pilot**
- **ANZ share overhang removed with sale of their shareholding**
- **Blue Energy's Executive Chairman increases shareholding**
- **Gas saves day in SA black out – confirms critical role of gas with renewables**

Gas commercialization progress

Blue Energy has opened another front on its gas commercialization strategy. In addition to continuing discussions with potential gas buyers for Blue's ATP814P gas reserves in the northern Bowen Basin, the Company is now marketing the gas potential of its ATP854P gas resources south of Injune in southern Queensland (Figure 2). This asset is adjacent to GLNG's Fairview Gas Field and APLNG's Spring Gully Gas Field both of which are central to LNG production on Curtis Island. This Permit is well situated to access the Wallumbilla gas trading hub with the Wallumbilla-to-Gladstone pipeline passing through it.

Blue has been vocal in promoting the northern Bowen Basin as the solution to the East Coast gas shortage. The potential for development of the gas resources in this province should be of strategic national importance as, not only can it provide more certainty of supply to southern gas users, but development of new gas reserves in the Northern Bowen Basin could also underpin economic development of the north Queensland economic zone

Exploration activity in frontier plays

Activity in acreage adjacent to Blue Energy's areas continues to de-risk the Company's emerging play portfolio.

Origin Energy's Amulee West 1 well (targeting the mid Velkerri Shale) was drilled as a horizontal well and was hydraulically fracture stimulated (prior to the new NT government's moratorium on shale gas). Flow testing post frac yielded gas rates of between 0.8-1.2 million cubic feet of gas per day (mmcf/d).

The importance of this result cannot be overstated, given this is the first production test of the first fracture stimulated horizontal well in a pure shale play in such a frontier geological basin. The well lies 50 km to the north east of Blue Energy's exploration application areas.

In the Galilee Basin, Galilee Energy successfully drilled a lateral well into the Permian aged Betts Creek Coal Measures. Reports of greatly improved productivity from this new lateral well are encouraging for the Permian CSG play in the Galilee Basin. This production test is occurring immediately adjacent to Blue Energy's ATP813P in the Galilee Basin.

In the Cooper Basin, sustained gas flow was achieved from Real Energy's Tamarama 1 well which fracture stimulated and tested the tight basin centered gas play (Toolachee and Patchawarra Formations). Should economic gas rates be established in this well, it will open up what could be a significant play in the Northern Cooper Basin.

ANZ Shareholding

Long term shareholder ANZ sold its position in Blue Energy during the Quarter. The situation that led to ANZ being on the Blue register was central to a long held market perception that the ANZ block was an overhang which has historically weighed on Blue's share price. ANZ acquired its stake in Blue Energy as a result of a charge it held over the stock originally held by Primebroker. When Primebroker failed in 2008 due to the GFC, ANZ became the beneficial owner of the shares.

Blue Energy's Executive Chairman increased his personal stake in the Company as a result of the transaction.

Global and East Coast Energy

The recently released letter to shareholders from the Company's Chairman and CEO (issued with the Notice of Meeting for Blue's 2016 AGM) contains some broad insights into the global and domestic energy markets, together with some thoughts on the grid failure in South Australia. The black out of South Australia is yet another flag to policymakers, regulators and politicians that the use of gas should be encouraged to stabilize the electricity grid and augment the increasing level of unreliable renewables in the energy mix.

In late September, the entire electricity grid in South Australia failed, and in July, a gas shortage during a cold snap saw spot gas prices in Sydney and Melbourne escalate to \$30-40/Gj, with all gas storage capacity being drawn down to cope with demand. Suffice to say, that given these recent events, it is apparent that there is an imminent gas supply/energy issue that policy makers and regulators need to address. Without gas to stabilise the electricity grid, and cover the intermittent nature of wind and solar, it is obvious that the mandated increases in renewable energy, there is a significant risk to the reliable and constant supply of basic energy services for domestic and industrial operations.

With no exploration for gas allowed in onshore Victoria, sovereign risk associated with exploration in NSW now being too high for new entrants, and a fracture stimulation moratorium (pending a gas industry enquiry) in the Northern Territory, it seems that it will fall on South Australia and Queensland to continue the search for new gas resources, albeit with ballooning time frames for regulatory approvals.

Proven Basins

Bowen Basin, Queensland

ATP814P (Blue Energy 100% 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 (NSAI)). It consists of 7 separate blocks, with the Sapphire Block holding the majority of the 2P and 3P reserves. There is also significant upside within the other constituent blocks comprising the Permit with a combined 3,011 PJ of Contingent Resources estimated by NSAI.

As the Bowen Basin Gas Province is not connected to the southern market, Blue has initiated discussions with several interested pipeline companies to build such a connection. Scoping studies are presently underway. Both State and Federal Governments are fully supportive of the project as a means of unlocking more gas resources in an expedited process.

Blue Energy is continuing discussions with several potential buyers who are interested in securing gas supply. In parallel, the Company is also engaging in discussions with potential buyers to accelerate commercialization in the Company's ATP854P permit near Injune (adjacent to Fairview and Spring Gully Fields of GLNG and APLNG).

Blue continues working toward securing Production Licence and Potential Commercial Area tenure over the respective blocks comprising the ATP814P Permit.

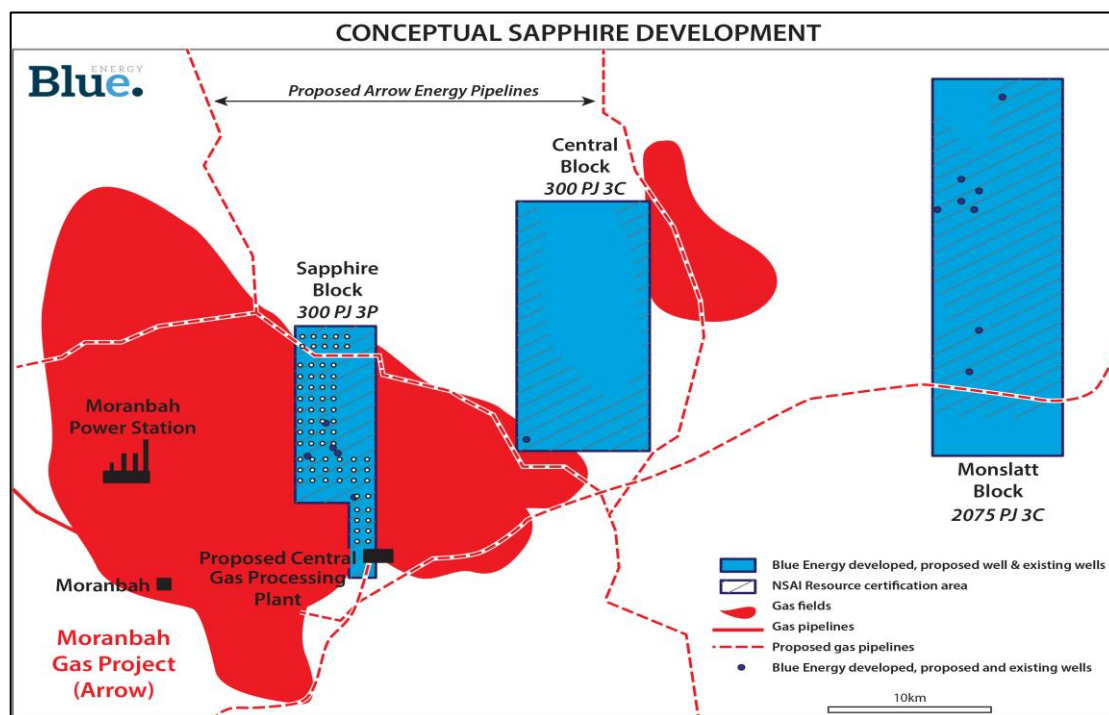


Figure 1: ATP814P Bowen Basin Queensland

Bowen-Surat Basins, Queensland

ATP854P (Blue Energy 100% and Operator)

This permit lies immediately west of the main gas fields supplying APLNG (Spring Gully) and GLNG (Fairview) – see Figure 2. Blue currently has 100 PJ of Contingent Resources in this permit (as per NSAI estimates). Gas export infrastructure also runs through the permit, giving access to both Wallumbilla and Gladstone.

Blue is currently actively marketing the gas resources in this permit to potential customers, in parallel with efforts in ATP814P.

In addition to the 100 PJ of Contingent resources estimated (NSAI) in the Late Permian Baralaba Coal Measures, there is gas potential in the Early Permian Cattle Creek Formation (as evidenced by the Spring Rock Field immediately to the north east of the permit and held by GLNG). The Jurassic Walloon Coal Measures are also prospective as shown by the adjacent Taringa (Santos) ~~and the~~ Indy (Senex) discoveries. Senex Energy's Western Surat Gas Project to the south east of ATP854 is also progressing the Walloon play with Senex recently announcing that it had completed drilling of the Glenora pilot wells in ATP 889P with surface facilities now being completed to allow production testing to commence.

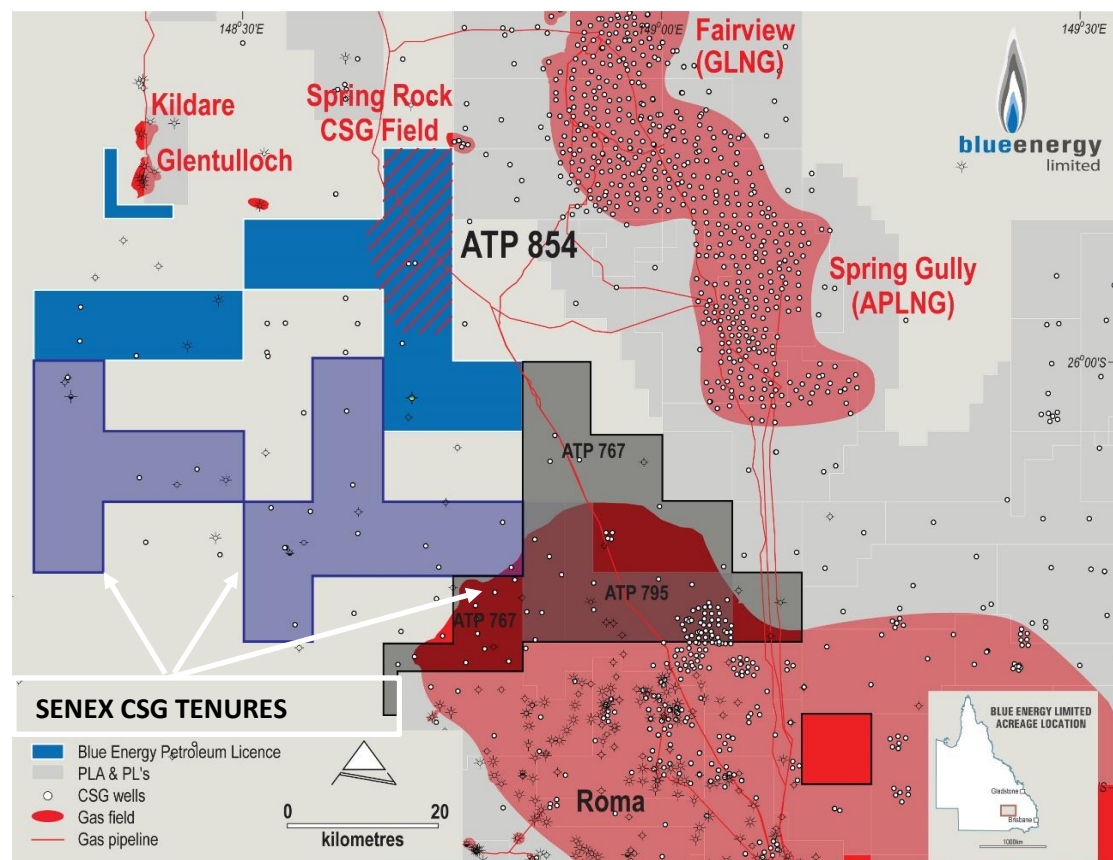


Figure 2: ATP854P Surat/Bowen Basin

Cooper Basin

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

Of regional note, the Tamarama 1 well (Real Energy) to the south of Blue's acreage (Figure 3) has recorded gas flows from the post frac clean-up and production test of the Toolachee and Patchawarra zones. The test result is significant as it represents the first gas flow from the basin centred gas play in the Northern Cooper Basin sequence.

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.

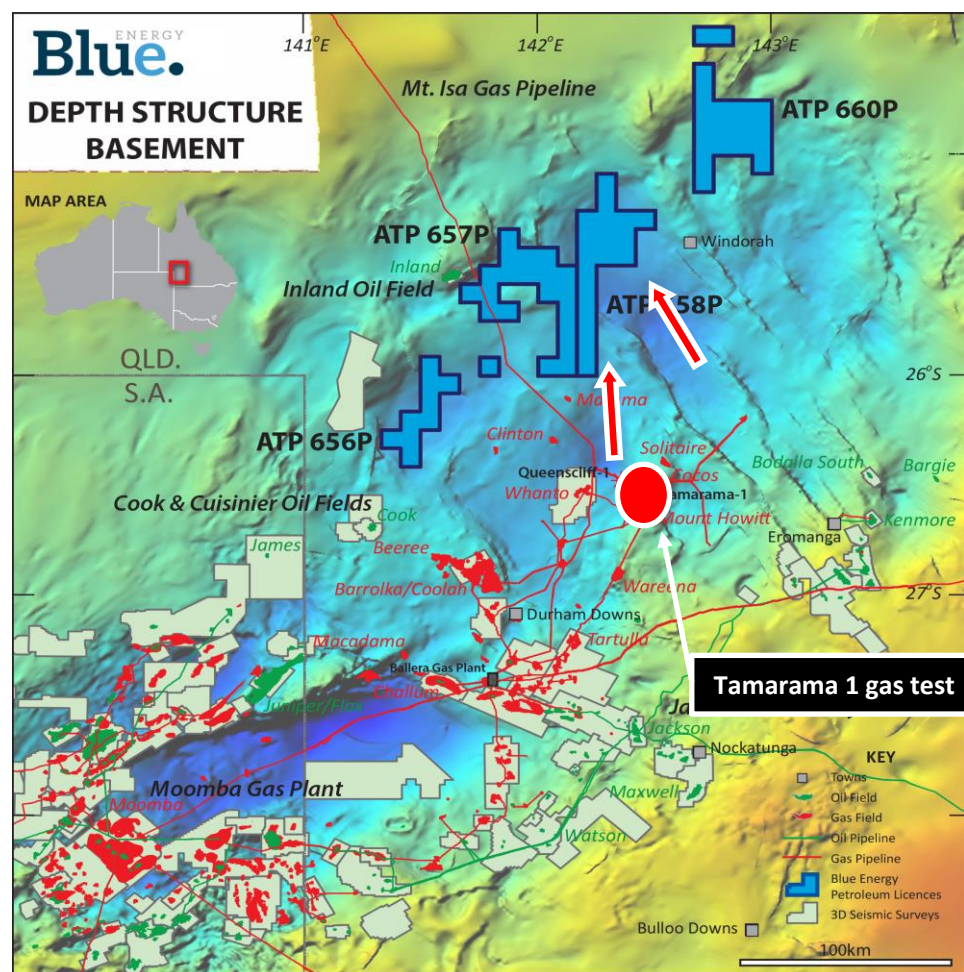


Figure3: Cooper Basin discovery and Blue's acreage

Emerging Basins

Greater McArthur Basin (various permits and equities levels - Blue Energy Operator)

As mentioned earlier, Origin Energy was able to execute a fracture stimulation operation on the horizontal portion of its Amulee West 1 exploration well. (EP 117 - 30 km east of Blue Energy's Application area EPA210). This occurred prior to the recent NT election. The well targeted the Middle Velkerri Formation and was put on flow back and production test post election.

With the recent Northern Territory election delivering a new Labor government, the new Chief Minister Mr. Michael Gunner wasted no time implementing the Labor party's pre-election policy of a moratorium on fracture stimulation whilst it now conducts a new review into the unconventional gas industry. Terms of reference have been set, but as yet, the expert panel has not been selected. It is unclear how long this review process will take. Consequently, Blue has sought a suspension of work programs from the Regulator until such time as it is clear what rules the NT Government will apply to unconventional gas exploration and production in the territory.

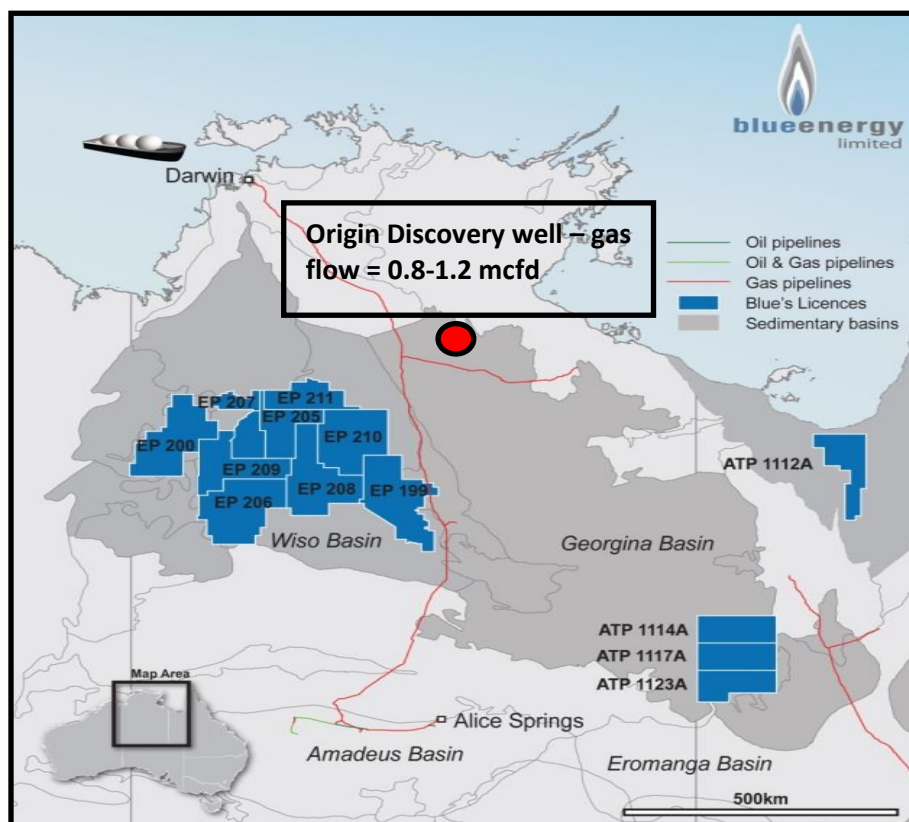


Figure 4: Blue's Northern Territory acreage position and the Origin discovery well

CORPORATE

Cash Position

Cash on hand at 30 September 2016 was \$3.94m.

Cost Reduction

Blue Energy continues to steward its available cash and find ways to reduce overheads. This continues to be a priority for management.

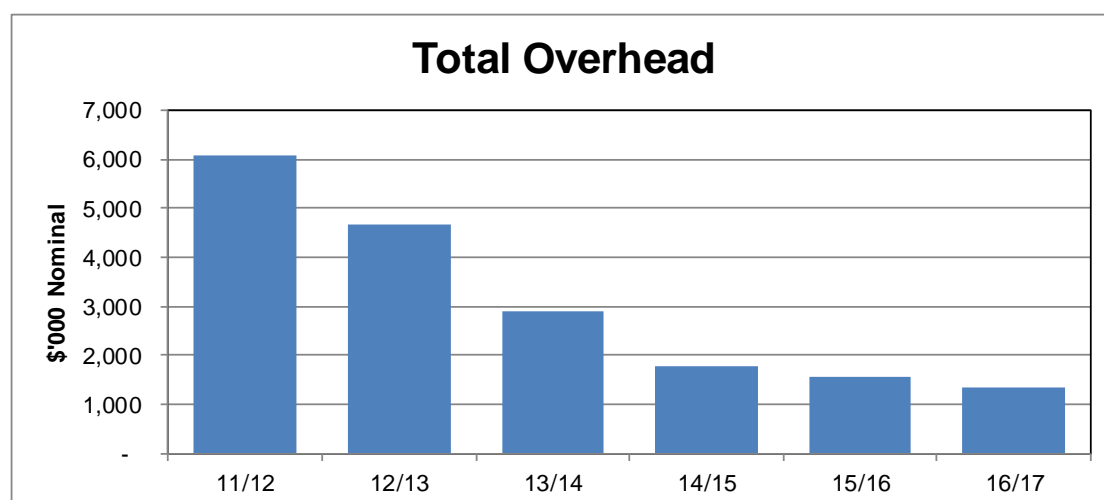


Figure 5: Blue Energy's cost reduction results (FY16/17 is a budget figure)

| 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 | 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 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

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