

30 April 2018

QUARTERLY ACTIVITIES REPORT

To 31st March 2018

Blue Energy Limited (ASX: "BUL") is pleased to report on activities during the March 2018 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

- **Northern Territory Government to lift Fracture Stimulation Moratorium**
- **Gas commercialization discussions continue with several parties for the Company's gas resources in both ATP814P and ATP854P.**
- **Upgrade of Environmental Authorities for ATP814 Production License Grant underway**
- **Victorian Offshore gas production declining faster– shortfall in Vic by 2022 - AEMO**
- **Cash Position – \$3.06 million as at 31 March 2018**

Northern Territory to lift Fracture Stimulation Ban

On receipt of the final report of the Pepper Inquiry into the Shale Gas industry, the Northern Territory Chief Minister Michael Gunner announced his Government would lift the blanket ban on the use of Fracture Stimulation in shale gas wells. This is a welcome decision for the industry, and one based on Science.

Mr. Gunner however indicated that 49% of the Northern Territory's land area would be off limits to the Shale Gas industry. These areas of exclusion will include National Parks, conservation areas, towns, and areas of high cultural or tourism value.

The 18 month Scientific Inquiry into Hydraulic Fracture Stimulation in the Northern Territory, Chaired by Justice Rachel Pepper, delivered its final report to the Northern Territory Government during March. The conclusion of the Inquiry into the shale gas industry was that **"the challenges and risks associated with any onshore shale gas industry in the NT can be appropriately managed"**.

This conclusion mirrors nearly every other inquiry into the Hydraulic Fracture Stimulation procedure held in Australia and globally. It appears that all of these inquiries find that all risks (technical and environmental - both real or perceived) with fracture stimulation are able to be managed effectively, by appropriate legislation. It is passing strange that for a technique which has been used in this country for the last 50 years (Cooper and Amadeus Basins) with no instances of verifiable environmental damage under existing legislation (either for conventional or shale gas exploration), that we now need more regulation to ensure the risks are managed properly.

The final Pepper Report makes 135 recommendations covering issues related to water, land, greenhouse gas emissions, public health, aboriginal people and their culture, social and

economic impacts and Regulatory Reform. Justice Pepper has stipulated that the Inquiry's 135 recommendations must be implemented in full to ensure the industry operates safely.

The detail of the legislative changes needed to incorporate all 135 recommendations is yet to be seen, and therefore the impact on the industry from an additional time and cost perspective is as yet unknown. As the timing for the consultation process and roll out of the required legislative changes is not clear it is unlikely that any meaningful exploration activity can be undertaken in the NT before the 2019 dry season. However, it would appear that the new legislation and no-go areas will only apply to the Shale Gas sector, and not those exploring for or developing "conventional" oil and gas.

It should be remembered by gas users that the high cost of gas to their businesses is due in part to the impost of additional government regulation mandated by Inquiries such as the Pepper Inquiry.

Gas Commercialisation

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

Global Energy

Oil price

Tensions in the Middle East, centering on the escalating US and Russian involvement in the Syrian conflict, combined with the ongoing conflict between the Iran backed Houthi rebels in Yemen and a Saudi backed Sunni coalition, have seen the continued upward trend in the oil price. Price volatility more generally, and these potential threats to oil supply out of the region, are factored into the oil traders' mindsets in the forward contracts. Combine this with the deepening tensions between Israel and Iran in southern Syria, and the lower oil inventory numbers in the US, we are now witnessing some sustained upward direction in the oil price (Brent was trading at US\$73.75/bbl as of Friday 27th April – its highest level in 3 years)

It is clear from various reporting agencies (IEA and EIA) that the global oversupply of oil prevailing since 2014 (which caused the initial price crash) has largely been absorbed by a combination of increasing global oil demand, continued OPEC production restraints and modest price signal response from the US shale oil producers. OECD oil storage is now at, or slightly below the 5-year average. Venezuela's oil production is teetering on free-fall to below 1 million bpd, as International Oil and service companies mull their ongoing presence in the country. Withdrawal of these companies from Venezuela would severely curtail existing oil production and send the global oil supply-demand equation into deficit.

Low CAPEX spend by industry on fewer new production developments and low levels of global exploration activity/success will also play out on price over the coming years.

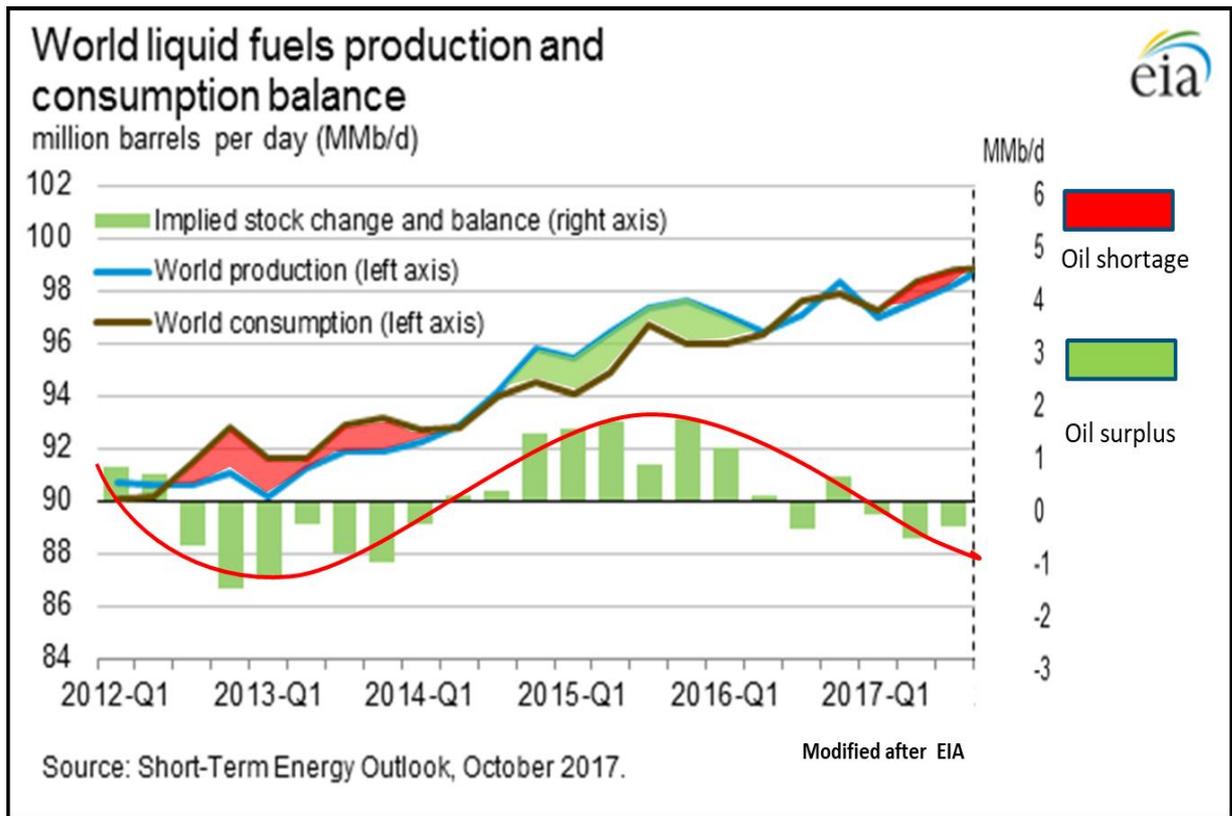


Figure 1: Global Liquid fuel production and consumption balance actual and forecast. Source EIA 2017

Also of note is that Saudi Arabia is to float (IPO) 5% of Saudi Aramco (the state owned oil company of Saudi Arabia). Clearly they will be wanting this float to occur at the most advantageous oil price (ie highest value for the Aramco stock) and so it is likely they will try to broker a deal with other OPEC cartel member countries to maintain the production restraints currently in place which will bolster the oil price through limitations on supply. The Venezuela situation may provide this by default.

LNG

The 4th Quarter results released in February 2018 by Shell highlight the global giant's bullish view on gas. Shell has signaled the end of the global LNG oversupply and is positioning itself to take full advantage of the strong global growth in gas demand over the next several decades. Gas is predicted to be the strongest growing fossil fuel globally, either through mandated fuel switching from bunker fuel to LNG in the maritime fleets in Europe, or through air quality fuel switching to gas from coal in Asia (led notably by China). In addition to environmentally related fuel switching, the US continues to reap the benefits of fracture stimulation and horizontal drilling technologies in the shale gas sector with continued low gas prices and the economic benefits of switching electricity generation to the lowest cost fuel, ie gas.

It is apparent that most commentators (as with the global oil price) are off the mark with LNG demand forecasts, as can be seen in the figure below, which identifies all of the LNG importing nations, together with predicted demand versus actual import tonnage for 2017. Clearly, China is the stand-out for the size of the error in percentage terms together with the gross tonnage of

LNG imported. Also of interest is the sheer number of countries now importing LNG as a fuel source to compliment piped gas and diversify their supply source (security of supply). Very few countries were accurately forecast for LNG demand on a consensus basis.

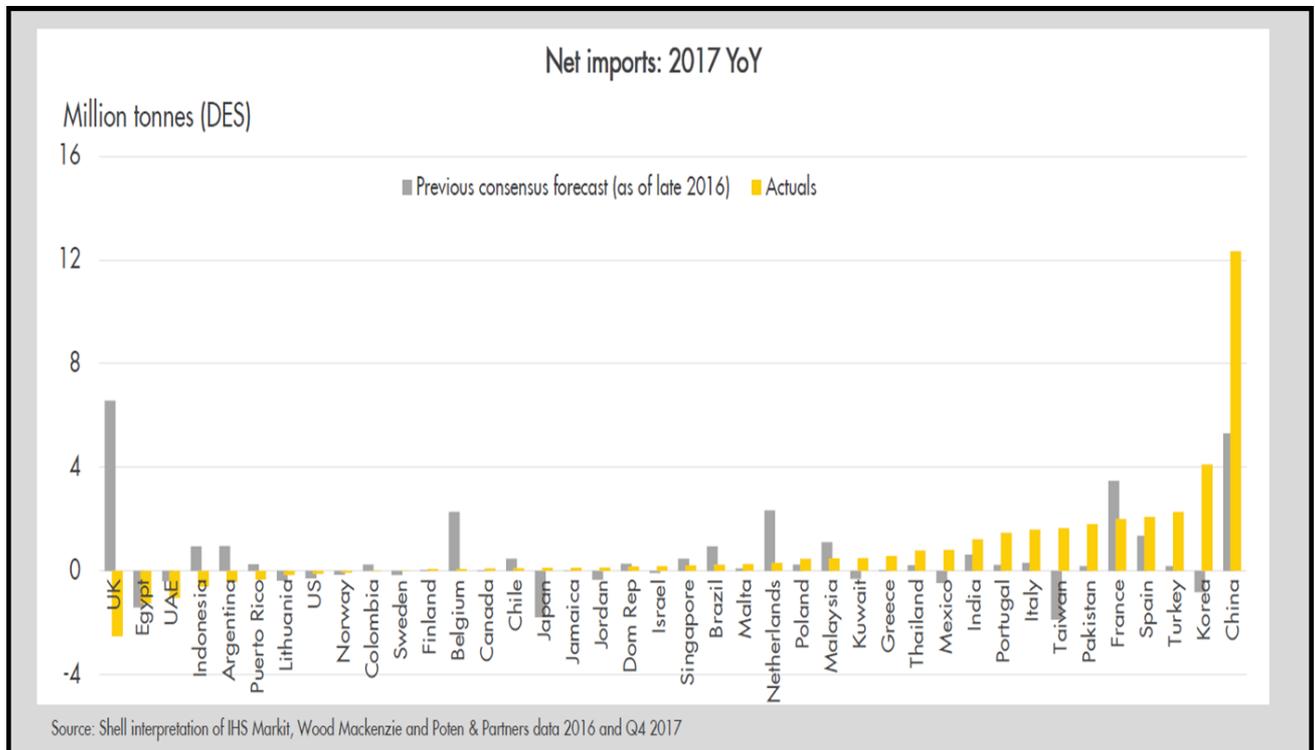


Figure 2: Net LNG Importing countries – Actual versus forecast 2017. Source: Shell LNG Outlook 2018 presentation

East Coast Australian Gas Market

Of most interest during the period was the Victorian Gas Planning Update in March 2018 from AEMO showing the gas production picture for the offshore Victorian gas fields. Consistent with our view - and the view of some industry consultancies - the Offshore Victorian Gas fields show serious production decline in the coming years which will lead to a tightening of supply to the domestic markets, and a forecast short-fall in gas supply by 2022. The ramifications of the Victorian government actively discouraging exploration for and the development of gas resources in the onshore basins, will begin to be realized in the coming years. It needs to be remembered that it takes time to re-start the exploration process, with success not assured. In all the studies and investigations by the relevant quasi-government bodies, this situation could have been identified and action taken to rectify it. Instead there has been willful blindness to the predicted supply crisis (and resultant price regime), which is only now beginning. When added to the deliberate crippling of the electricity grid, and high price of new and cleaner energy sources, manufacturers and retail customers are paying the highest electricity prices on the planet, and for a demonstrably unstable supply. Again, this could have been foreseen as a real scenario, by both sides of politics and the bureaucracy.

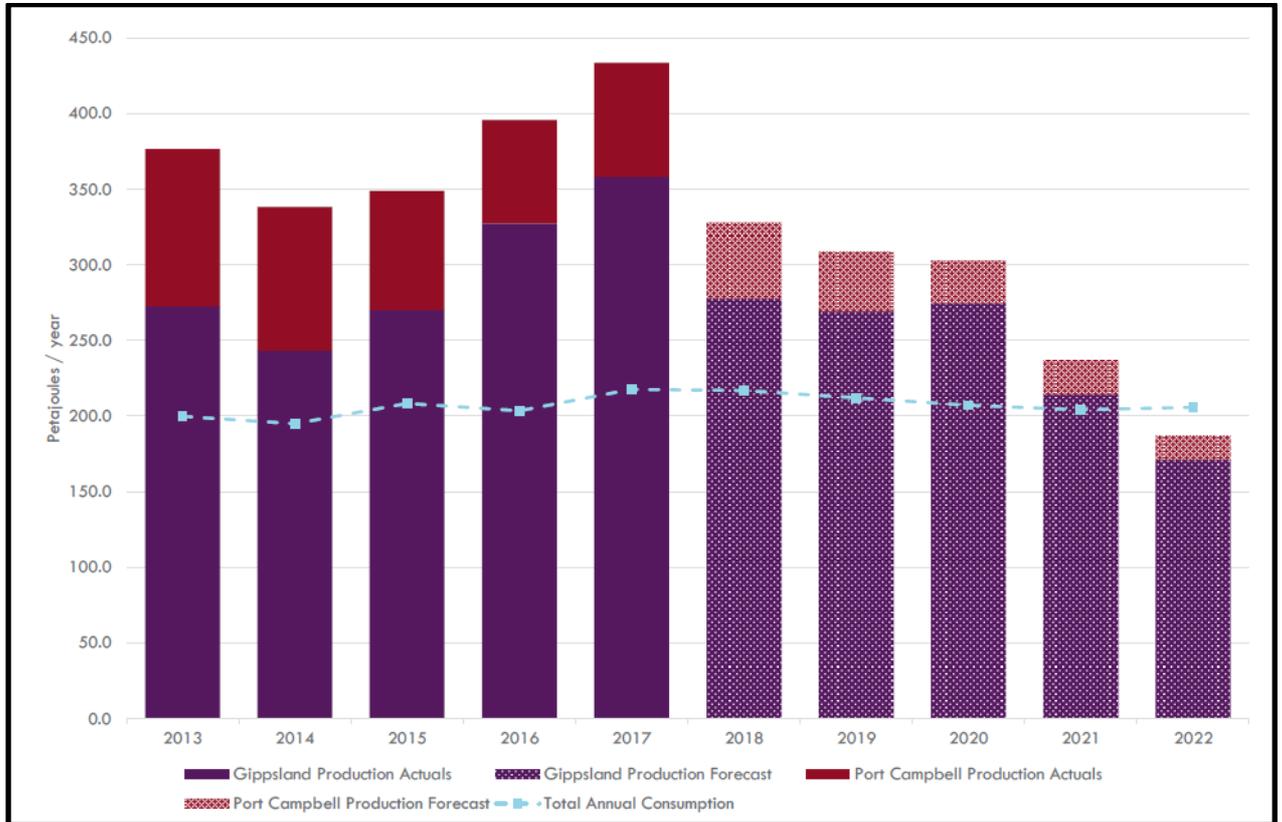


Figure 3: Victorian Gas supply and demand, both actual and forecast. Source AEMO March 2018

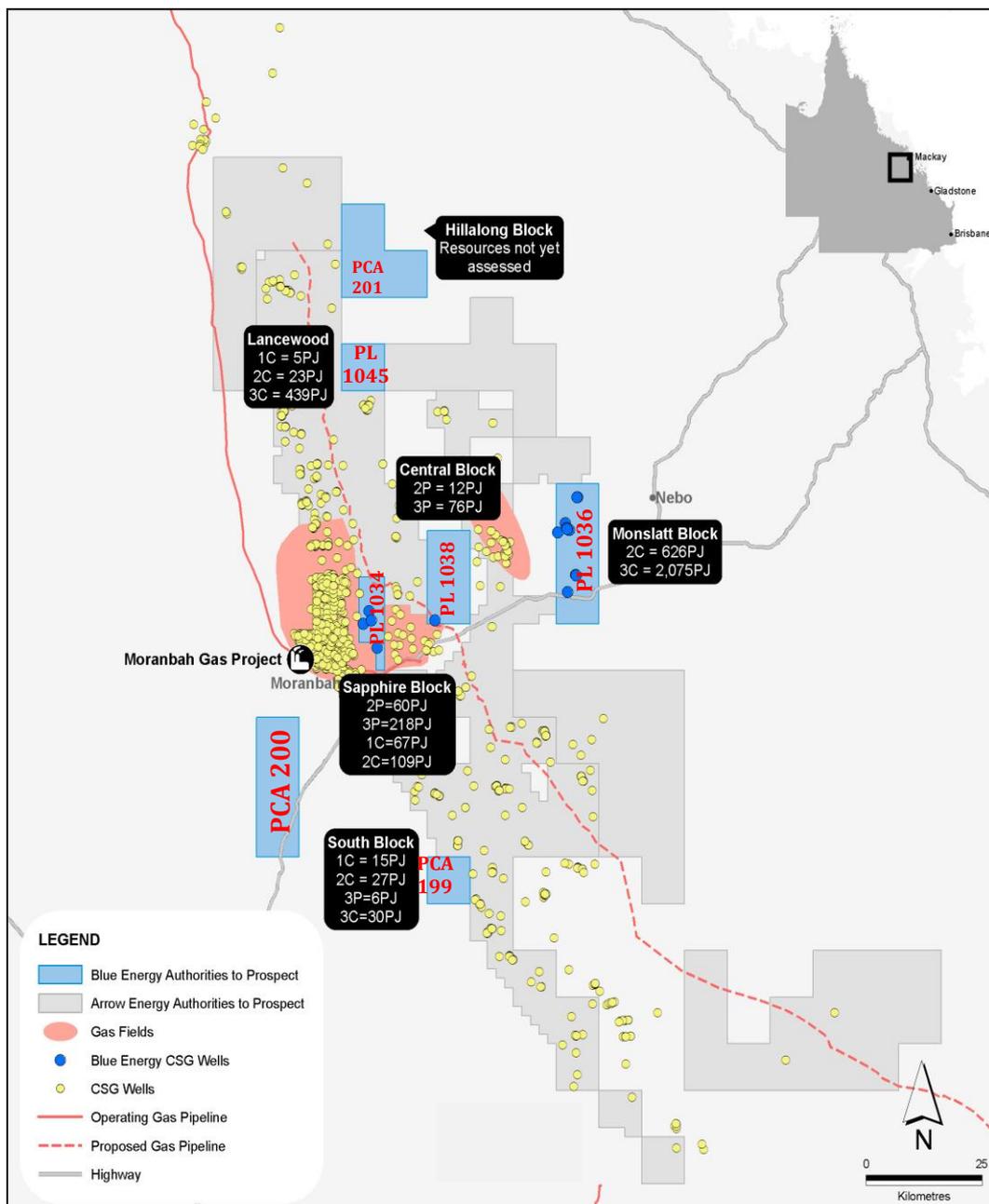
Proven Basins

Bowen Basin, Queensland

ATP814P (Blue Energy 100% and Operator)

The four Production Licence Applications lodged by Blue Energy with the Queensland Government require an upgraded environmental authority and a Native Title Agreement (to cover production activities) before being able to be granted. Activities are now on foot to plan for the required environmental studies to secure these new Environmental Authorities. With all the major Production Licence Applications now having been lodged, a combined approach to Native Title negotiations can be commenced. These activities will be undertaken in parallel with the ongoing commercial negotiations.

Figure 4: ATP814P Bowen Basin Queensland showing PL and PCA Applications



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)). 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.

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

Surat Basin, Queensland

ATP854P (Blue Energy 100% and Operator)

The Company’s discussions continue with several parties to commercialise the Company’s gas resources contained in ATP854P.

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 gas buyers.

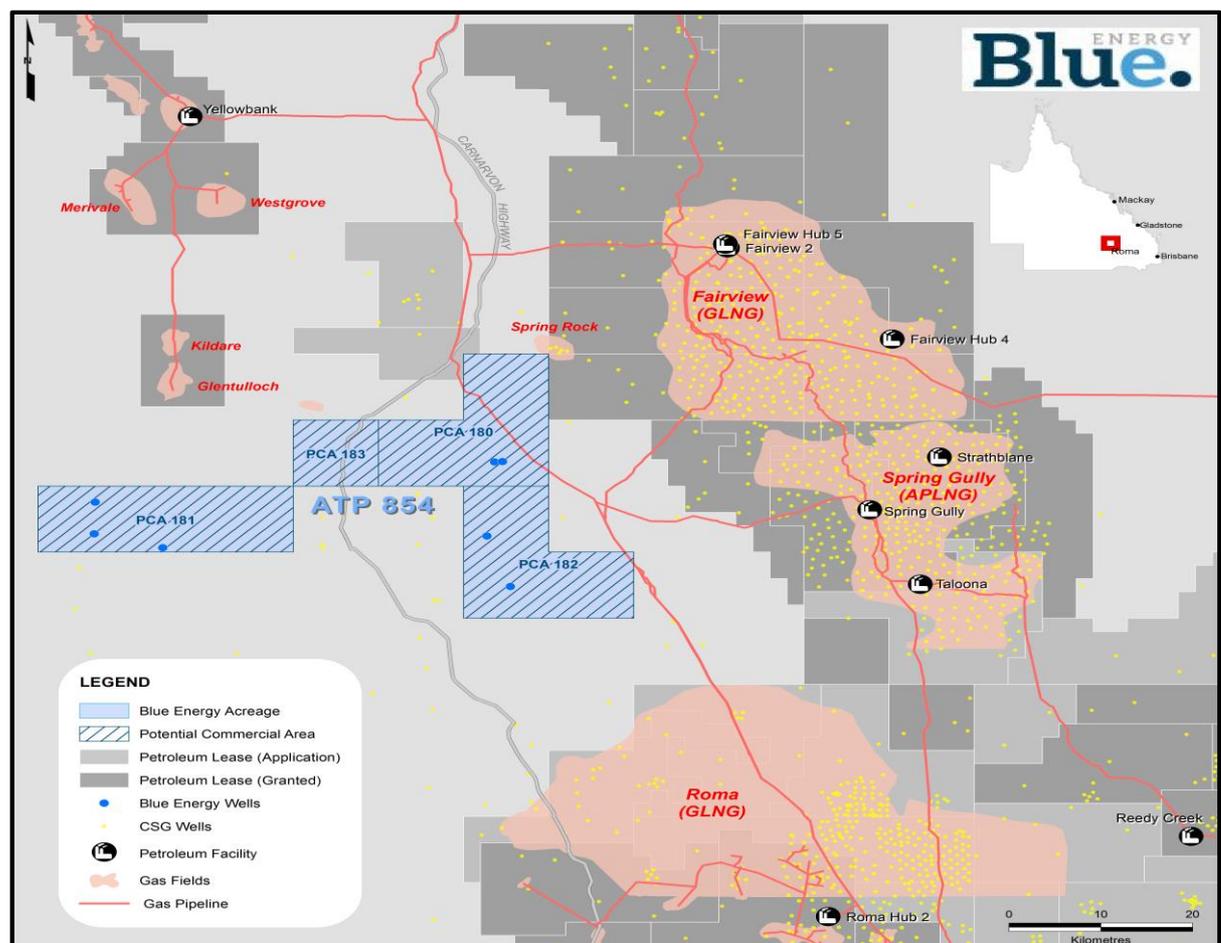


Figure 5: ATP854P Surat/Bowen Basin

Emerging Basins

Greater McArthur Basin

(various permits and equities levels - Blue Energy Operator)

As alluded to earlier in this report, the Scientific Inquiry into Hydraulic Fracture Stimulation in the Northern Territory delivered its final report to the NT Government in late February 2018. To its credit, the NT Government acted quickly in delivering its overarching response to the report by announcing it will lift the ban on fracture stimulation for shale gas activities in the Northern Territory. It also stated that it will adopt all 135 of the Inquiry's recommendations and that until the appropriate legislative changes are made to incorporate these recommendations, there will be no approvals granted for fracture stimulation operations in shale gas wells. Blue Energy – along with the rest of the industry - awaits the detail of these legislative changes which will no doubt add additional time and cost to the nation's petroleum industry.

Work programs for Blue Energy's permits in the NT remain suspended until February 2019, by which time there may be clarity on the legislative changes indicated by the NT Government.

CORPORATE

Cash Position

Cash on hand at 31 March 2018 was \$3.06 million.

As indicated to the market in January 2018, the Company raised \$2.015 million with a share placement (13,000,000 shares) to IFM Investors in early 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

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 and 19 March 2013. 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. 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%
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

Tables 2 and 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

Contact: + 61 7 3270 8800

John Phillips

Managing Director

Blue Energy Limited