

31 January 2018

QUARTERLY ACTIVITIES REPORT

To 31stth December 2017

Blue Energy Limited (ASX: "BUL") is pleased to report on activities during the December 2017 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 on latest progress

- **IFM Investors joins Blue Energy Share Register with \$2million share placement**
- **Gas commercialization discussions continue with several parties for the Company's gas resources in both ATP814P and ATP854P.**
- **Production Licence and Potential Commercial Area Applications now submitted over all of ATP814P (4 PL Applications + 3 PCA's)**
- **9 Potential Commercial Area Applications lodged over Blue Energy's Galilee Basin permit ATP813P**
- **Blue Energy and APA Group continue work on land access and route selection for the Bowen Gas Pipeline**

Share Placement

Blue Energy raised \$2.015 million post the end of the quarter with the placement of 13,000,000 shares to IFM Investors at market price (\$0.155 per share) in early January 2018. The placement was targeted to strengthen Blue Energy's share register with this strong institutional investor, which has approximately \$100 billion of funds under management.

Gas Commercialisation

Blue is in continued discussions with multiple parties for the commercialization of its gas resources ATP814 and ATP854 in the Bowen Basin.

The 27 year contract signed between Shell and Arrow late last year is by far the largest gas supply contract signed to date in the Gladstone LNG precinct. It requires delivery of 5 trillion cubic feet of gas (5,300 PJ) over the contract term. This equates to the equivalent production of 95 million tonnes of LNG over the contract life. In Blue Energy's opinion, it is likely that both Arrow Energy's Surat and Bowen Basin gas assets will be required to service this contract and therefore with Blue Energy's Bowen Basin gas reserves and resources will be a further catalyst for the development of the Bowen Basin's 11,000 PJ gas resource.

ATP814P (Bowen Basin)

Blue Energy has now completed the lodgement of a total of 4 Production Licence Applications and 3 Potential Commercial Area Applications in ATP814P. These applications now ensure all of the area encompassed by ATP814P is covered by a higher tenure type. On grant, this will secure the tenure to allow development of the Company's 2P and 3P reserves and appraisal and

development of the large gas resources that are currently certified in the permit. In addition to these applications, Blue Energy has applied for the renewal of the underlying ATP814 permit for a further 12 years.

ATP813P (Galilee Basin)

During the quarter Blue Energy prepared and lodged a total of 9 Potential Commercial Area Applications (PCA's) covering ATP813P in the Galilee Basin together with application for the renewal of the underlying Authority to Prospect (ATP) for a further 12 years. To date, this permit is assessed to contain approximately 830 PJ of Contingent Gas Resource (as assessed by Netherland Sewell and Associates of Dallas Texas). These applications will secure the tenure and allow continuation of the exploration and appraisal effort to move the Contingent Resources through to Reserves. This will then add to the regional development effort by several operators in the Galilee Basin gas province.

Blue Energy and APA Group MOU

Blue Energy and APA Group continue to work on route selection, land access and design components for the Bowen Pipeline ahead of negotiating a Gas Transmission Agreement.

Global Energy

Oil price

The latter half of 2017 has seen a consistent upward trend in the oil price. At the time of writing, dated Brent crude was trading at just under US\$70/bbl, a price level not seen since December 2014. Domestic producers are reflecting this improved pricing in their revenue reporting for the December Quarter 2017. Average global consumption for 2017 increased to 98.4 million barrels of oil per day. Over a full year, this level of consumption translates to just under a staggering 36 billion barrels of oil consumed. Growth in oil consumption for 2017 was 1.4 million barrels per day. This growth trend is forecast to increase over the coming years. New discovery volumes last year globally amounted to only 6 billion barrels of oil (ie only 17% of what we consume annually is being replaced by new discoveries).

In large part, the production cuts undertaken by OPEC (to arrest the low price) have been sustained and effective in reducing previously high global oil inventories, which, accompanied by growth in consumption have reversed the downward price trends of earlier years. However, the paper traders are keenly awaiting a production response to these higher prices from US shale producers. It remains to be seen if the US shale producers will rush headlong into additional capital expenditure as cash flows improve or embark on capital returns to their long-suffering shareholders who have been patiently awaiting better revenue generation from a turnaround in prices.

Non OPEC oil production resilience has been mainly due to previously committed deepwater offshore development projects which are now coming online.

It is also instructive that over recent years China has built a billion barrels of oil storage capacity which it has been steadily filling, taking advantage of the low oil price environment.

LNG

The surging oil price has translated into higher LNG prices for both oil linked long term contracts and also LNG Spot Prices. This has been good news for the Gladstone LNG producers, as we have seen higher production levels achieved from the three plants in 2017, with well above nameplate capacity production runs. 2017 saw the average realized price for some producers increase by 20%, whilst as of December 2017, the Japanese LNG spot price was approximately A\$14.00/mmbtu, which will give producers the ability to improve cash flow significantly through any spot cargo sales at the moment. This opportunity impacts the decision of Gladstone LNG producers to supply a spot cargo, or the domestic gas market.

As we have noted previously, China is key to understanding the Global LNG demand puzzle. Domestic fuel switching mandated by the Party (from the highest level) can rapidly impact global demand. Indeed, in the last quarter China recorded a 40% increase in imported LNG volumes. This was driven from the highest levels of the Chinese Government for the eastern coastal cities to improve their air quality by switching from coal to gas. This fact clearly demonstrates the importance of China to any global LNG oversupply and how quickly, consumption growth in China can turn around the supply/demand equation for LNG. Every 1% of the Chinese energy mix that moves from coal to LNG, is the equivalent of the entire annual Gladstone LNG production capacity. As China’s domestic coal production declines, and air quality concerns in the burgeoning coastal cities continues to be the reason to fuel switch, gas demand will increase significantly. The growth of the developing populous nations (China and India) logically drives energy and resource demand, as their populations demand improved living standards. At the end of 2017, China was the second biggest importer of LNG in the world, behind Japan.

The EIA forecasts Chinese gas demand to triple by 2040 to nearly 57 BCF **per day** (approximately 22,000 PJ/year) from the current 20 BCF **per day** (7,700 PJ/year). For perspective, the entire Australian East Coast Gas demand is approximately 2,000 PJ per year (domestic gas + LNG export volumes). Whilst not all China’s gas is imported, it will only take problems with its domestic shale gas production to require a massive increase in imported gas. As can be seen from Figure 1, current shale gas production is relatively minor.

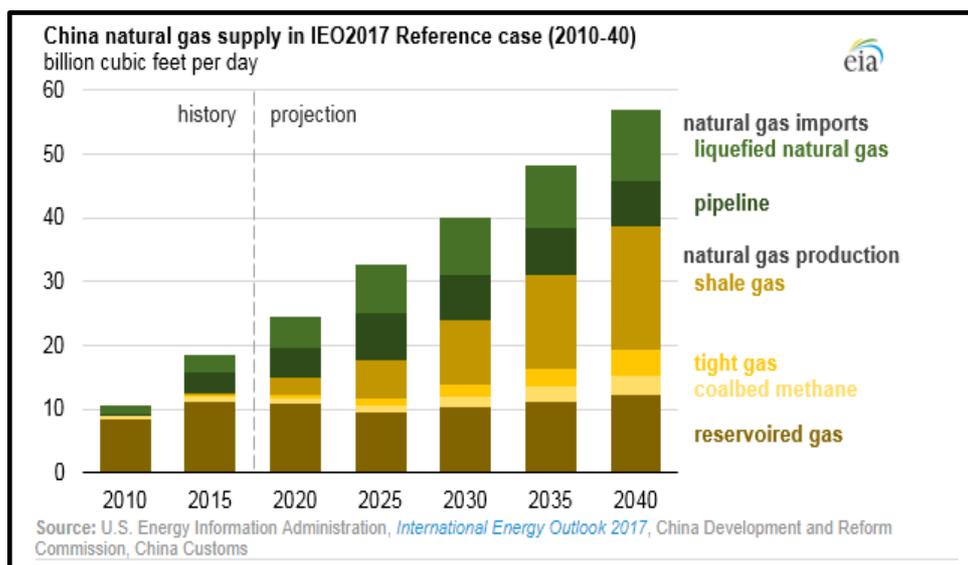


Figure 1: Forecast Chinese Gas demand to 2040. Source: EIA International Energy Outlook 2017

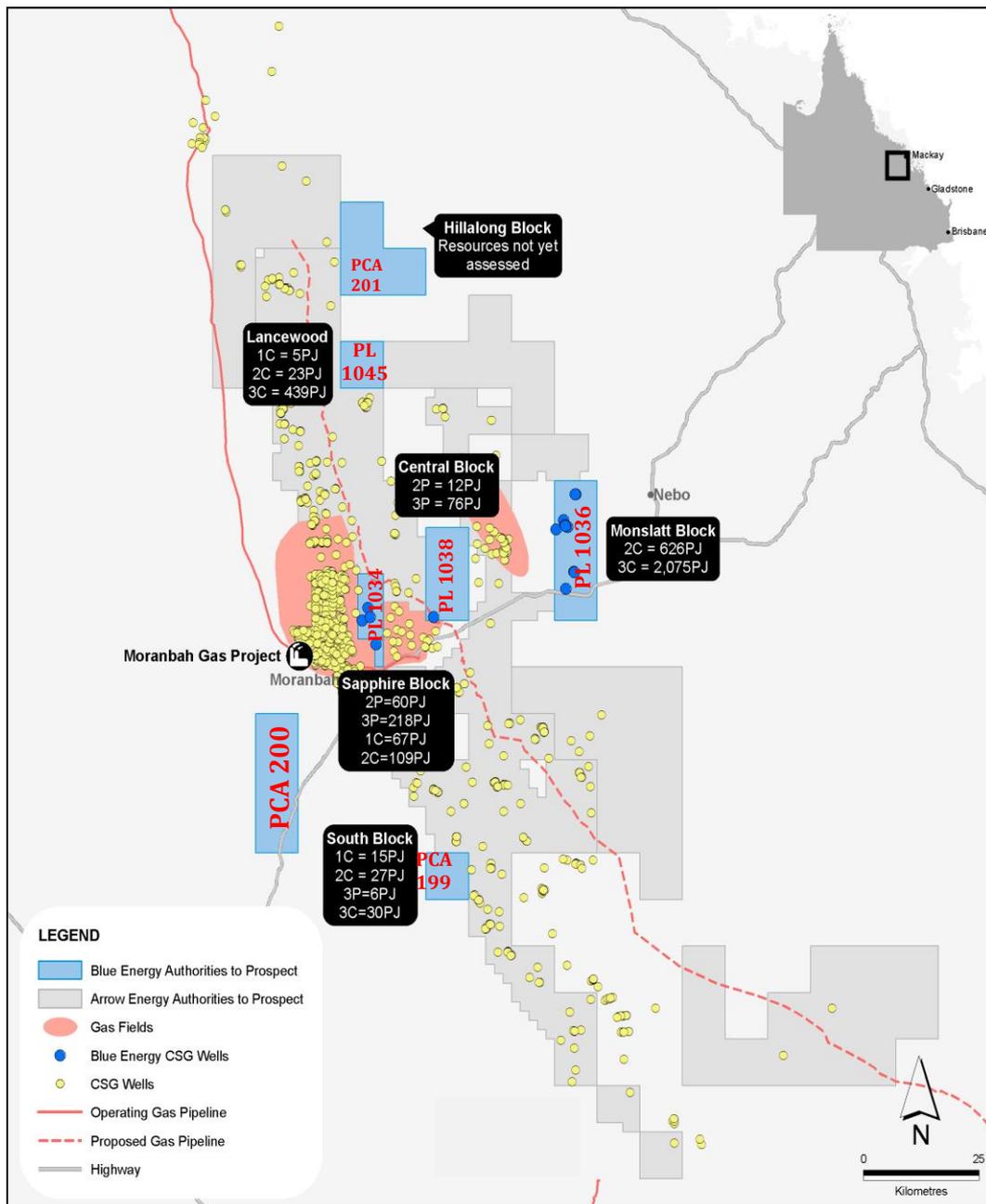
Proven Basins

Bowen Basin, Queensland

ATP814P (Blue Energy 100% and Operator)

A total of 4 Production Licence Applications and 3 Potential Commercial Area Applications (PCA's) have now been made over the blocks in ATP814P. In addition, application has been made to renew the permit for a further 12 years. Upon grant, these applications will secure the tenure containing all the current gas reserves and resources carried in the permit. See Figure 2.

Figure 2: ATP814P Bowen Basin Queensland showing PL and PCA Applications



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)). 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.

With the addition of Blue Energy's gas reserves and resources, the Bowen Basin holds in excess of 11,000 PJ of gas resource which if developed and brought to market, can provide a timely solution to the East Coast gas shortage in the medium and longer term.

Blue continues to work with APA and other parties in the Bowen basin to secure the best pipeline route to deliver gas into the southern market.

Surat Basins, Queensland

ATP854P (Blue Energy 100% and Operator)

Blue is currently in discussions with several parties to commercialise the Company's gas resources contained in this permit.

Blue has three 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 gas buyers.

This permit lies immediately west of the main gas fields supplying APLNG (Spring Gully) and GLNG (Fairview) – see Figure 3. Blue currently has 103 PJ of Contingent Resources in this permit, as per NSAI estimates. This block would provide the Company with the quickest gas to market opportunity as existing gas export infrastructure runs through the permit, giving access to both Wallumbilla and Gladstone.

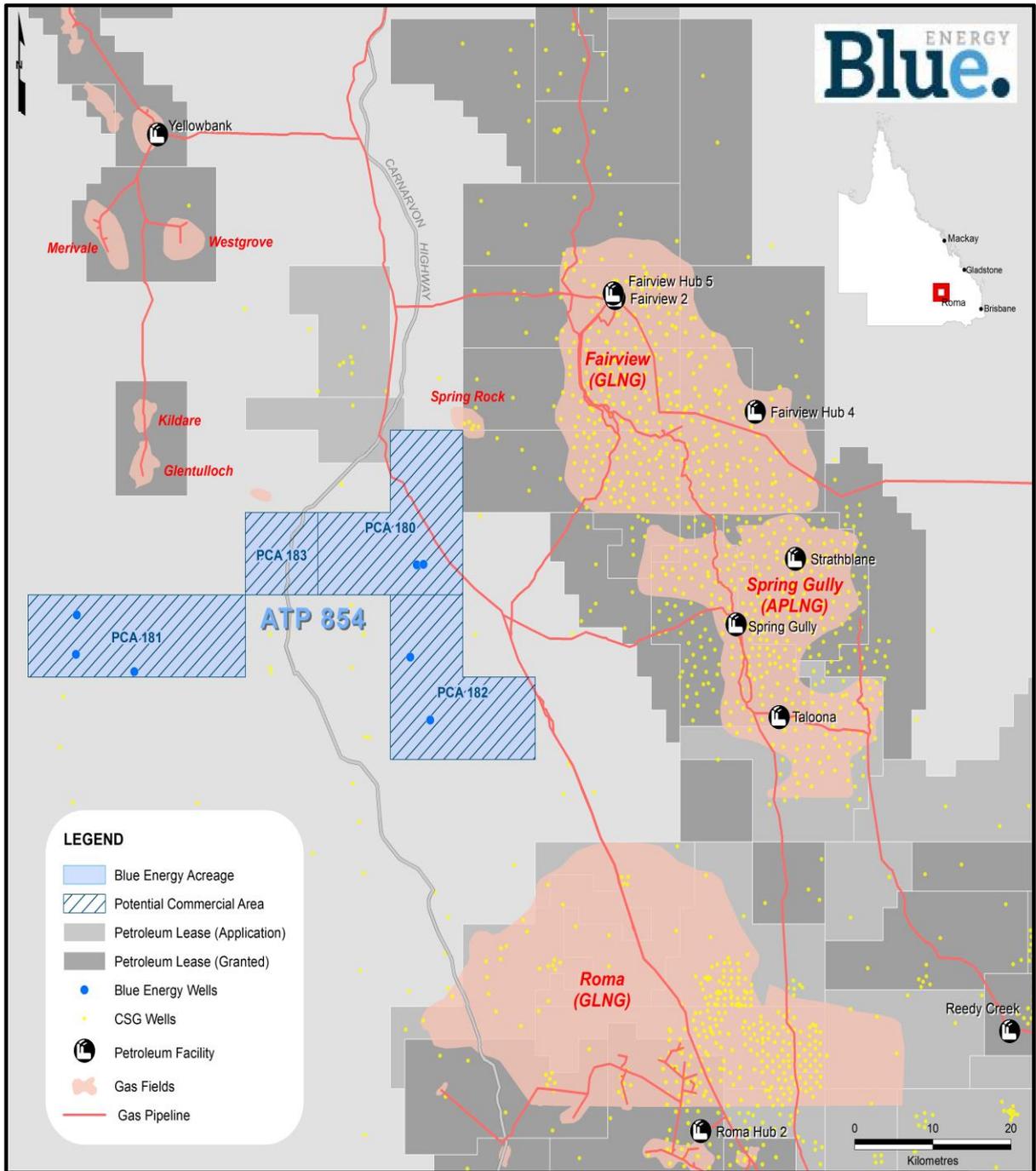


Figure 3: ATP854P Surat/Bowen Basin

Emerging Basins

Greater McArthur Basin

(various permits and equities levels - Blue Energy Operator)

The Scientific Inquiry into the Hydraulic Fracturing in the Northern Territory has handed down its draft final report in December of 2017, but has deferred its final report until the end of first quarter 2018 (Calendar Year) due to irregularities in the acquisition of community information by a sub-contractor to one of the principal companies awarded the work. The NT Government has stated that it will defer any decision on the future of the Unconventional Gas industry in the NT until it receives the final report from the Enquiry. Blue Energy's permits have been placed into suspension, at the request of the Company, until such time as the NT Government indicates the stance it will take toward drilling and completion across the Northern Territory.

Cooper Basin northern flank – ATP656, 657, 658 and 660 (Blue Energy 100% and Operator)

Activity by several adjacent Operators continues to de-risk the basin centered gas play in the area as well as other basin margin oil and gas plays that will directly impact Blue's acreage.

CORPORATE

Cash Position

Cash on hand at 31 December 2017 was \$1.58 million.

The Company raised \$2.015 million with a share placement (13,000,000 shares) to IFM Investors in early January 2018, which brings the cash balance to \$3.36 million at end January 2018.

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 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 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

Table
3:

*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

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