BELL POTTER

Speculative

See key risks on page 18. Speculative securities may not be suitable for Retail clients.

3 May 2018

Analyst
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Blue Energy Ltd (BUL)

Gassed up and ready to go

Recommendation
Buy (Initiation)
Price
$0.125
Valuation
$0.29 (initiation)
Risk
Speculative

GICS Sector

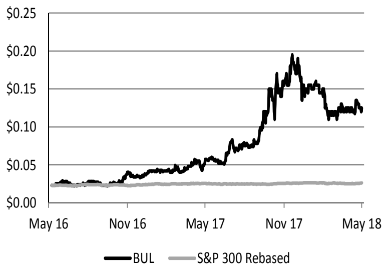
Energy

Expected Return	
Capital growth	**132%**
Dividend yield	**0%**
Total expected return	**132%**

Company Data & Ratios	
Enterprise value	**$141m**
Market cap	**$144m**
Issued capital	**1,154.9m**
Free float	**72%**
Avg. daily val. (52wk)	**$294,000**
12 month price range	**$0.051-$0.20**

	(1m)	(3m)	(12m)
Price (A$)	0.13	0.15	0.05
Absolute (%)	0.0	-13.8	155.1
Rel market (%)	-4.9	-13.7	152.7

Price Performance



East Coast of Australia gas thematic very compelling

There is very strong evidence from multiple respected sources all predicting that there is a growing gas shortage looming in the East Coast of Australia. This gas shortage is driven by demand continuing to grow while supply, such as from the traditionally major source of offshore gas in Victoria (the Gippsland Basin), continues to decline. Restrictive action by various State governments has exacerbated the gas supply situation, causing higher gas prices to prevail and at best there is only likely to be a slow supply response if those restrictive actions were removed. There has been a fall recently in East Coast gas prices in response to reduced uncertainty and additional domestic supply being made available by Queensland LNG producers, which has seen gas prices well off their 2017 peak of over $20/GJ and trading around $8 – 10/GJ. Current gas prices are still dramatically better than those prevailing only a few years back and, while they may stabilise around the current level for the next year or so, without significant additional supply by 2020, prices are likely to trend higher and be more volatile again. The East Coast of Australia gas thematic fits very much into the similar global energy picture and represents a very attractive opportunity for a company like BUL with a very experienced oil and gas management team that has defined a major gas inventory adjacent to established and growing gas markets.

Path to monetise large gas Reserves and Resources

BUL has a clear path to monetising its large gas Reserve and Resource base. The company's large gas inventory is contained within its tenement holdings that include highly strategic positions in several major gas fields and basins. In the Bowen Basin of Queensland, the company has a 100% interest and is Operator of ATP814P, which is located immediately to the east of the main feed gas supply for two of the LNG liquefaction plants (GLNG and APLNG) in Gladstone. BUL has defined significant gas Reserves (2P of 71 PJ, 3P of 298PJ) and Contingent Resources (3,011PJ) in the permit. While it has only identified a coal seam gas Resource in ATP854P in the Surat Basin, the area is prospective for conventional oil and gas in the Early Permian sediments. The company is currently seeking to market its gas to the domestic and LNG sectors and has made application to the relevant government body for award of Potential Commercial Areas within its tenements while it continues to work on multiple fronts to negotiate appropriate commercial outcomes for its extensive gas inventory.

Investment thesis – Speculative Buy, Valuation $0.29/shr

BUL has a very attractive combination of highly experienced gas industry executives with a large gas inventory of Proven Reserves and Contingent Resources in favourable locations within proven gas-bearing basins awaiting near term development of suitable pipelines and commercial arrangements plus some major exploration areas in emerging basins that are highly prospective for oil and gas deposits. This positions the company to benefit significantly from the attractive economics and expected outcomes of the compelling East Coast of Australia gas thematic. We have valued BUL's gas and related interests in Queensland and the Northern Territory at $0.29 per share on an equity diluted basis incorporating risk-weighted NPV-based analysis of its gas interests. We initiate coverage with a Speculative Buy recommendation.

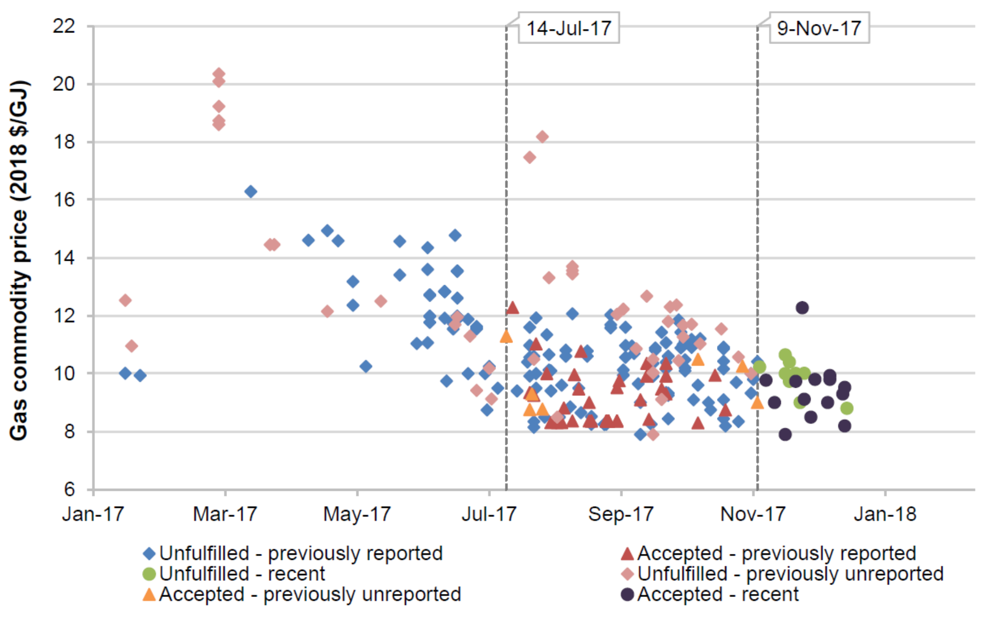
Contents

High East Coast of Australia gas prices

Growing gas shortage looming in Eastern Australia as global gas demand soars

There is very strong evidence from multiple respected sources all predicting that there is a growing gas shortage looming in the East Coast of Australia. This gas shortage is driven by demand continuing to grow while supply, such as from the traditionally major source of offshore gas in Victoria (the Gippsland Basin), continues to decline. Restrictive action by various State governments has exacerbated the gas supply situation, causing higher gas prices to prevail and at best there is only likely to be a slow supply response if those restrictive actions were removed. There has been a fall recently in East Coast gas prices in response to reduced uncertainty and additional domestic supply being made available by Queensland LNG producers, which has seen gas prices well off their 2017 peak of over $20/GJ and trading around $8 – 10/GJ. Current gas prices are still dramatically better, however, than those prevailing only a few years back and, while they may stabilise around the current level for the next year or so, without significant additional supply by 2020, prices are likely to trend higher and be more volatile again. The East Coast of Australia gas thematic fits very much into the similar global energy picture and represents a very attractive opportunity for a company like BUL with a very experienced oil and gas management team that has defined a major gas inventory adjacent to established and growing gas markets.

Figure 1 - Chart of East Coast of Australia gas prices for 2018 supply (A$/GJ)



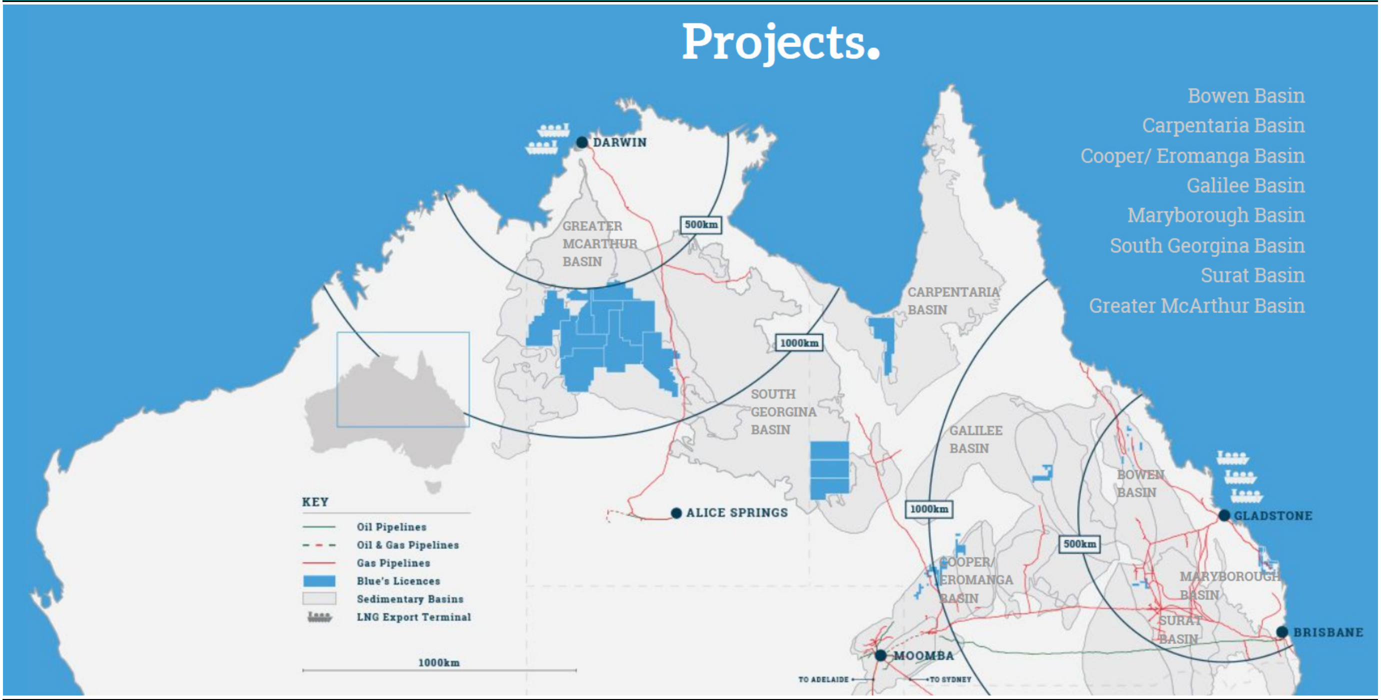
SOURCE: ACCC

NOTES: 1. PRICES ARE FOR GAS COMMODITY ONLY. ACTUAL PRICES PAID BY USERS MAY ALSO INCLUDE TRANSPORT AND RETAIL COST COMPONENTS;
2. OFFERS UP TO 14 JULY 2017 ARE FOR ANNUAL QUANTITIES OF A LEAST 1PJ; OFFERS AFTER THAT DATE ARE FOR ANNUAL QUANTITIES OF AT LEAST 0.5PJ

BUL's large gas inventory near to rising LNG demand

BUL is very well positioned to take advantage of the strong demand for gas in Eastern Australia with its very large gas inventory located near to LNG production at Gladstone in Queensland and to pipelines that access the Eastern Australian gas market (Figure 2 over page) as discussed in more detail later in this report (from page 7).

Figure 2 - Map showing location of BUL's projects and the Gladstone LNG production and export facilities



SOURCE: BLUE ENERGY LTD

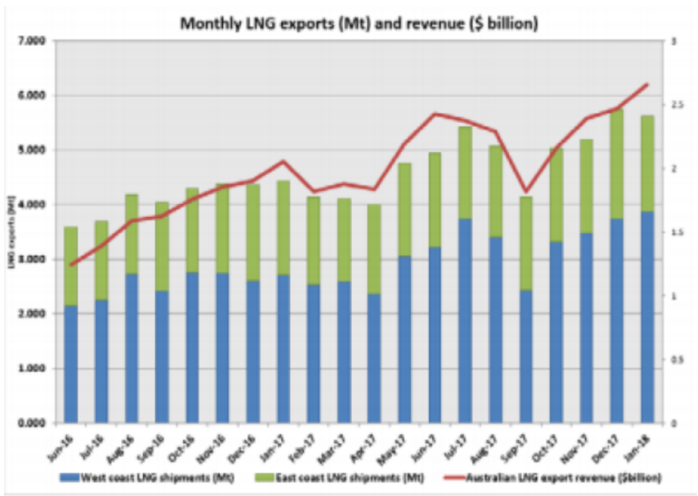
LNG exports keep rising strongly as Gladstone production continues to ramp up

The three LNG plants in Gladstone (Figure 2) continue to lift their output as they progress with their ramp-ups and strive to reach their nameplate capacities ahead of potential expansions to enable them to operate more efficiently and optimise returns from the huge capital investment to establish the plants. The current status of each of the Gladstone LNG plants is as follows:

- Australia Pacific LNG (ConnocoPhillips 37.5% and Operator; Origin Energy 37.5%; and Sinopec 25%): operates two LNG trains with total nameplate capacity of 9Mtpa. Operated at annualised rate of about 8.3Mtpa in March quarter after taking train 2 off line for maintenance during that time. Operated at annualised rate of 9.5Mtpa in December quarter.
- Gladstone LNG (Santos 30% and Operator; Petronas 27.5%; Total 27.5%; and Kogas 15%): operates two LNG trains with total nameplate capacity of 7.8Mtpa. Only limited production information available, which indicates the plant was producing well below nameplate capacity in the March quarter and possibly operated at annualised rate of only about 4.9Mtpa then after not having had access to additional high volume purchases of gas from QGC. Operated at much higher annualised rate of possibly around 6.2Mtpa in December quarter due to high volume QGC gas purchases. The plant produced about 4.6Mt of LNG in 2016.
- QC LNG (Shell 73.75% and Operator; CNOOC 25%; and Tokyo Gas 1.25%): operates two LNG trains with total nameplate capacity of 8.5Mtpa. Very limited information on the operation of the facility is available other than a major maintenance shutdown over three weeks was completed in October 2017, making it the largest such shutdown of a Gladstone LNG plant to date.

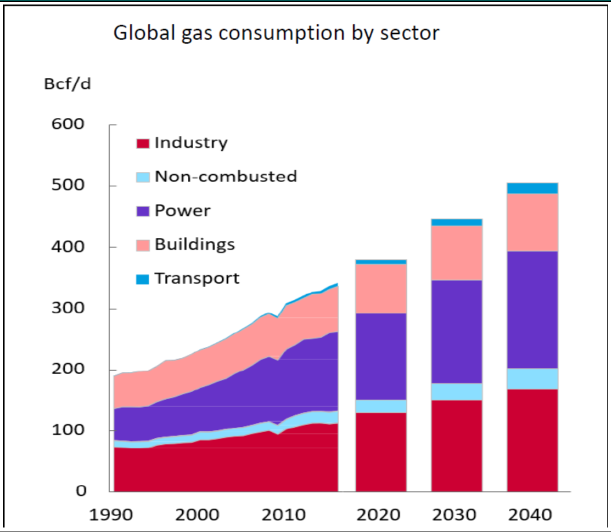
The growth in LNG production from Gladstone is a major factor behind the continued growth in Australia's LNG exports (Figure 3 over page). The growth in Australian LNG exports is an important part of the growth in global gas demand (Figure 4 over page).

Figure 3 - Australian LNG exports



SOURCE: AUSTRALIAN FINANCIAL REVIEW

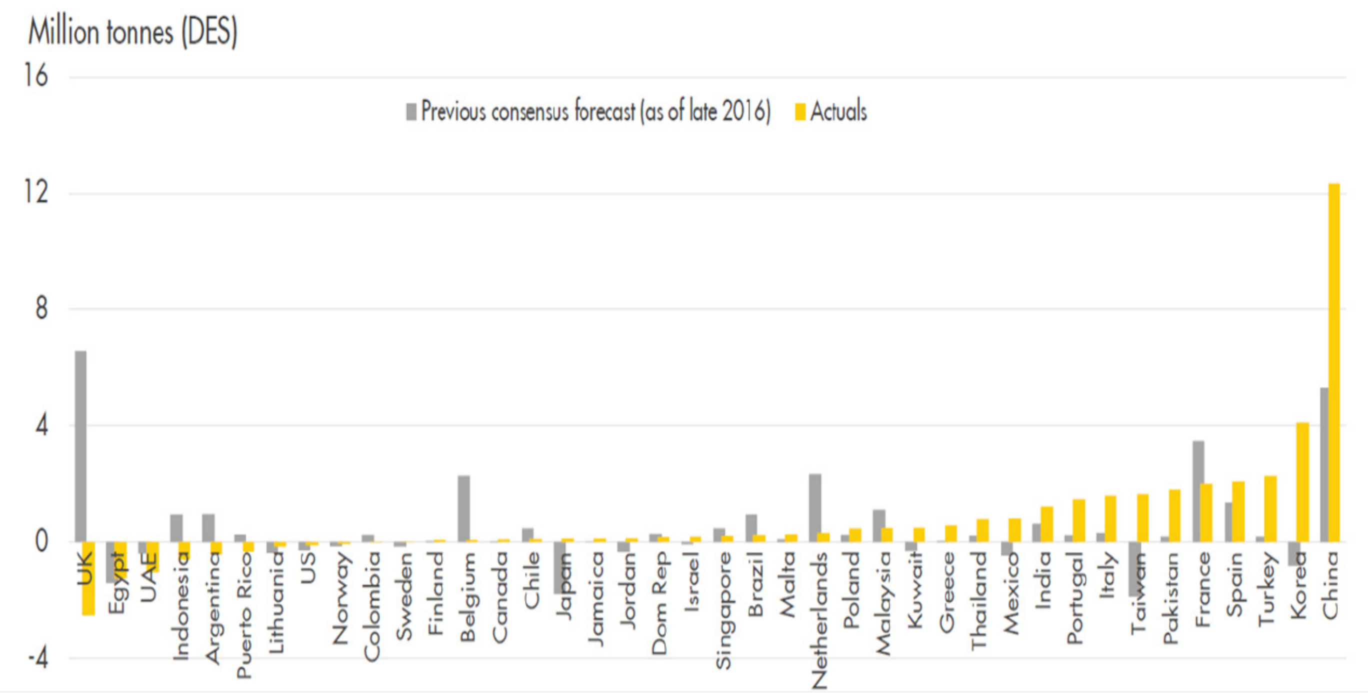
Figure 4 – Global gas consumption by sector



SOURCE: BP ENERGY OUTLOOK 2018

To meet their growing demand for gas, there is a growing number of countries importing LNG because they do not have any or significant domestic gas supplies. While there are now many such LNG importing countries, China dominates them in terms of the amount of LNG it imports (Figure 5), notwithstanding that it has significant domestic gas production, as China pushes on with its transition away from coal. China is planning to install significant additional LNG importing facilities for this process over the next decade or so.

Figure 5 – 2017 global net imports of LNG (Mt YoY)

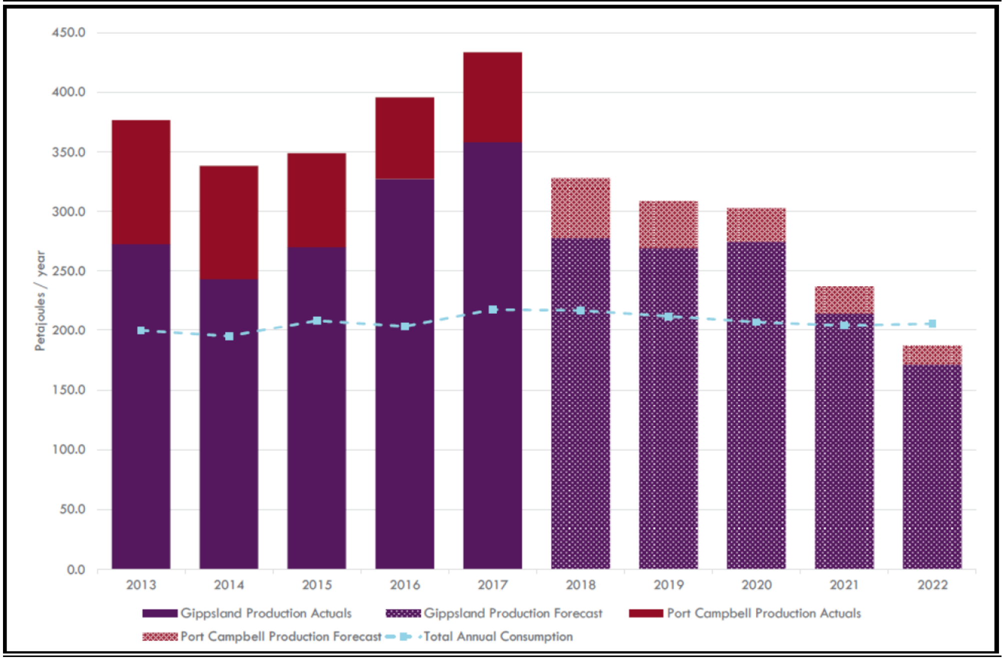


SOURCE: SHELL

Growing domestic gas demand in face of declining historic fields equals shortages

There is very strong evidence from multiple respected sources all predicting that there is a growing gas shortage looming in the East Coast of Australia. This gas shortage is driven by demand continuing to grow while supply, such as from the traditionally major source of offshore gas in Victoria (the Gippsland Basin), continues to decline (Figure 6). Restrictive action by various State governments has exacerbated the gas supply situation, causing higher gas prices to prevail and at best there is only likely to be a slow supply response if those restrictive actions were removed.

Figure 6 - Victorian gas supply and demand



SOURCE: AEMO

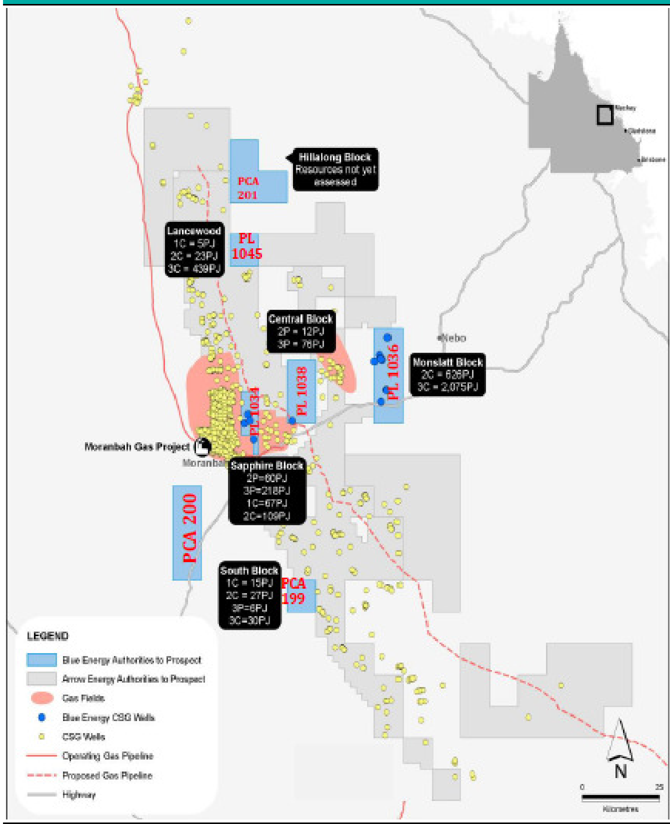
Large gas inventory on the LNG doorstep

Various gas projects with 100% ownership and Operatorship

BUL has mostly 100% interests and is the Operator of its various oil and gas projects in Queensland and the Northern Territory (Figure 2). Details of these interests are as follows:

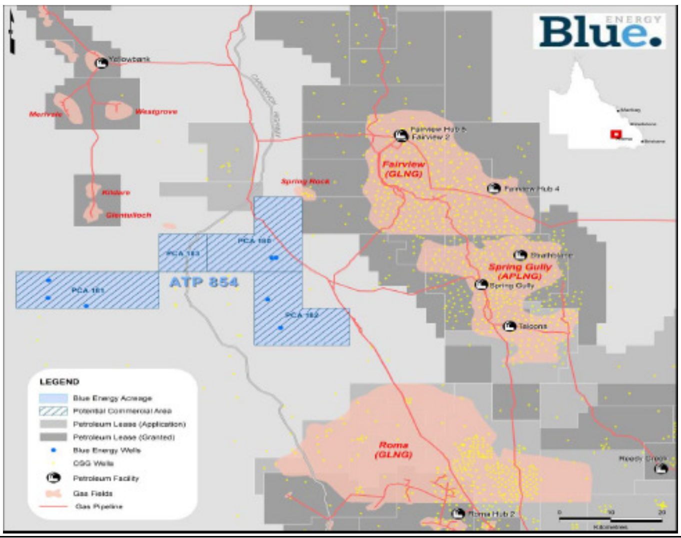
In the Bowen Basin of Queensland, BUL has a 100% interest and is Operator of ATP814P, which is located adjacent to the township of Moranbah and is surrounded by the Moranbah Gas Project (MGP) of Arrow Energy (a joint venture owned 50/50 by Shell and PetroChina), which currently supplies around 37 terajoules (TJ) per day of gas to local industrial applications such as ammonium nitrate manufacture in Moranbah and various industries and for power generation in Townsville. The company has identified significant Reserves and Contingent Resources of gas in the permit (2P Reserves of 71 petajoules (PJ); 3P reserves of 298PJ; and Contingent Resources of 3,011PJ). BUL is actively marketing the 2P Reserves in the Sapphire Block of ATP814P, which is in the closest proximity to the production facilities of the MGP (Figure 7). The company was previously targeting potential local gas users in and around Moranbah and Townsville but BUL has recently entered into a Memorandum of Understanding (MOU) with leading Australian natural gas pipeline operator, APA Group (APA) to investigate the feasibility of a gas export pipeline route from Moranbah to the Gladstone area, which would utilise APA's existing pipeline infrastructure and that would ultimately join the pipeline infrastructure connecting Gladstone and Wallumbilla. If such a pipeline were built, it would connect BUL's Reserves in the Bowen Gas Province to the southern domestic gas market as well as the export LNG facilities on Curtis Island. The company is currently in discussions with southern gas users regarding the potential purchase of its gas.

Figure 7 - Map of ATP814P and applications in the Bowen Basin



SOURCE: BLUE ENERGY LTD

Figure 8 – Map of ATP854P in the Surat Basin



SOURCE: BLUE ENERGY LTD

BUL has lodged four Production Licence Applications with the Queensland Government, which require an upgraded environmental authority and a Native Title Agreement (to cover production activities) before they can be granted. The company is currently planning for the required environmental studies to secure these new Environmental Authorities while commencing Native Title negotiations and continuing commercial negotiations.

In the Surat Basin of Queensland, the company has a 100% interest and is Operator of ATP854P, which is located immediately to the east of the main feed gas supply for two of the LNG liquefaction plants (GLNG and APLNG) in Gladstone (Figure 8 on previous page). Exploration by BUL has identified a Contingent Gas Resource of 101 PJ in Late Permian Bundana Formation coals. While the company has only identified a coal seam gas (csg) Resource to date, the area is prospective for conventional oil and gas in the Early Permian sediments. BUL is currently seeking to market its gas Resource to the domestic and LNG sectors and it has made application to the relevant government body for the award of Potential Commercial Areas within the tenement.

In the Galilee Basin of Queensland, BUL has a 100% interest and is Operator of ATP813P, which is located to the north of the township of Aramac where the company's activities have included five core holes into the Late Permian coal measures that are known to be prospective for csg and have resulted in definition of a Contingent Resource of 830PJ of gas. BUL continues to test the market for this gas as other operators are conducting pilot test wells to the west of the company's permit. Infrastructure in the area is yet to be developed but, if Adani's Carmichael Coal Project goes ahead, it could be a potential market for the gas.

In the Maryborough Basin of Queensland, BUL has a 100% interest and is Operator of ATP613P, 674P and 733P, which are located 150km south of the Gladstone LNG complex. The company believes the Maryborough Basin is significantly underexplored but contains significant potential to host substantial gas deposits. BUL is continuing to pursue tenure issues with the relevant Queensland government agency, which involves seeking a project-based consolidation of the three permits to allow flexibility in the work program and relinquishment obligations across the combined project area that would allow the company the ability to select the optimal geological locations for future activities and minimise duplication and surface impacts.

In the Cooper Basin of Queensland, BUL has a 100% interest and is Operator of ATP656P, 657P, 658P and 660P, which cover an area of 5,200km^2. The Ballera-Mt Isa gas pipeline goes through one of these permits (ATP657P) but there has been no exploration in the permits since the mid-1990s, when they were part of the areas required to be relinquished by the Delhi –Santos Joint Venture. Since then, the Cooper Basin "flank oil play" has developed beyond the original Jackson-Naccowlah trend in Queensland and is now well understood to occur on all margins of the Basin. Bridgeport Energy's Inland Oilfield highlights the validity of the Northern Margin oil play and it is immediately north of the company's ATP657P area. Other oil plays in the district include the Cuisinier Oil Field in the Murta Member, which is part of the Hutton and Namur Sandstones oil plays and is located immediately adjacent to BUL's ATP656P area; and the Santos-led Joint Venture has recently commenced a five well oil development and nearfield exploration program targeting the Murta and Hutton Sandstone targets.

In the Southern Georgina Basin of Queensland, BUL has a 100% interest and is Operator of ATP114A, 117A and 123A, which cover a very large area (approximately 22,788km^2) but awarding of the permits requires Native Title Agreements to be negotiated and Environmental Authorities to be issued by the Queensland Government.

In the Greater McArthur Basin of the Northern Territory (which is part of the Wiso Sub-Basin and Southern Georgina Basin), BUL is farming into and is Operator for a very large area encompassing nine permits. The potential of the McArthur Basin sequences is continuing to be established across a major part of the Northern Territory but recently Origin energy established a very significant gas resource in the Beetaloo Basin of up to 6TCF of gas from its Augee West No 1 well, which was fracced and tested the Proterozoic Mid Velkerri Formation in FY17. The Northern Territory Government has had a moratorium on fraccing while it held a Scientific Enquiry into hydraulic fracture stimulation in the Territory, targeting the "unconventional gas" sector. The Enquiry examined the scientific basis for fraccing and the social and economic impacts of the unconventional gas industry and in its recently issued report it concluded that provided all the recommendations in its report were adopted and implemented in their entirety, not only should the risks associated with an onshore shale gas industry be minimised to an acceptable level, in some instances they can be avoided altogether. It is now up to the Northern Territory Government to decide on its response to the Enquiry conclusions. In the meantime, the moratorium remains in place and the company has sought and been granted a suspension of the permits until such time as the Government gives direction to industry as to whether fraccing operations will be permitted and BUL's progress on Native Title negotiations in the application areas of the unawarded acreage remains stalled.

Large unconventional gas resource base

BUL has previously defined a large unconventional gas (in the form of csg) resource base at its projects in Queensland, principally in the Bowen Basin but also including the Galilee Basin. The Resources and Reserves Statement of the company's position was most recently updated in December 2015 (Table 1). None of BUL's Resource or Reserve Estimates (which have been prepared by leading international petroleum consultants, Netherland, Sewell and Associates Inc.) have been developed yet because of local market conditions. The Reserves are close to existing gas production but they require appropriate infrastructure and commercial gas sales arrangements to be brought to market.

Table 1 – Reserve and Resource Statement for BUL as at December 2015

Permit	Block	1C (PJ)		1P (PJ)		2C (PJ)		2P (PJ)		3C (PJ)		3P (PJ)	
		2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
ATP854P Bowen Basin Qld		22	22	-	-	47	47	-	-	101	101	-	-
ATP813P Galilee Basin Qld		-	-	-	-	61	61	-	-	830	830	-	-
ATP814P Bowen Basin Qld	Sapphire	66	66	-	-	108	108	59	59	186	186	216	216
	Central	50	50	-	-	99	99	12	12	306	306	75	75
	Monslatt	-	-	-	-	619	619	-	-	2,054	2,054	-	-
	Lancewood	5	5	-	-	23	23	-	-	435	435	1	1
	South	15	15	-	-	27	27	-	-	30	30	6	6
Total (PJ)		**158**	**158**	**-**	**-**	**984**	**984**	**71**	**71**	**3,942**	**3,942**	**298**	**298**
Total (bcf)		**158**	**158**	**-**	**-**	**984**	**984**	**71**	**71**	**3,942**	**3,942**	**298**	**298**

SOURCE: BLUE ENERGY LTD

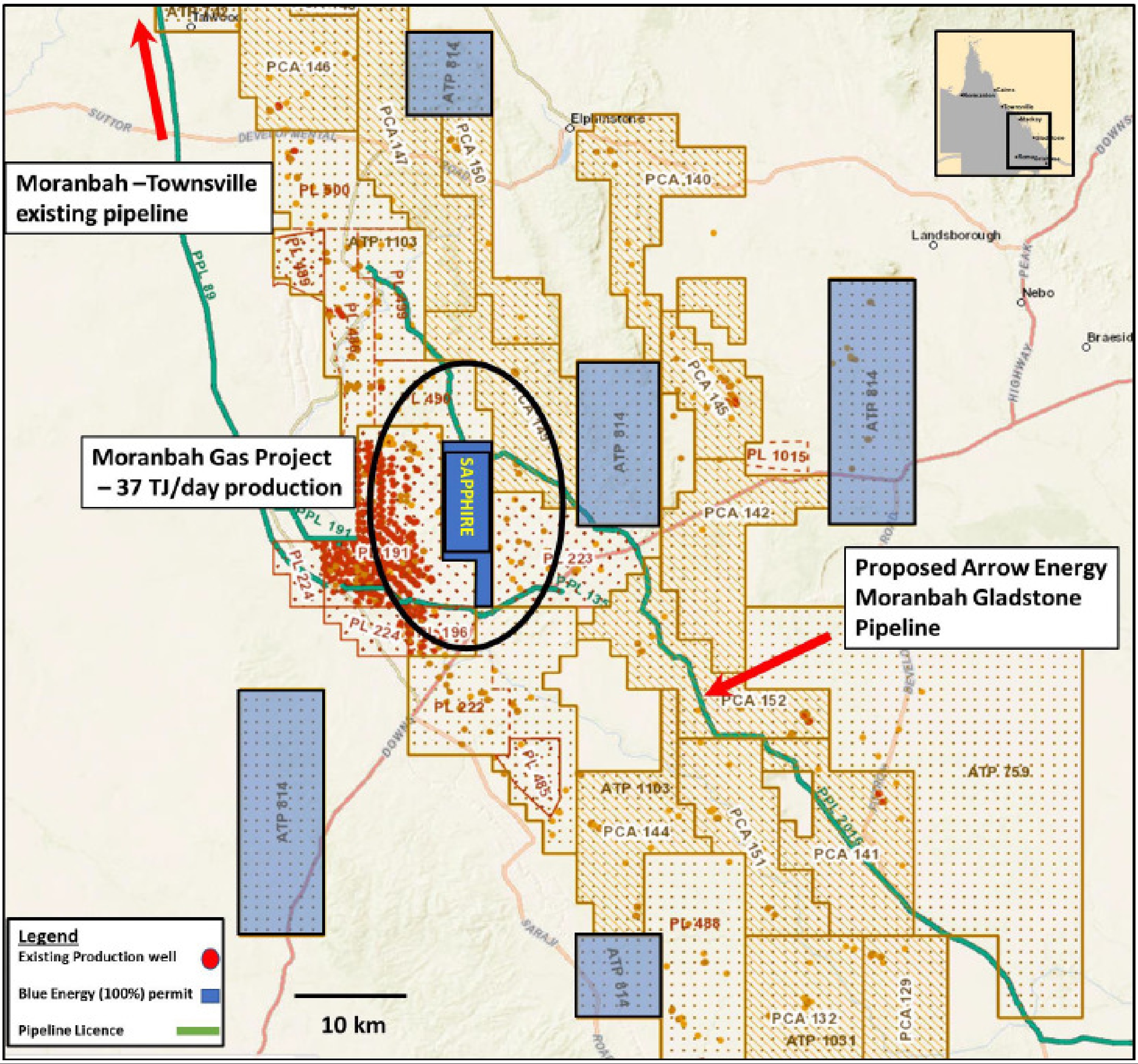
Arrow Energy's proposed Bowen Basin Gas Export Pipeline

The Queensland Government approved Arrow Energy's Bowen Basin Gas Export Pipeline Licence in May 2017, paving the way for the potential construction of the pipeline that will give potential gas buyers access to BUL's Bowen Basin gas Reserves and Resources. Construction of the proposed pipeline infrastructure will result in what has been identified as the "missing link" in the gas supply network on the East Coast of Australia being remedied. The proposed pipeline will link Moranbah to the existing major pipeline infrastructure at Gladstone. The company has defined very substantial Reserves and Resources in its ATP814P tenement in the Bowen Basin (Table 1), which would become available to potential customers in the southern gas markets, with BUL's gas volumes potentially playing an important role in alleviating the gas shortages in the manufacturing and domestic markets in Brisbane, Sydney and Melbourne. While BUL has pointed out previously that the proposed route of the Arrow Energy pipeline is different from the route BUL would have chosen, the net result of whatever route had chosen for the pipeline is the same in that the pipeline will deliver gas to the gas-starved southern markets.

New gas development plan lodged by BUL to unlock its Bowen Basin gas resources

BUL lodged a new gas development plan with the Queensland Government in June 2017 that aims to unlock the substantial gas Reserves and Resources identified by the company in its Bowen Basin permit, ATP814P and most particularly in the Sapphire Block in that permit (Figure 9). The Bowen Basin contains very substantial gas Resources, estimated at up to 11,000PJ. BUL believes that with construction of the proposed pipeline, the company could expand its gas reserves from its large Contingent Resource base of 3,011PJ. The Sapphire block is immediately adjacent to Arrow Energy's MGP, which currently supplies about 37TJ/day to local industrial applications such as ammonium nitrate manufacture in Moranbah and various industries and for power generation in Townsville.

Figure 9 – Map showing location of BUL's Sapphire block in its ATP814P permit in the Bowen Basin



SOURCE: BLUE ENERGY LTD

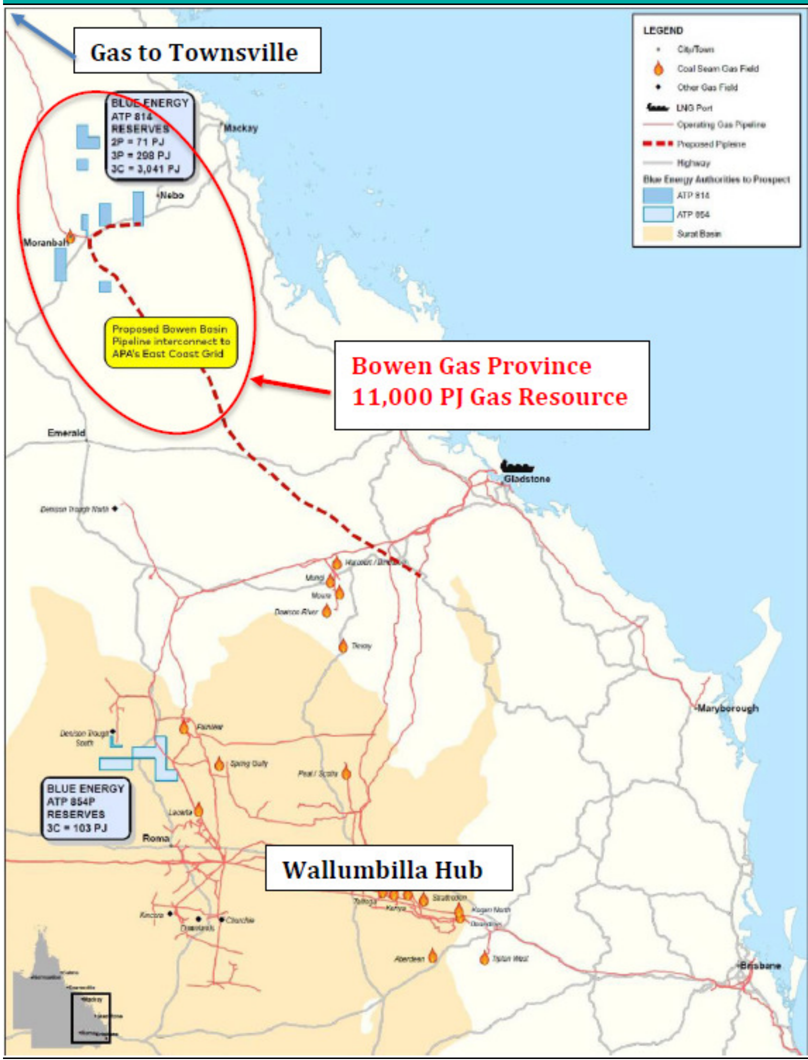
BUL's MOU with APA to access Bowen Basin gas pipeline

BUL executed an MOU with leading Australian gas pipeline infrastructure group, APA Group (APA) to negotiate a Gas Transportation Agreement for the delivery of BUL's Bowen Basin gas reserves to southern gas markets via a proposed pipeline (Figure 10). The MOU provides for the following:

- APA is to undertake a Feasibility Study on the pipeline
- APA is to select the Optimal Route for the pipeline
- APA has the option to build, own and operate all in-field infrastructure

The company expects that after further successful negotiation with APA, they would have detailed design and preferred route options along with detailed cost estimates, which would ultimately lead to construction of the new pipeline infrastructure that is needed to connect the Bowen Basin Gas Province to the southern Australian manufacturing and residential demand centres.

Figure 10 – Map showing proposed gas pipeline route from the Bowen Basin Gas Province to Gladstone

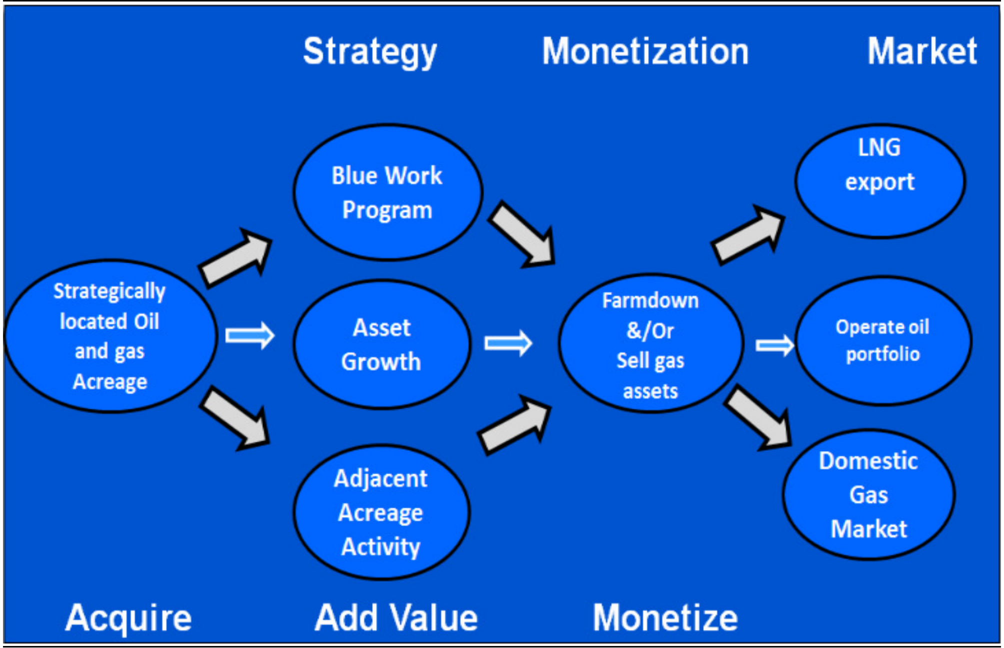


SOURCE: BLUE ENERGY LTD

Powerful strategic position to monetise large gas inventory

BUL's large and strategic gas inventory position puts the company in a powerful strategic position to influence regional gas development outcomes and to realise significant value from its gas and oil and gas interests in Northern Australia as depicted in Figure 11.

Figure 11 - Graphical depiction of BUL's strategy and corporate opportunities



SOURCE: BLUE ENERGY LTD

Price catalysts

We identify a number of potential price catalysts for BUL as follows:

- Arrow Energy moving to FID on the Moranbah Gas Project, which is expected to entail the building of a pipeline to Gladstone that would go through BUL's Sapphire Block and considerably enhance the value of it ;
- Constructive agreement to sell gas from Sapphire Block - With current 2P gas Reserves of 71PJ in the Sapphire Block of BUL's ATP814P tenement, which is immediately adjacent to Arrow Energy's MGP, a constructive gas sales agreement could see the company begin to monetise those Reserves;
- Positive Feasibility Study outcome for APA pipeline - APA is carrying out a Feasibility Study into the construction of a proposed gas pipeline linking Moranbah to existing Gladstone gas pipeline infrastructure. A positive feasibility Study outcome is expected to lead to development of the pipeline (for which APA has the option to build, own and operate) that will give gas from the Moranbah district within the Bowen Basin Gas Province access to Southern Australian gas markets and also to the LNG export infrastructure
- Successful upgrading of BUL's large gas Resources - BUL has large Contingent Resources in the Bowen Basin Gas Province (of 3,011PJ) that are currently given very little value by the market but successful upgrading of those Resources into Reserves would potentially add material value to the company;
- Exploration success for oil and gas in other tenements - There has been little or no modern exploration for oil and gas on some of BUL's extensive holdings in Queensland and the Northern Territory, despite the areas having considerable potential to contain deposits of gas and even oil. Successful exploration of these underexplored permits could realise significant value for the company.

Valuation of $0.29/share

Valuation reflects inherent value of large Resource base in extensive prospective areas

We have based our estimates of the value of BUL's gas Reserves and Resources on current in-ground values for the various categories of gas Reserves and Resources in recent Eastern Australian gas transactions to which we have applied various risk-weighted discounts to reflect the relative uncertainty of their ability to sustain economic gas production.

Our valuation of BUL is based on variably risk-weighted assessments of the in-ground valuations for gas in the various basins in which BUL has interests because of the uncertainty of development of its gas at this time. Our in-ground valuations are based on estimated NPV-related outcomes from modelled development outcomes. We have used a net blended average value basis by applying a discount factor of 50% to our in-ground valuation of $4.90/gigajoule (GJ) for the company's 2P Reserves in the Bowen Basin; a discount factor of 65% to our in-ground valuation of $1.90/GJ for the company's 3P Reserves in the Bowen Basin; and a discount factor of 85% to 95% to our in-ground valuation of $0.25 to $0.60/GJ for the company's 2C Resources in the Bowen Basin and Galilee Basin. We have made estimates of the valuation of the company's other oil and gas exploration areas in Queensland and the Northern Territory which do not have any established Resources to determine an overall valuation for the whole company (Table 3 over page). **Our valuations are fully diluted to include the options and the issue of additional shares equal to all the performance rights (37.7m) as described on page 15. We have also allowed for additional equity capital of $7.9m to be raised at the current share price over the next year or so as detailed in Table 2.** We have conservatively assumed that any FY18 raising will be done at the same share price as the current share price, even though we would actually expect that as BUL and its neighbours progress with gas development activities on its advanced projects (such as for the sale of gas from the Sapphire Block of ATP854P in the Surat Basin and for the development of Arrow Energy's proposed gas pipeline that could access gas from BUL's ATP814P tenement), the value of the company will be enhanced. A successfully de-risked project provides the potential for a higher share price over time.

Table 2 - Forecast additional equity to be raised in next year or so (June 2019)

Year to June	2019e
Net amount to be raised[1] ($m)	7.5
Share price assumed ($)	0.125
Number of shares to be issued (m)	63.2
Total number of shares on issue at year end (m)	1,218.1

SOURCE: BELL POTTER SECURITIES NOTE 1. AFTER CAPITAL RAISING COSTS

We have used risk adjusted discount factors ranging from 50% to 95% for the various Reserve and Resource components in our valuation of the company's gas exploration oil assets and a market-related estimate for the company's other petroleum assets to determine an overall valuation for the whole company (Table 3 over page). Our **valuations are fully diluted and include a component of additional equity assumed to be issued over the next year or so (Table 2)**.

Table 3 – Fully and equity diluted NPV-based valuations of BUL

	$m	$ per share[1,2]
Queensland – Bowen Basin	349	27
- Surat Basin	8	1
- Galilee Basin	13	1
- Other	7	1
Northern Territory	4	0
Total Exploration Assets	382	29
Corporate	(8)	(1)
Enterprise Value	**373**	**28**
Net cash[3]	13	1
Equity Value	**386**	**29**

SOURCE: BELL POTTER SECURITIES ESTIMATES

NOTES: 1. MAY NOT ADD BECAUSE OF ROUNDING AND DILUTION EFFECTS.
2. BASED ON FULLY EQUITY DILUTED SHARE CAPITAL OF 1,312.1M SHARES
3. CASH AS AT 31 MARCH 2018 PLUS OPTIONS EXERCISE AND ASSUMED EQUITY ISSUE

Capital Structure and major shareholders

Capital Structure

BUL currently has 1,154.9m shares on issue. There are also 41.2m options that expire on 30 June 2019 and require the market capitalisation to be $300m by that date (as extended following approval by the company's 2017 Annual General Meeting) and 52.7m share rights on issue which are held by executives of the company (Table 4).

Table 4 - BUL capital structure

Issued shares (m)	1,154.9
Share price ($/share)	**0.125**
Market cap ($m)	144.4
Net cash[1] ($m)	3.1
EV (undiluted) $m	**141.3**
Options (in the money) m	42.1
Issued shares (diluted) m	1,196.1
Market cap (diluted) $m	149.5
Net cash[1] + options $m	3.1
EV (diluted) $m	**146.5**

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES NOTE 1. BASED ON ESTIMATED CASH AT 31/3/2018

Major shareholders

BUL has four substantial shareholders, one of which is an investment fund. The largest shareholder (with a 9.6% interest) is an entity of the company's Executive Chairman, John Ellis-Flint with two of the other substantial shareholders being energy companies. In addition, the company's other directors and senior management hold a combined total of about 0.4% (Table 5).

Table 5 - Significant shareholders of BUL

Significant shareholders	million shares	% of total
Jeach Pty Ltd	111.1	9.6
Stanwell Corporation Ltd	87.4	7.6
Kogas Australia Pty Ltd	62.9	5.4
Greig & Harrison Pty Ltd	58.1	5.0
Other Directors and Management	4.7	0.4
Total substantial shareholders, directors and management	324.2	28.1
Other (free float)	830.7	71.9
Total	**1,154.9**	**100.0**

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES NOTE: TOTALS MAY NOT ADD DUE TO ROUNDING

Board and management

Directors

Mr John Ellice-Flint is Executive Chairman. John is an Australian-born businessman and Petroleum Geologist whose foresight and wide-ranging oil and gas industry credentials are recognised internationally. He joined the Board in April 2012. John has over 40 years of exploration, production, operations and commercial experience in the oil and gas industry and he has held many senior positions with multinational exploration and production companies, which has made him well-known and highly respected. After a 26-year international career with Unical Corporation, during which time he served in a variety of senior executive roles within strategic planning, exploration and technology functions, John became Managing Director and CEO of Australia's largest domestic gas producer, Santos Ltd, from 2000 to 2008 during which time he guided the company through a major growth period, which culminated with the recognition of the potential of coal seam gas development through the Gladstone LNG export project in Queensland.

Mr John Phillips is the Managing Director. John is a Petroleum Geologist with 30 years of experience in the oil and gas industry. He joined Blue Energy as Chief Operating officer in May 2009 and became CEO in April 2010 and joined the Board as Managing Director in June 2010. John has had extensive experience in conventional oil and gas and coal seam gas in a variety of petroleum basins domestically and internationally that has included extensive operational experience gained with Delhi Petroleum, Esso, ConocoPhillips, Petroz and Novus, culminating in his role as Chief Operating officer with Sunshine Gas before its acquisition by QGC and subsequently by the BG Group.

Ms Karen Johnson is a Non-Executive Director. Karen has held senior roles over the past 20 years specialising in audit, assurance, technical and corporate governance consulting and financial accounting engagements within chartered accounting firms, public sector entities and public companies. She joined the Board in September 2011. Karen has strong technical accounting skills through her knowledge and application of the Australian accounting and audit Standards and an ability to quickly grasp complex business operations and identify the key risk areas for analysis, risk assessment and critical evaluation.

Mr Rodney Cameron is a Non-Executive Director. Rodney has over 30 years of industry experience, particularly in the energy and resources industries. He joined the Board in November 2011 and is Deputy Chairman after having been a seasoned financial executive that included being CFO for a US multinational renewable energy company as well as an Executive Director and CFO for a US multinational independent power generation company. Rodney has also worked in various management capacities for National Australia Bank, Rio Tinto, Telstra, and Atlantic Richfield Inc.

Management

Mr Stephen Rogers is Company Secretary and In-house Counsel. Stephen is a solicitor with more than 30 years of experience in legal practice specialising in corporate law and governance. He was appointed to his position in March 2018 and brings to it more than 10 years of experience in roles as Company secretary for ASX-listed entities and he is presently Company Secretary for two other listed companies.

Blue Energy Limited (BUL)

Company Description

BUL is an oil and gas exploration and development company which is focussed on adding value to the company's portfolio of oil and gas interests. The company is continuing to build its Reserve base to 3Tcf whilst also seeking appropriate opportunities to add a liquids component to its portfolio within its acreage. BUL is currently seeking to realise value for its shareholders from the monetization of coal seam gas resources to the Eastern Australian gas market and in particular to meet the shortfall in supply for the new LNG operations in Queensland. The company holds prospective oil and gas acreage in eight petroleum basins in Queensland and the Northern Territory, being the Bowen, Carpentaria, Cooper/Eromanga, Galilee, Maryborough, South Georgina, Surat, and Greater McArthur Basins. BUL has defined total 2P Reserves of 71PJ; total 3P Reserves of 298PJ; and total 3C Resources of 3,942PJ of gas across seven of its Queensland tenements.

Investment thesis – Speculative Buy, valuation $0.29 per share (initiation)

BUL has a very attractive combination of highly experienced gas industry executives with a large gas inventory of Proven Reserves and Contingent Resources in favourable locations within proven gas-bearing basins awaiting near term development of suitable pipelines and commercial arrangements plus some major exploration areas in emerging basins that are highly prospective for oil and gas deposits. This positions the company to benefit significantly from the attractive economics and expected outcomes of the compelling East Coast of Australia gas thematic. We have valued BUL's gas and related interests in Queensland and the Northern Territory at $0.29 per share on an equity diluted basis incorporating risk-weighted NPV-based analysis of its gas interests. We initiate coverage with a Speculative Buy recommendation.

Valuation: Assessed at $0.29/sh with proven gas reserves ready for development

Our valuation of BUL is based on variably risk-weighted assessments of the in-ground valuations for gas in the various basins in which BUL has interests because of the uncertainty of development of its gas at this time. We have used a net blended average value basis by applying a discount factor of 50% to our in-ground valuation of $4.90/gigajoule (GJ) for the company's 2P Reserves in the Bowen Basin; a discount factor of 65% to our in-ground valuation of $1.90/GJ for the company's 3P Reserves in the Bowen Basin; and a discount factor of 85% to 95% to our in-ground valuation of $0.25 to $0.60/GJ for the company's 2C Resources in the Bowen Basin and Galilee Basin. We have made estimates of the valuation of the company's other oil and gas exploration areas in Queensland and the Northern Territory which do not have any established Resources to determine an overall valuation for the whole company

Risks of investment

The risks of investment include, but are not limited to:

- **Exploration and development success**: The pre-development stage of BUL's principal activities that may involve further appraisal and exploration means they still have significant risk. Even advanced prospects that have moved through the appraisal stage and are at the production stage remain high risk until actual steady state production has been achieved to effectively de-risk them.
- **Gas prices and exchange rate risk**: While domestic gas prices are denominated in Australian dollars and are largely determined by purely local economic conditions, domestic gas prices are also impacted by conditions in global LNG markets since a major proportion of Australia's gas production is exported as LNG. Global LNG pricing is affected by a variety of factors including world energy demand; global oil prices (because of the general linking of LNG pricing to world oil prices); and exchange rates, which are all affected by various economic and geopolitical factors that can make them volatile and liable to relatively sudden change. The gas prices and foreign exchange rates that apply to any of BUL's projects may be different from our forecasts.
- **Production risk:** In the unconventional coal seam gas provinces where BUL is active, early stage production can take a while to establish because there is little history to indicate how the gas behaves under a sustained production regime. Until reliable production data is established for a particular area, there is a risk that various aspects of production may adversely impact on commerciality.
- **Political risk:** While BUL only operates in the politically stable jurisdiction of Australia, there has been variable and inconsistent government and community support of unconventional gas exploration and production in some of the areas where the company has its operations. The company is subject to numerous stringent government regulations and approvals processes, which can result in extended delays and changes to originally agreed operating conditions from time to time, which can adversely affect the economic outcomes from BUL's projects.
- **Funding risk**: Until the company establishes economic gas production from its areas, it is reliant on access to adequate funding to enable it to continue its activities. By its nature, the exploration and development activities of BUL are expensive and the company needs to ensure that it has adequate funding to maintain its interests and is able to fund its share of what are sometimes more expensive exploration or development wells because of unexpected drilling, production testing or other complications in those activities.
- **Inappropriate acquisition risk:** The acquisition of other assets can divert management effort from the current focus and may yield inadequate returns.

Other significant risks include regulatory, environmental and commercial risks, which are typical for natural resource projects. These risks are also usually well understood and readily managed by the competent and well experienced operators of any joint ventures in which BUL is a participant, with BUL also providing input and advice as appropriate.

Recommendation structure

Buy: Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.

Hold: Expect total return between -5% and 15% on a 12 month view

Sell: Expect <-5% total return on a 12 month view

Speculative Investments are either start-up enterprises with nil or only prospective operations or recently commenced operations with only forecast cash flows, or companies that have commenced operations or have been in operation for some time but have only forecast cash flows and/or a stressed balance sheet.

Such investments may carry an exceptionally high level of capital risk and volatility of returns.

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