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FINANCIAL REPORT
For the half-year ended 31 DECEMBER 2016

INTERIM FINANCIAL REPORT

For the half-year ended 31 December 2016

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DIRECTORS' REPORT
For the half-year ended 31 December 2016

The Directors of Blue Energy Limited and its controlled entities ("the Company" or "Blue Energy") submit herewith their report on the financial statements of the Company for the half-year ended 31 December 2016.

DIRECTORS

The names of the Directors who held office during or since the end of the half-year and to the date of this report:

John Ellice-Flint (Chairman)	(Appointed 5 April 2012)
John Phillips	(Appointed 28 June 2010)
Karen Johnson	(Appointed 30 September 2011)
Rodney Cameron	(Appointed 15 November 2011)
Seungsoo Han	(Appointed 4 May 2016)
Insu Woo (Alternate Non Executive Director)	(Appointed 18 November 2015)

REVIEW OF OPERATIONS

As Blue Energy is subject to continuous disclosure rules, anything materially affecting the Company and its exploration assets has been disclosed to the market in the preceding 6 month period.

Reserve and Resource Position

There were no material changes to the Company's reserve and Resource position during the period. Blue Energy's Bowen Basin 2P and 3P Reserves are currently estimated (by the independent consultancy Netherland, Sewell and Associates) to be 71PJ and 298PJ respectively. The 3C Contingent Resource estimate is 3,942PJ.

Table 1

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

Competent Person Statement

The estimates of reserves and contingent resources have been provided by Mr John Hattner of Netherland, Sewell and Associates Inc (NSAI). 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 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 Society of Petroleum Engineers (SPE), utilising a deterministic methodology.

East Coast Gas Shortage

Recent media commentary suggests that the East Coast gas supply shortage is now becoming more widely understood. The Bowen Basin is a gas producing province with large reserves and resources. The Bowen Basin is the short term solution to the gas shortage, as it already contains significant discovered reserves (1P, 2P & 3P) and up to 10,000 PJ of recoverable gas resource (3C). It does however require a critical piece of pipeline infrastructure to be installed to deliver these reserves to the southern market.

Gas production from the basin into the Moranbah and Townsville markets commenced in 2005 and since that time the province has produced approximately 160 PJ of gas and at production rates as high as 40 Tj/day. Blue Energy currently has approximately 3,000 PJ of gas resource (estimated independently by Netherland Sewell and Associates) in the Bowen Basin around Moranbah.

DIRECTORS' REPORT

For the half-year ended 31 December 2016

The predicted fundamental changes to the dynamics of the East Coast Gas market are now very evident. What has traditionally been a buyers' market for gas has, in a matter of a few short years, transformed into a seller's market. These changes have been driven by a tripling of gas demand by the Curtis Island export LNG facilities. Whilst such demand growth in itself is not an insurmountable issue, the fact that the LNG proponents currently have insufficient deliverable gas molecules in the short and medium term from their own respective portfolios to supply all 6 LNG trains on Curtis Island, does have implications for the broader east coast gas market. As Blue Energy has been noting for some time now and as main stream media now acknowledges, third party gas is being drawn to Curtis Island from as far afield as the Cooper Basin and Victoria. This is impacting gas volumes that previously would have been available to the domestic gas market. The result is that those industrial gas users still seeking to secure more gas supply to maintain business continuity are exposed to a seller's market which is now only offering short term supply at a price which reflects limited supply (ie higher prices).

Those businesses reliant on gas as feedstock and did not lock in long term gas supply contracts several years ago, (at lower prices) are now at risk of not being able secure sufficient long term gas. However, aggregation of gas user long term demand and cooperation between explorer/producers and gas customers would revitalize the onshore gas sector and allow appropriate planning for the exploration and production sector to deliver gas to the market in a timely manner, which Governments could then assist with.

Domestic gas demand in 2017 is forecast to be 597 PJ (AEMO 2017). Shortfalls in developed producing reserves for the domestic market are anticipated to occur by early 2019 (AEMO 2017). Therefore, new drilling to prove up supply (ie establish more proved developed producing gas) to the existing market needs to be undertaken within the coming 18 months. To date there is no significant development drilling being undertaken specifically to meet the domestic shortfall. Should the forecasts for domestic gas demand prove to be inaccurate, the shortfall may well be considerably more than currently estimated. With lag time between identifying gas shortfall and bringing new gas production on to fill the gap lengthening, and as there is no significant storage capacity, the gas situation on the east coast is becoming critical.

The exponential demand growth for gas and the commensurate surge in the domestic gas price would ordinarily have sparked furious exploration activity to discover and develop more gas supplies and take advantage of the improved economics. However, exploration activity is at very low levels across the country courtesy of a combination of increased regulatory burden, Government bans on exploration, environmental activism, the world oil price and restricted capital availability.

As the ACCC found in its 2016 review of the East Coast Gas Market, the market needs more gas supply. Whilst gas pipeline regulation and gas transportation costs are an important issue, if there is no gas to fill the pipelines, the cost of transportation is a moot point. Governments are however not promoting the search for more gas and in some circumstances, are in fact outlawing onshore exploration (eg Victoria). Therefore, the process of discovery and development of new gas resources has been stalled, and will take considerable time to restart. Development of already discovered but undeveloped resources is the best mechanism to solve the gas shortage issue in the short term. This does however require cooperation from the Regulatory regime to fast track these potential developments.

Interestingly, there are now calls from Governments (notably those left in the dark from recent grid failures) for additional gas supply for electricity generation. This is belated recognition of the need for instantaneous backup power to cover the inherent flaws in current renewable electricity supply (which by its very nature is unreliable, intermittent and an asynchronous power supply). These calls have become louder and more urgent, as those in politics are beginning to understand that the supply of affordable, reliable and available electricity (energy) underpins this country's prosperity, its industry and the standard of living of its citizens. The supply of energy is indeed an essential service and affordable, available and reliable energy is the basis for the living standards that we enjoy, jobs and growth.

Bowen Basin

ATP814P (Blue Energy 100% and Operator)

This permit currently has certified 2P reserves of 71 PJ and 3P reserves of 298 PJ (as independently estimated by Netherland, Sewell and Associates Inc (NSAI)). It consists of 7 separate blocks, with the Sapphire Block holding the majority of the 2P and 3P reserves. There is also significant upside within the other constituent blocks comprising the Permit with a combined 3,011 PJ of Contingent Resources estimated by NSAI.

Blue Energy actively seeking to commercialise the gas held in this permit. Accordingly, the Company is in discussions with several potential buyers who are interested in securing gas supply. The parties include both existing gas users and new entrants. The volumes sought range from several PJ/annum to volumes that would see development of the Blue Energy's entire reserve base (currently 300 PJ of 3P reserves).

DIRECTORS' REPORT
For the half-year ended 31 December 2016

In addition to these activities, several different pipeline constructors are assessing the Bowen Basin pipeline proposition to connect Blue Energy's gas reserves to the southern market. Included in their deliberations will be the most cost efficient route, which may vary between companies, depending on their respective strategies and associated infrastructure. The need for a central Queensland gas pipeline spine (running north to south) is critical to connect gas supplies to all markets.

Blue Energy continues working toward completing a Field Development plan for the Sapphire Block which will enable the grant of a Production Licence.

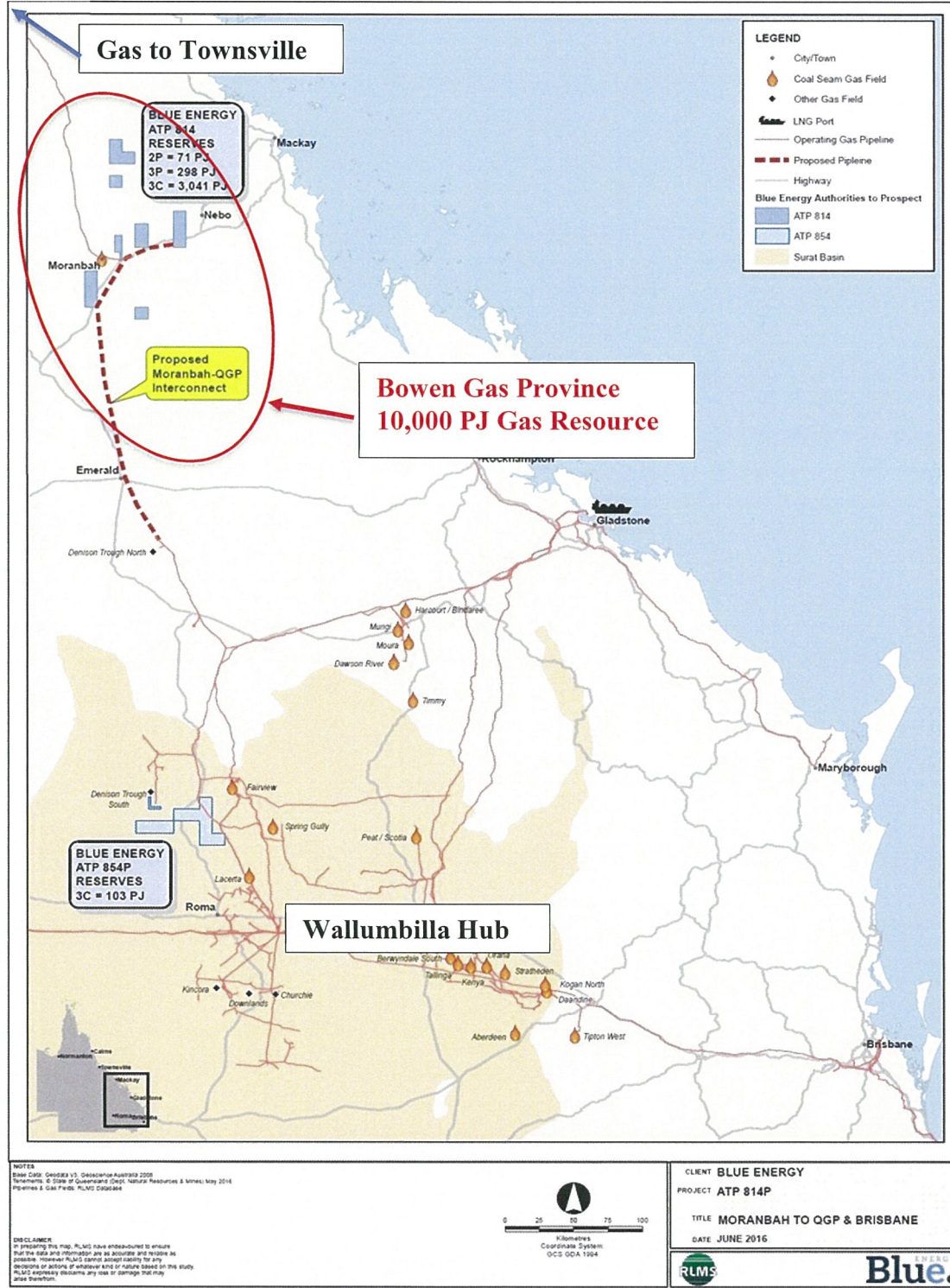


Figure 1. Location of ATP814P relative to the Arrow Energy Moranbah Gas Project area

DIRECTORS' REPORT
For the half-year ended 31 December 2016

Greater McArthur Basin

EP199A, 200, 205, 206A, 207, 208A, 209A, 210A, 211A Wiso Basin (Blue Energy Ltd farming in and Operator)

The effect of the Northern Territory (NT) moratorium on Hydraulic Fracture Stimulation has been to shut down exploration for gas and oil across the Territory. The terms of reference for the "Scientific Inquiry into Hydraulic Fracturing in the Northern Territory" have been fixed and panel members appointed. There is, however no set time limit for the panel to report its findings. Once the Review Panel completes its work and reports its findings to the NT Government, and the Chief Minister advises the Government's response to those findings, a better understanding of the merits of exploration in the NT will be evident. Blue Energy has sought and been granted a suspension of work program and expenditure on its tenements in the Greater MacArthur Basin, whilst the inquiry is under way.

CORPORATE

Financial Position

The net assets of the Company have decreased by \$706,000 from 30 June 2016 to 31 December 2016 to \$67,541,000. The decrease has largely resulted from the application of funds to evaluation and exploration expenditure and corporate and administration expenditure.

The Company posted a loss after income tax for the period of \$737,000 (31 December 2015: \$817,000). Cash expenditure on exploration and evaluation for the period was \$354,000 (31 December 2015: \$324,000).

Share & Option Issues

No Employee Incentive Rights or Options have been granted during the period to existing employees or Directors. 898,645 Ordinary Shares were issued on exercised Employee Incentive Rights, valued at \$55,854.

SUBSEQUENT EVENTS

Subsequent to 31 December 2016,

There have not been any other matters or circumstances, other than that referred to above and in the financial statements or notes thereto, that has arisen since the end of the half-year, that has significantly affected, or may significantly affect, the operations of the Company, the results of those operations, or the state of affairs of the consolidated entity in future financial periods.

AUDITOR'S DECLARATION

The auditor's independence declaration under section 307C of the Corporations Act 2001, for the half-year ended 31 December 2016, is set out on page 6.

This report is signed in accordance with a resolution of the Board of Directors.



John Phillips
Director

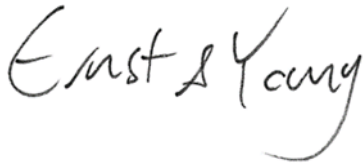
Dated this 14th day of March 2017
Brisbane, Queensland

Auditor's Independence Declaration to the Directors of Blue Energy Limited

As lead auditor for the review of Blue Energy Limited for the half-year ended 31 December 2016, I declare to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Blue Energy Limited and the entities it controlled during the financial period.



Ernst & Young



Tom du Preez
Partner
14 March 2017

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the half-year ended 31 December 2016

	Note	31 Dec 2016 \$'000	31 Dec 2015 \$'000
Financial income	2	45	85
Other income	2	16	14
Total income		61	99
Operating and administration expenses	3a	(768)	(853)
Asset impairment reversal/(expense)	3b	-	(47)
Options expense		(30)	(16)
(Loss) before income tax		(737)	(817)
Income tax benefit		-	-
(Loss) for the half-year attributable to the owners of the parent		(737)	(817)
Other comprehensive income		-	-
Total comprehensive (loss) for the half-year attributable to the owners of the parent		(737)	(817)
Earnings per share (cents per share):			
- basic		(0.06)	(0.07)
- diluted		(0.06)	(0.07)

The above Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

For the half-year ended 31 December 2016

		31 Dec 2016	30 June 2016
	Note	\$'000	\$'000
ASSETS			
Current Assets			
Cash and cash equivalents	10	3,414	4,595
Trade and other receivables		84	62
Inventories		82	82
Total Current Assets		3,580	4,739
Non-Current Assets			
Property, plant and equipment		36	51
Trade and other receivables		169	169
Exploration and evaluation expenditure	4	64,760	64,412
Total Non-Current Assets		64,965	64,632
TOTAL ASSETS		68,545	69,371
LIABILITIES			
Current Liabilities			
Trade and other payables		234	369
Provisions		18	-
Total Current Liabilities		252	369
Non-Current Liabilities			
Provisions		752	755
Total Non-Current Liabilities		752	755
TOTAL LIABILITIES		1,004	1,124
NET ASSETS		67,541	68,247
EQUITY			
Issued capital	5	130,767	130,711
Reserves		9,629	9,655
Accumulated losses		(72,854)	(72,119)
TOTAL EQUITY		67,541	68,247

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the half-year ended 31 December 2016

	Issued Capital \$'000	Accumulated losses \$'000	Reserves \$'000	Total \$'000
Balance at 1 July 2015	130,631	(70,411)	9,455	69,675
Total comprehensive loss				
(Loss) for the half-year	-	(817)	-	(817)
Total comprehensive loss for the half-year	-	(817)	-	(817)
Transaction with owners in their capacity as owners				
Share-based payments	-	-	16	16
Total transactions with owners	-	-	16	16
Balance at 31 December 2015	130,631	(71,228)	9,471	68,874
Balance at 1 July 2016	130,711	(72,117)	9,655	68,248
Total comprehensive loss				
(Loss) for the half-year	-	(737)	-	(737)
Total comprehensive loss for the half-year	-	(737)	-	(737)
Transaction with owners in their capacity as owners				
Transfer from options reserve to share capital	56	-	(56)	0
Share-based payments	-	-	30	30
Total transactions with owners	56	-	(26)	30
Balance at 31 December 2016	130,767	(72,854)	9,629	67,541

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the half-year ended 31 December 2016

	Note	31 Dec 2016 \$'000	31 Dec 2015 \$'000
Cash flows from operating activities			
Receipts of refunds for GST		44	56
Payments to suppliers and employees		(933)	(797)
Interest received		46	83
Receipt of R&D Refund		-	1,837
Net cash used in operating activities		(843)	1,179
Cash flows from investing activities			
Funds provided for exploration and evaluation		(354)	(324)
Proceeds from disposal of property, plant and equipment		16	15
Net cash used in investing activities		(338)	(309)
Cash flows from financing activities			
Proceeds from share issue		-	-
Capital raising costs		-	-
Net cash flows provided by financing activities		-	-
Net increase / (decrease) in cash and cash equivalents held		(1,181)	870
Cash and cash equivalents at beginning of half-year		4,595	4,745
Cash and cash equivalents at end of half-year	10	3,414	5,615

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS

For the half-year ended 31 December 2016

1. BASIS OF PREPARATION

The half-year consolidated financial report is a general purpose financial report prepared in accordance with the requirements of the Corporations Act 2001 and Australian Accounting Standards AASB 134: Interim Financial Reporting.

It is recommended that this financial report be read in conjunction with the annual financial report for the year ended 30 June 2016 and any public announcements made by the Company and its controlled entities, during the half-year, in accordance with the continuous disclosure requirements arising under the Corporations Act 2001.

The Company and its controlled entities is of a kind referred to in Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/91, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the Directors' Report and Financial Report. Amounts are rounded off to the nearest thousand dollars.

The half-year report does not include full disclosures of the type normally included in annual financial statements.

The half-year consolidated financial report was authorised for issue by the Board of Directors on 14 March 2017.

Reporting Basis and Conventions

The interim financial report has been prepared on an accruals basis and is based on historical cost modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied.

New standards, interpretations and amendments thereof, adopted by Blue Energy

The accounting policies adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the financial report for the financial year ended 30 June 2016.

The Group has not adopted any standards, interpretations or amendments since the 30 June 2016 annual financial statements that have a material impact on the Group.

Going concern

As the Company's assets are in the exploration and evaluation phase, Blue Energy Limited is currently non-revenue generating. As such, a major focus of the Board and management is on ongoing cash flow forecasting and management of cash flows to ensure that the Company has sufficient funds to cover its planned activities and any ongoing obligations.

At 31 December 2016, the Company had \$3.4 million in cash and cash equivalents. The Board is satisfied that the Company's current cash resources and return from cash investments are sufficient to fund the Company's minimum expenditure commitments for a period of at least 12 months from the date of signing this report.

However, the Company's cash and cash equivalents at 31 December 2016 are not sufficient for it to meet its full exploration expenditure commitments for its various tenements prior to the tenure lapsing or facilitate an expanded exploration program should the Company elect to do so. This being the case, the Company is:

- a) Negotiating with government on revised work programs and extensions of tenure;
- b) Considering Joint Venture partners to enable it to meet required exploration commitments, in exchange for an interest in the tenements, and
- c) Considering other alternative funding options including equity funding options.

In addition to the close management of cash inflows, the Company has significant ability to slow or defer spending on its major activities to ensure it is able to meet its obligations when they fall due, including deferring expenditure on the planned exploration program for the 2017 financial year.

On the basis of the above, the Directors are of the opinion the Company has sufficient funds to meet its debts as and when they fall due and realise its assets and settle its liabilities in the ordinary course of business. Accordingly, the financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities may be necessary should the Company be unsuccessful in renegotiating or deferring its exploration expenditure commitments, attracting joint venture partners the Company's exploration expenditure commitments and/or raising additional capital.

NOTES TO THE FINANCIAL STATEMENTS

For the half-year ended 31 December 2016

2. INCOME

	31 Dec 2016	31 Dec 2015
	\$'000	\$'000
<hr/>		
Financial income		
Interest received	45	85
	<hr/> 45	<hr/> 85
Other income		
Gain on sale of property, plant and equipment	16	14
	<hr/> 16	<hr/> 14
Total Revenue	<hr/> 61	<hr/> 99

3. PROFIT/(LOSS) FOR THE HALF YEAR

	31 Dec 2016	31 Dec 2015
	\$'000	\$'000
<hr/>		
(a) Operating and administration expenses		
Employee benefit expenses	240	194
Superannuation	37	40
Legal fees and settlements	110	105
Consultants fees	16	5
Business development costs	-	115
Depreciation expense	15	1
Travel costs	23	28
Directors' fees	60	60
Accounting and compliance fees	122	105
Occupancy costs	96	95
Insurance costs	22	23
Information systems costs	19	42
Communications costs	14	13
Investor relations costs	11	7
Other	(17)	20
	<hr/> 768	<hr/> 853
(b) Asset impairment (reversal)/expense		
Adjustment to provisions for rehabilitation and inventory write-down	-	47
	<hr/> -	<hr/> 47

NOTES TO THE FINANCIAL STATEMENTS

For the half-year ended 31 December 2016

4. EXPLORATION AND EVALUATION EXPENDITURE

	31 Dec 2016	30 June 2016
	\$'000	\$'000
Exploration and evaluation expenditure acquired and recognised on consolidation	13,648	13,648
Other exploration and evaluation expenditure	77,162	76,814
Restoration asset	742	742
Impairment of exploration and evaluation expenditure asset	(26,792)	(26,792)
Total exploration and evaluation expenditure brought to account	<u>64,760</u>	<u>64,412</u>

5. ISSUED CAPITAL

	31 Dec 2016		30 June 2016	
	Shares	\$'000	Shares	\$'000
Ordinary shares:				
Issued and fully paid	<u>1,141,891,882</u>	<u>130,767</u>	1,140,993,237	130,631
Movements in ordinary shares on issue:				
Opening balance	1,140,993,237	130,711	1,140,993,237	130,530
Issued shares on exercise of rights	<u>898,645</u>	<u>56</u>	-	-
Closing balance	<u>1,141,891,882</u>	<u>130,767</u>	1,140,993,237	130,631

6. SEGMENT INFORMATION

The Company operates in a single operating segment, being the oil and gas exploration industry. The Company's activity is carried out in a single geographical segment, being Australia.

7. CONTINGENT LIABILITIES

The Directors are not aware of any contingent liabilities or contingent assets at 31 December 2016, which are not otherwise disclosed in this report.

8. SUBSEQUENT EVENTS

Subsequent to 31 December 2016, there have not been any other matters or circumstances, other than that referred to above and in the financial statements or notes thereto, that has arisen since the end of the half-year, that has significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial periods.

9. DIVIDEND PAID OR PROVIDED FOR ON ORDINARY SHARES

There was no dividend paid or provided for at the reporting date (31 December 2015: \$nil).

10. CASH AND CASH EQUIVALENTS

Included in cash and cash equivalents are bank guarantees totaling \$505,404 relating to financial assurances for ATPs.

11. FINANCIAL INSTRUMENTS

The financial assets and liabilities consist of trade and other receivables and trade and other payables. The financial assets and liabilities are carried at amortised cost, the carrying value is assumed to approximate their fair value.

INTERIM FINANCIAL REPORT
For the half-year ended 31 December 2016

DIRECTORS' DECLARATION

The directors of the Company declare that:

- (1) The financial statements and notes, as set out on pages 6 to 12, are in accordance with the Corporations Act 2001;
 - (a) comply with Accounting Standards and
 - (b) give a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the half-year ended on that date.
- (2) In the directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.



John Phillips
Director

Dated 14 March 2017

To the members of Blue Energy Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Blue Energy Limited, which comprises the condensed statement of financial position as at 31 December 2016, the condensed statement of comprehensive income, condensed statement of changes in equity and condensed statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Blue Energy Limited and the entities it controlled during the half-year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the Directors' Report.

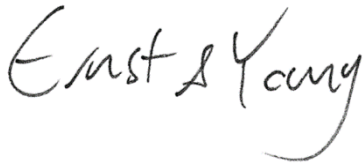
Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Blue Energy Limited is not in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the half-year ended on that date; and
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Emphasis of Matter

Without qualifying our conclusion, we draw attention to Note 1 in the financial report which describes the principal conditions associated the entity's ability to meet its exploration and evaluation commitments with its existing cash reserves and as a result uncertainty regarding the entity's ability to continue as a going concern. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the company and the consolidated group's ability to continue as a going concern and therefore, the company and consolidated group may be unable to realise its assets and discharge its liabilities in the normal course of business. The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the company and/or the consolidated entity not continue as a going concern.



Ernst & Young



Tom du Preez
Partner
Brisbane
14 March 2017