

31st January 2019

QUARTERLY ACTIVITIES REPORT

To 31st December 2018

Blue Energy Limited (ASX: "BUL") is pleased to report on activities during the December 2018 quarter across its exploration acreage in Queensland and the Northern Territory in which the Company's key gas and oil projects are located.

Key points on latest progress

- Pipeline Survey Licence lodged for linkage of Bowen Basin gas to southern market
- GSA discussions continue
- Maryborough exploration tenures not renewed
- Cash position – \$1.78 million as at 31 December 2018
- The Company has zero debt

Proven Basins

Bowen Basin, Queensland

ATP814P (Blue Energy 100% and Operator)

To allow definition of a suitable alternate route for the company's Bowen gas reserves to access the east coast gas market, a Petroleum Survey Licence (PSL 2037) has been lodged by Blue Energy subsidiary Galilee Pipelines Pty Ltd. The location of the PSL incorporates a corridor from Blue's ATP814 blocks towards Emerald and down to a junction with the GLNG pipeline and the Queensland Gas Pipeline to the southeast of the township of Rolleston.

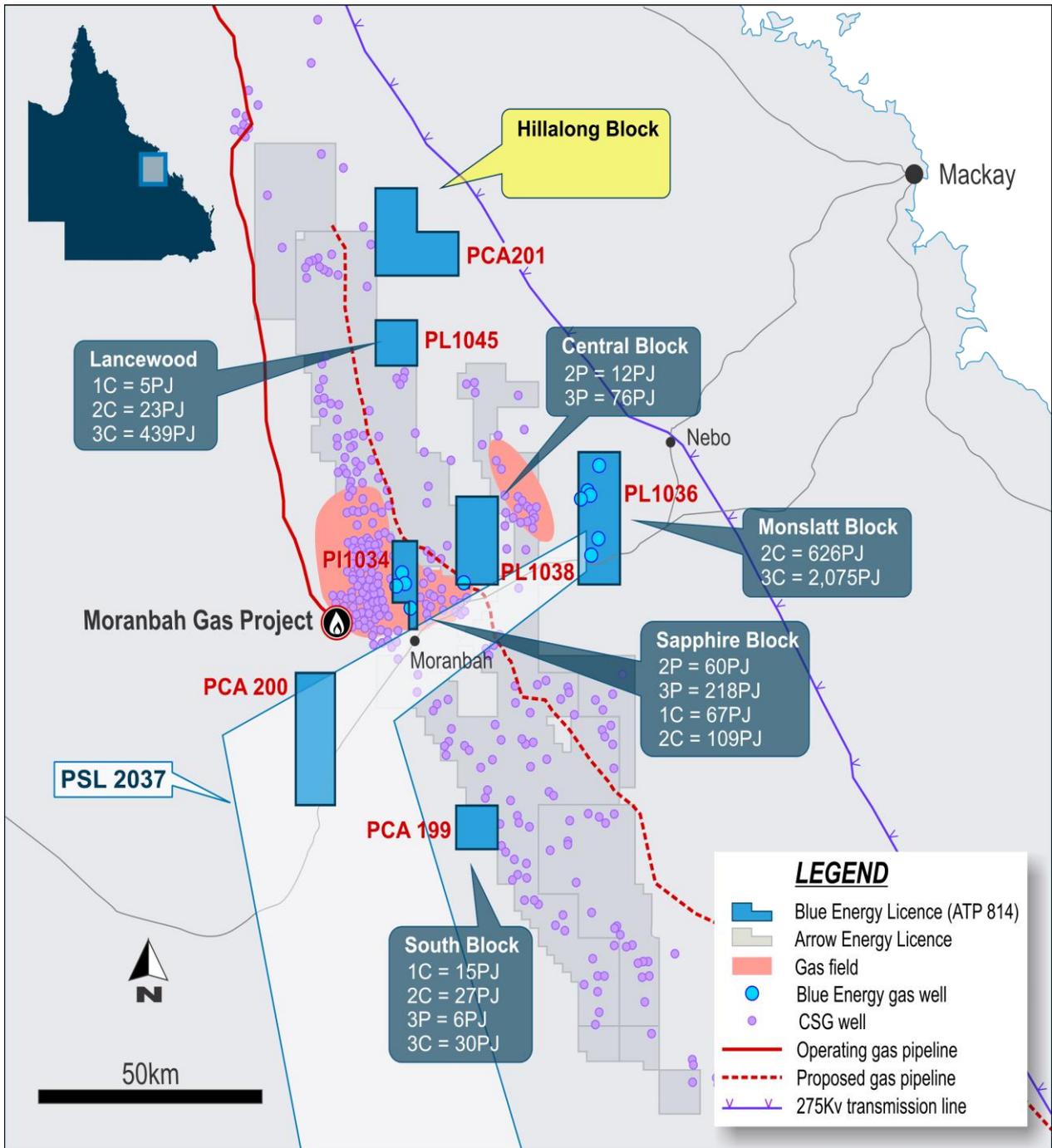
Whilst the MOU with APA is on track, it is the case that the most optimal route to Gladstone from Moranbah is the already granted Arrow Energy Pipeline Licence. APA and Blue have been attempting to discuss with Arrow Energy possible access to this approved, but yet to be constructed pipeline.

The Northern Bowen Basin has a discovered resource of approximately 15,000 PJ of gas which is sufficient to underpin the domestic gas market for the next 30 years. Blue's component of this estimate is currently 3,011 PJ.

Production Licence Applications (PLA) lodged by Blue Energy with the Queensland Government are progressing. Renewal of the underlying ATP is also on foot with the Government as are Potential Commercial Areas applications to cover the remaining resource base in the permit. These activities are being undertaken in parallel with the ongoing commercial negotiations.

The permit currently has certified 2P reserves of 71 PJ and 3P reserves of 298 PJ (as independently estimated by Netherland, Sewell and Associates (NSAI)). As mentioned above, 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. The gas resource potential Hillalong Block is currently being assessed.

Figure 1: ATP814P Bowen Basin Queensland showing PL and PCA and PSL Applications



Surat Basin, Queensland

ATP854P (Blue Energy 100% and Operator)

Blue has four Potential Commercial Area Applications (PCA’s) over the permit which will secure the acreage and allow work to be undertaken to grow gas reserves and resources in parallel to the continued marketing of the gas resources to potential buyers.

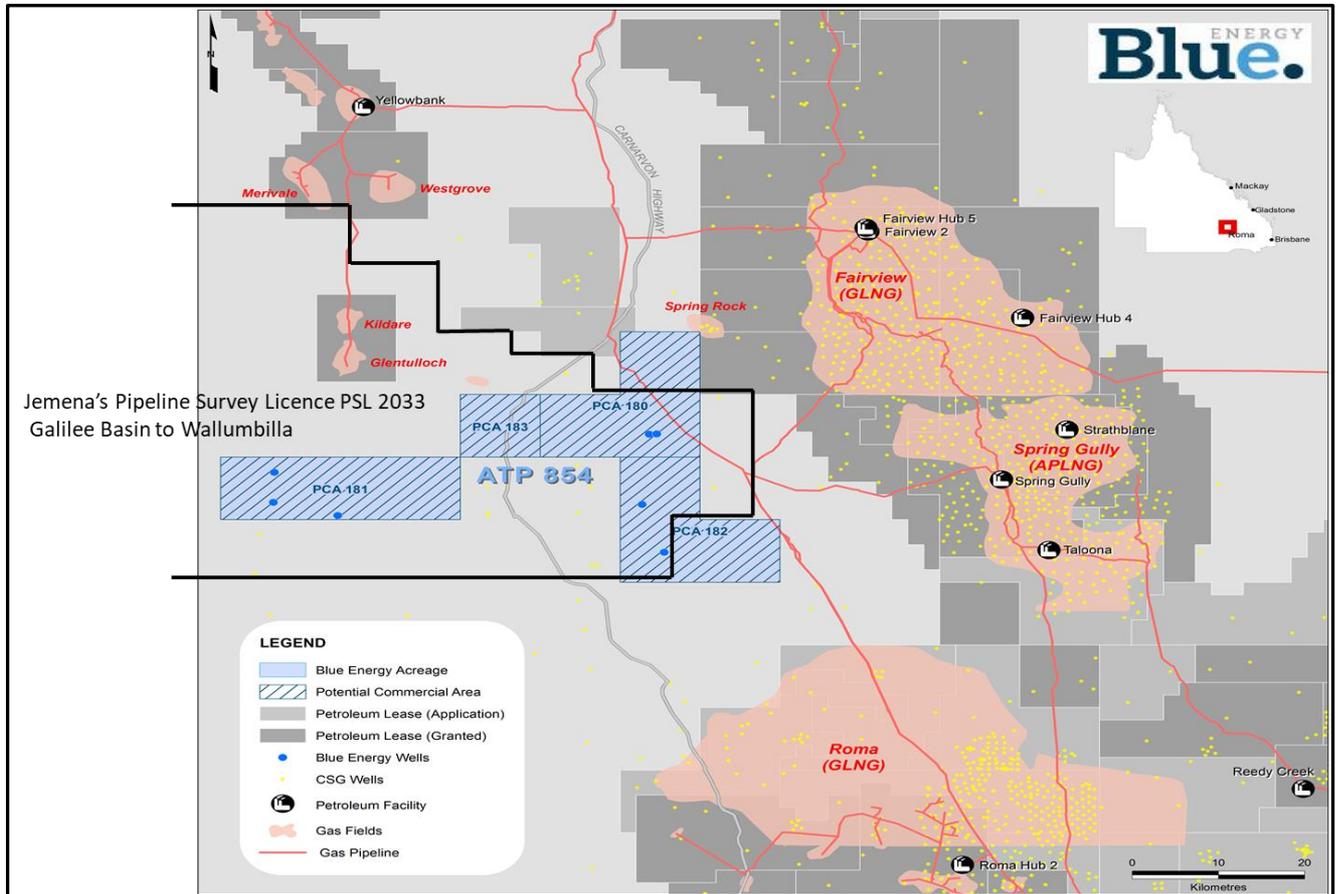


Figure 2: ATP854P Surat/Bowen Basin

Jemena’s PSL 2033 for the proposed pipeline linking the Galilee Basin to Wallumbilla overlays ATP854 and is conveniently located for Blue Energy to potentially utilize for gas export across the ATP in due course.

Cooper Basin, Queensland

ATP656P, 657P, 658P and 660P (Blue Energy 100% and Operator)

Blue has lodged renewal applications for these permits, and are awaiting responses from the Qld Government

Emerging Basins

Greater McArthur Basin

(various permits and equities levels - Blue Energy Operator)

With the NT Government rolling out several of the 135 recommendations from the Pepper Inquiry, together with Codes of Conduct and changes to the Water Act, Petroleum Act and with more recommendation yet to be implemented, it appears that there may be some oil and gas activity in the Northern Territory this dry season. Falcon Energy reported that it has, through its Joint Venture partner Origin Energy, contracted an Ensign drilling rig to drill two horizontal wells and one vertical well in their Beetaloo permit in the 2019 dry season, with the first well to spud in June. The drilling of these wells will be a test of the new post Pepper Regulatory regime and the impact of the regulation process and the time it takes for approval and the additional cost impost of the process.

A suspension of Work Program activity in Blue’s three awarded tenures in the Northern Territory until February 2020 has been granted by the NT Government, when more clarity surrounding “no go” areas and the rules governing oil and gas exploration activities are made known to industry.

Galilee Basin Queensland

ATP813P (Blue Energy 100% and Operator)

Blue Energy has over 2,000 km² under licence in the Galilee Basin of Central Queensland. In addition to Applications for Potential Commercial Areas (PCA’s), Blue has lodged applications to renew the ATP which are on foot with Government to retain the 838 PJ (net to Blue Energy) of Contingent Resources within the Betts Creek CSG play that Blue Energy has in ATP813P. Blue eagerly awaits the results of the Galilee Energy pilot production testing of its Glenaras horizontal wells which will provide proof of concept and reserves for that area and give confidence to Blue to conduct appraisal activities on the gas discoveries already made in ATP813P.

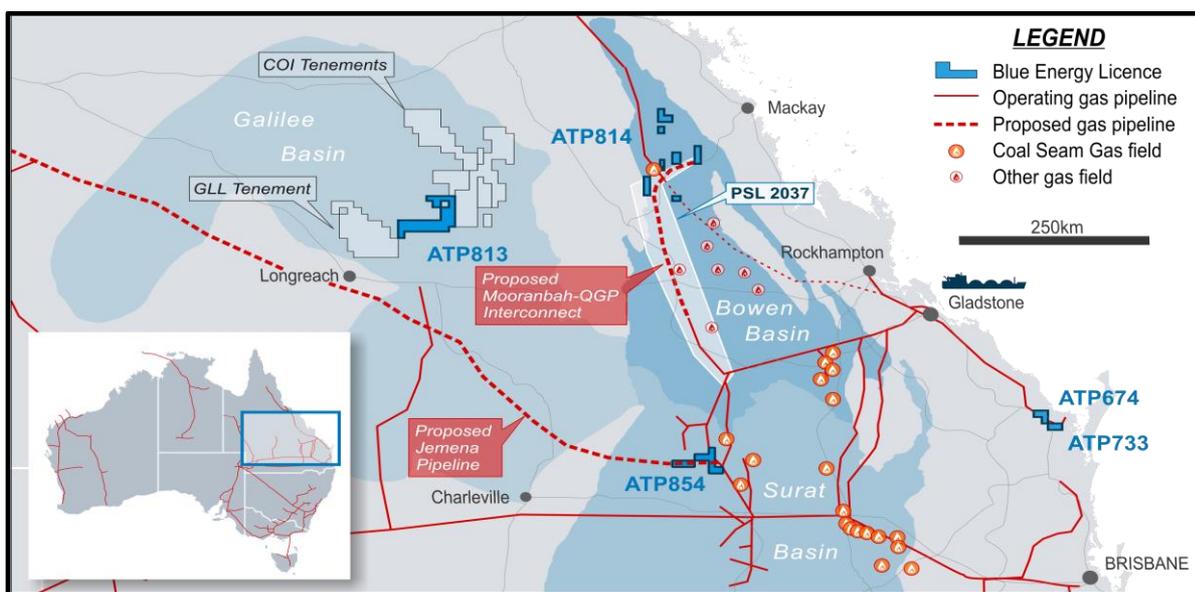


Figure 3: Bowen, Surat and Galilee Basin acreage

Maryborough Basin

ATP613P, 674P and 733P (Blue Energy 100% and Operator)

Blue Energy elected not to renew these tenures, two of which expired 31st December 2018.

These tenures were legacy acreage, first applied for in the late 1990's/early 2000's on the basis of conventional oil and gas potential. Blue Energy undertook good faith negotiations with the Butchulla people (Traditional Owners) and reached agreement to allow exploration (and production) to proceed. This agreement was required for the State Government to award the exploration tenures in 2012. In the time between original application for the areas (1999) and the grant of tenure (2012) the environmental regulations governing oil and gas exploration had changed substantially under the successive Beattie and Bligh State Governments with only some 15% of the original area applied for able to be accessed for exploration without significant new approvals and restrictions. Successive Governments expressed a requirement to have a regional plan for the area which incorporated an energy (oil and gas) component, so that oil and gas exploration could be included. Such a plan was never forthcoming from Government. The increased environmental regulatory restrictions have rendered this area unlikely to be explorable.

Energy Trends

Reports of the imminent demise of fossil fuels as a major global energy source, are quite premature!

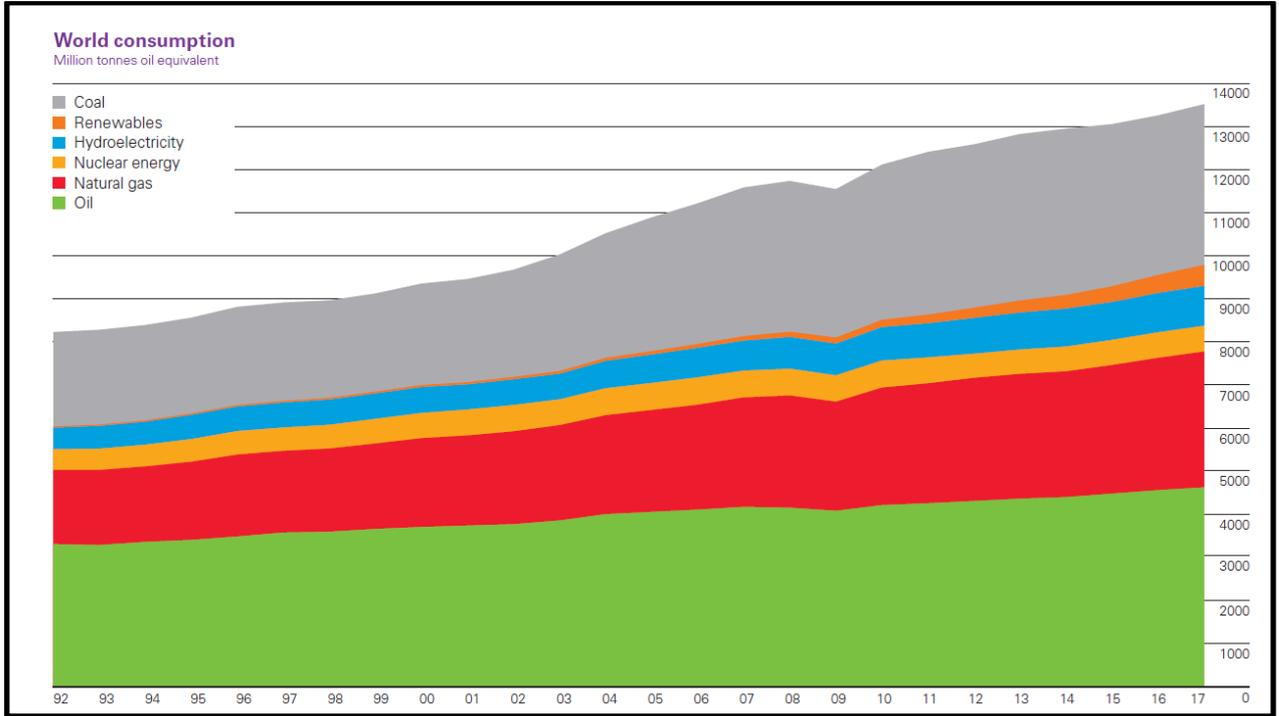


Figure 4: Global Primary Energy Consumption. Source: BP annual Statistical Review 2018

For Australia to nobble (Legislatively) its energy/electricity options to just wind and solar seems a futile gesture that is already resulting in the highest cost electricity on the planet, with no reliability dividend.

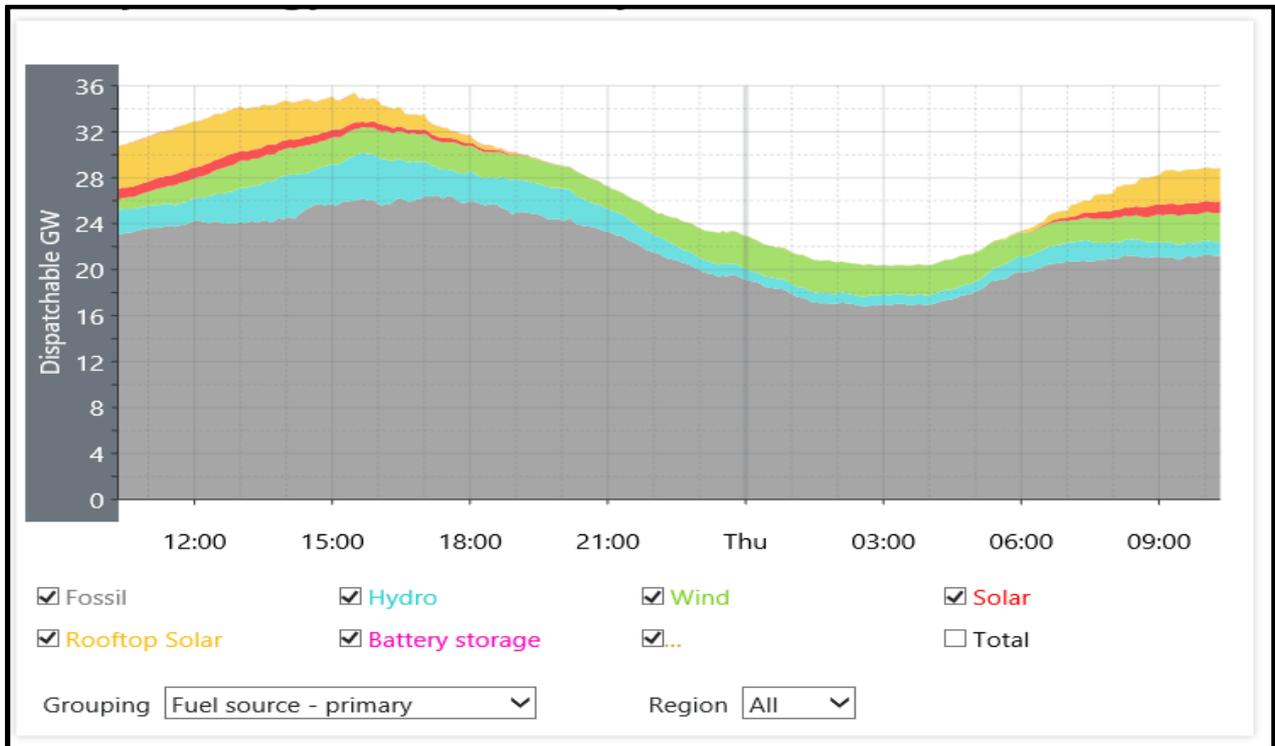


Figure 5: Australia East Coast generation stats for 31/1/2019. Source: Arero.id/energy

East Coast Australian Gas Market

Price

Gas prices on the east coast are largely set by the benchmark LNG netback price in Wallumbilla Qld. This price is regularly calculated and reported by the ACCC. LNG netback price is the price a gas producer may expect to receive for their gas if sold into the international LNG market but with the cost of liquefaction and transport netted off. It offers a benchmark for suppliers to assess the best available market price for their product (ie export it or sell it domestically). The Wallumbilla LNG Netback price is based on the Asian LNG spot price which is affected by oil price and seasonal factors (northern winter etc) amongst other things.

Given most current gas contracts on the east coast are now “oil linked”, and of much shorter terms than the original Cooper Basin and Bass Strait contracts, gas users are now much more exposed to oil price fluctuations in their energy input contracts. Short term gas supply contracts now have the published LNG netback price to be benchmarked against and gas producers utilize this and their corporate forward oil price assumptions to judge where the best return for any uncontracted gas will be – the domestic market or spot LNG cargoes. Historically, spot cargoes have been very lucrative for LNG producers who have long-term low-priced legacy contracts.

Gas buyers on the other hand must now take a view on how international oil prices will fluctuate in the short to medium term to understand the likely impacts of the energy input costs to their business. This is a significant departure from the days of the fixed price 20 year supply contracts with only a CPI escalator, and it is no wonder that most manufacturers are all at sea with their gas contracting strategies. The double whammy for a lot of manufacturers is that not only have gas prices risen considerably, reflecting oil price volatility, but at the same time the cost of electricity has soared. Again, it’s no wonder manufacturers are seeking government assistance.

Eighty percent (80 %) of east coast gas reserves are controlled by international gas companies who have deep roots into the global LNG business as either producers, buyers, traders or all three. Many of these entities represent national governments. The primary reason for their involvement in the CSG to LNG business is their global LNG portfolios and/or to deliver gas to their home countries. These companies and Joint Ventures are selling gas into the Australian east coast domestic market essentially as a legacy issue.

It is a matter of fact that much of the CSG resource in Qld would not have been developed without the global gas companies entry and exposure to the global gas market that LNG provides (ie the gas can be transported efficiently to a very large market offering higher prices). To think that the global gas companies are here to make sure domestic gas users get gas at prices of 20 years ago is naïve. Whilst the rest of the world values our gas highly, the costs of getting the gas out of the ground has risen significantly, helped along by the large regulatory burden applied to the onshore gas industry.

In the absence of a robust mid tier (non LNG) upstream gas sector, Eastern Australia gas users will be reliant on the benevolence of international gas companies for supply, who are in the business of exporting as much of their LNG to execute their global gas supply strategies. Bringing new gas resources to the market through high (geological) risk exploration in new basins has been and will always be the domain of the small risk-taking explorer. Utilising technological breakthroughs to lower the cost and improve well productivity will deliver more supply and lower prices to consumers. The stand out example of this is the United States. It was

the small independent producers that made the breakthroughs and started the shale revolution that turned the US from a potential LNG importer in the mid 2000's to an LNG exporter within a decade (and become the largest oil producer again). It is testament to innovation, a Regulatory environment that works, access to capital and service company diversity, and regionally connected infrastructure, plus communities that understand the benefit of being self-sufficient in low priced energy and who therefore value the domestic gas exploration and development industries.

Supply

The reality of declining Gippsland Basin gas production is concerning for east coast gas consumers, despite the imminent commencement of Sole gas production and the announcement by ExxonMobil/BHPB of the West Barracouta development. The reality is that Victoria and NSW, who both outlaw (effectively) onshore gas exploration and production, will become increasingly reliant on Queensland's CSG fields to supplement their needs (in a similar fashion to their electricity situation). It is good news to see that Northern Territory gas is now beginning to flow into the eastern market, and activity is beginning to resume in the Beetaloo Basin, following delays caused by Fracking Inquiries and the resultant activity of bureaucrats to significantly increase the regulatory burden (aka cost) on industry.

The link between electricity and gas is often not recognized. In this age of burgeoning wind and solar generation, the need for gas fired back up/firming capacity has been overlooked, however the recent high temperatures in South Australia saw gas fired generation be directed to step in and save the state from significant black outs. This will be the future for electricity.

Global Energy

LNG and Global Gas Pricing

It is noteworthy that there are signs of significant thawing of the capital freeze in the LNG space globally, with Shell and Petrochina (and others in the Gladstone cabal) announcing the Final Investment Decision for LNG Canada's Kitimat project, a 14 million tonne per annum LNG export facility on the west coast of Canada.

Added to this is Qatar Petroleum's decision to add a fourth train to the already announced LNG production expansion that will see an additional 32 million tonnes per annum of LNG by 2022.

Clearly, the confidence in strong demand growth for gas globally (and by inference LNG) is reflected in these decisions, with undoubtedly more such announcements to come. One other lead indicator to follow will be LNG carrier new orders and the charter rates and availability of existing vessels. Clearly the global gas companies are all jockeying for positions to be preferred supplier as the supply gaps open up. Building liquefaction capacity is key, together with better utilization of existing capacity to maximise revenue and market share. Filling the Gladstone trains may well be one of lowest marginal cost opportunities for these proponents and so, ensuring reserve cover and gas supply will be critical to maximising profitability from these plants.

Oil price

Exploration discovery volumes globally are still near record lows (only 7 billion barrels last year). The world consumes just over 100 million barrels of oil per day, which is a consumption rate of 365 billion barrels of oil every year. If we are only finding 7 billion barrels each year, and oil consumption is rising, this will undoubtedly have an impact on price, which will flow through to LNG prices, and hence domestic gas prices on the east coast of Australia (in the absence of significantly more local gas supply coming to market). Higher oil prices will also impact LNG import projects in eastern Australia as well.

The geopolitical games continue in the oil market, with Saudi suggesting they will cut production to increase prices, and the US expanding production (currently around 12 million barrels/day) and their rig count edging slightly higher.

Strategic reserve

As Blue has commented previously, Australia has only 3 weeks of diesel supply in country, 7 days of Aviation gas, declining refinery capacity and limited oil and gas storage. Recent commentary from ex-military personnel suggest a degree of angst at the nation's ability to defend itself (i.e. keep the army, air force and navy operational) if required to do so, is timely. Quite apart from its obligations under OECD rules, the nation's internal supply lines, agricultural and mineral production capacity and food distribution would cease to operate within 2 weeks. This is not the type of situation a first world country should have allowed to happen, yet we see no immediate solution being provided by the country's leadership.

Corporate

Cash Position

Cash on hand at 31 December 2018 was \$1.78 million.

The company has zero Debt

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

Listing Rule 5.42 Disclosure

The estimates of reserves and contingent resources noted throughout this Quarterly Activities report have been provided by Mr John Hattner of Netherland, Sewell and Associates Inc (NSAI) and were originally reported in the Company's market announcements 25 January 2012, 26 February 2013, 19 March 2013 and 8 December 2015. NSAI independently regularly reviews 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 reports 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. Blue Energy confirms that it is not aware of any new information or data that materially affects the information included in any of the announcements relating to ATP 813P, 814P or 854P referred to in this report and that all of the material assumptions and technical parameters underpinning the estimates in the announcements continue to apply and have not materially changed.

Petroleum Tenements Held

Permit	Location	Interest Held Previous Quarter	Interest Held Current Quarter
ATP613P	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

Tables 2 and 3: Petroleum Tenements held by Blue Energy and its subsidiaries

*Exploration blocks Blue is farming into

Note 1: Subject to Farm in Agreement which upon completion of the seismic work program will result in Blue Interest becoming a 50% equity participant

Contact: + 61 7 3270 8800

John Phillips

Managing Director

Blue Energy Limited