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29 January 2015

QUARTERLY ACTIVITIES REPORT

To 31st December 2014

Blue Energy Limited (ASX: "BUL") is pleased to report on December 2014 quarter activities across proven and emerging basins in Queensland and the Northern Territory in which the Company's key gas and oil projects are located.

KEY POINTS

Proven Basins

- **Bowen Basin:**

  Independent report upgrades Blue's Bowen Basin Contingent Resources by 21% to 3,469 PJ of recoverable gas

  Progress continues by Arrow Energy on its Moranbah Gas Development and Export Gas Pipeline project FEED

  Two year extension granted by the Qld Government on Blue's current work programs

- **Cooper Basin:**

  The regional Basin Centered gas play concept is progressing with operators issuing gas resource estimates and Nappamerri Trough activities recording gas flow rates from vertical wells

Emerging Basins

- **Maryborough Basin**

  Blue completes transaction with Beach Energy to secure 100% position in the Maryborough Basin (150 km south of Gladstone LNG hub)

  Two year extension granted by Queensland Government on Blue's current work programs

- **Greater McArthur Basin (Southern Georgina and Wiso)**

  Native title discussions continue to establish agreement and grant of these permits

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- **Galilee Basin**

  Two year extension granted by Queensland Government on Blue's current work program

Corporate

- **Cash reserves $6.8 million as at 31 December 2014 (ex of any R&D rebate)**
- **Total un-contracted gas resources increase to 4,392 PJ of recoverable gas**

Blue Energy Reserve and Resource Position (net to Blue)

Table 1 (highlighting recent Bowen Basin upgrades)

Permit	Block	Assessment Date	Announcement Date	1P (PJ)	1C (PJ)	2P (PJ)	2C (PJ)	3P (PJ)	3C (PJ)
ATP854P		30/06/2012	19/03/2013	-	22	-	47	-	101
ATP813P		29/10/2014	30/10/2014	-	-	-	61	-	830
ATP814P	Sapphire	13/01/2015	15/01/2015	-	74	50	129	178	229
ATP814P	Central	13/01/2015	15/01/2015	-	65	-	156	-	567
ATP814P	Monslatt	13/01/2015	15/01/2015	-	-	-	632	-	2,115
ATP814P	Lancewood	13/01/2015	15/01/2015	-	7	5	25	15	522
ATP814P	South	30/06/2013	29/07/2013	-	15	-	27	6	30
Total (PJ)				**-**	**184**	**55**	**1,077**	**200**	**4,392**
Total (bcf)				**-**	**184**	**55**	**1,077**	**200**	**4,392**

Industry Developments

Gas Price – Implications of First LNG Cargos Leaving Gladstone

An historic milestone was reached for the gas industry in Queensland in early January 2015 with the first cargos of LNG departing BG's QCLNG Plant on Curtis Island. They represent the first time an unconventional gas source (in this case Coal Seam Gas) has been used to produce commercial LNG anywhere in the world.

It also signals the start of exponential growth in gas demand in Gladstone as this LNG plant and the subsequent other two plants (APLNG and GLNG) commence LNG production from their initial trains. The 6 LNG trains coming on line in Gladstone over the next 2 years will require approximately 3,600 Terra Joules of gas every day for the next 20 years to produce LNG at the nameplate train capacity.

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For perspective, Queensland's, daily domestic gas consumption runs at approximately 1900 Terra Joules per day.

This monumental shift in the east coast gas supply and demand equation has been postulated and discussed at length over the last few years, but has now crystallised and will result in a new price environment for domestic gas which will be governed by the LNG net back pricing out of Gladstone. The historical fact of the past 40 years of gas producers being price takers, would now appear to be over.

With the first 3 LNG trains in Gladstone likely to be in operation by the September quarter and with the already intense upstream gas swap arrangements between the LNG producers on feed gas, Blue Energy's acreage position in the Bowen, Maryborough and Surat Basins is ideally located to take advantage of the massive gas demand developing in Gladstone.

Oil price

In light of the deteriorating market conditions, the course adopted by the Blue Energy Board several years ago of reigning in costs as part of its mantra of responsible capital stewardship has been shown to be prudent and is only now being followed by some of the bigger names in the energy sector. This highlights Blue's "ahead of the pack" strategic vision and management practices.

Proven Basins

Bowen Basin

(ATP814P – 100% Blue Energy and Operator)

As recently advised to the market (20 January 2015), Blue Energy received a gas resource upgrade from independent Dallas based reserve certifiers Netherland, Sewell and Associates (NSAI).

The NSAI upgrade for the ATP814P permit has increased the 3C contingent resource category by 21% or 657 PJ (recoverable gas) to a total of 3,462PJ (3C).

In addition, the independent NSAI gas resource upgrade has also increased the sub-categories of 1C and 2C Contingent Resources for the permit by 30% and 27% respectively (see Table 1).

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The six separate blocks comprising ATP814P are surrounded by Arrow Energy's existing Moranbah Gas Project (see Figure 1) and its proposed new gas

development and export pipeline project which is presently undergoing a Front End Engineering and Design (FEED) process to supply gas to the Gladstone LNG hub

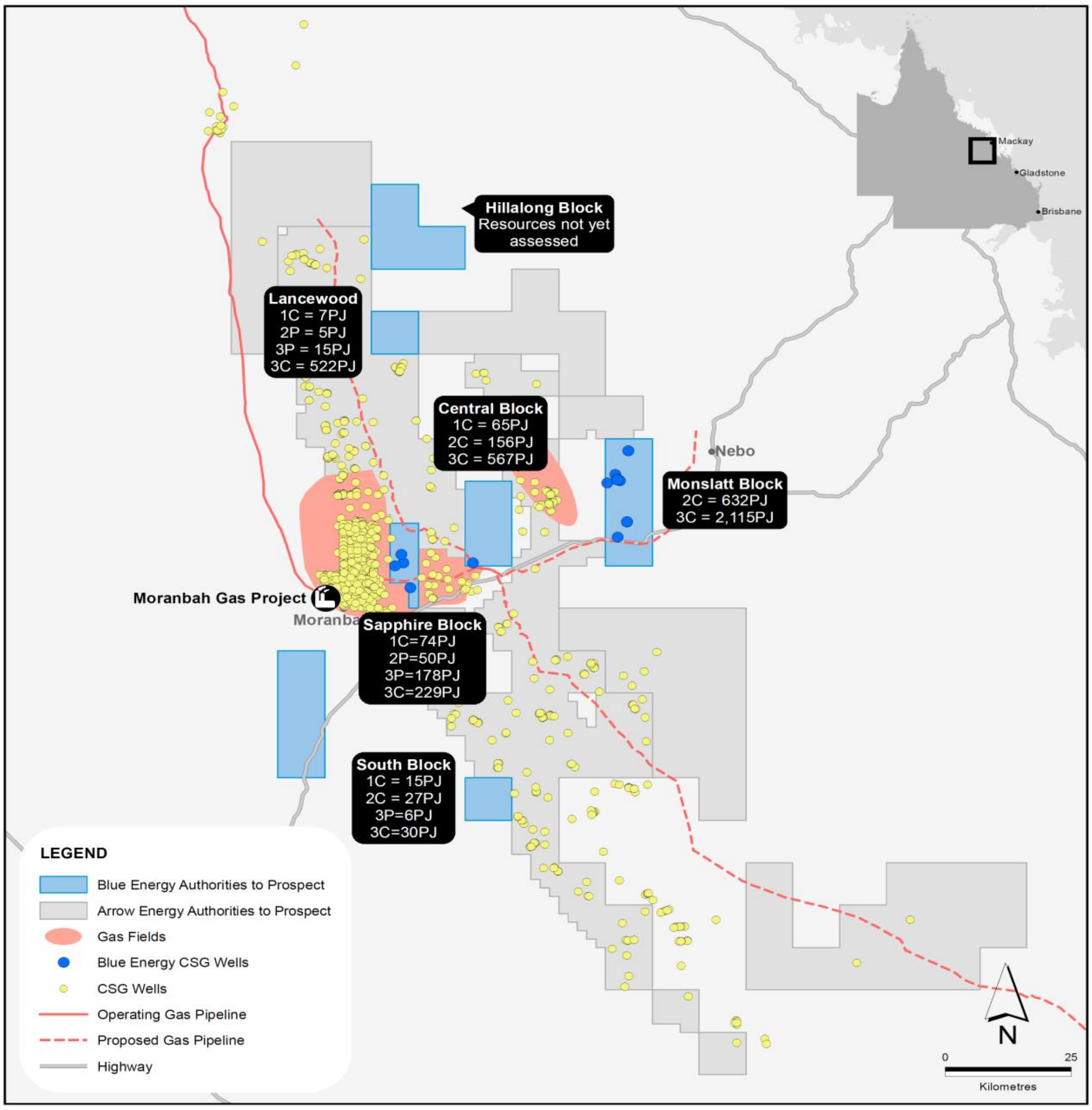

Figure 1. Location of ATP814P relative to the Arrow Energy Moranbah Gas Project area

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Cooper Basin

(ATP 656, 657, 658, & 660 Blue Energy 100% - and Operator)

Blue continues to be encouraged by its own internal geological mapping of the permit areas and also by the gas potential being displayed from the results of several other operators in surrounding blocks.

Notably the Beach Energy consortium recently announced that several vertical wells drilled to target the Roseneath Shale, Epsilon Formation and Murteree Shale (collectively termed the REM) flowed gas on production test, following multistage stimulations. The encouraging aspect of these results has been the extension (stratigraphically) of the play in the geologically younger Daralingie Formation, which sits at the youngest part of the Early Permian aged sequence in the Cooper Basin

In addition to this recent result, the previously reported discovery of basin centered gas in REAL Energy's Tamarama 1 and Queenscliff 1 wells has direct relevance to parts of Blue Energy's acreage and the results of planned production testing of these wells is eagerly awaited.

Emerging Basins

Galilee Basin

(ATP813P 100% Blue Energy and Operator)

Blue Energy advised the market that an NSAI upgrade of the Contingent Resource estimate (3C Category) for the Company's 100% owned ATP813P permit increased the 3C by 54% to 838 PJ of recoverable gas.

In addition the Queensland Government has granted Blue Energy a two year extension of the current four year work program to be undertaken in the permit.

Greater McArthur Basin (Wiso sub-basin and Southern Georgina Basin)

(various permits and equities levels - Blue Energy Operator)

Blue is encouraged by the gas and oil saturations in several key wells drilled in the Beetaloo sub-basin and Southern Georgina Basins during the last dry season. This new data adds to the developing mosaic of information for this largely un-explored part of the Northern Territory.

Blue Energy continues to progress Native Title negotiations in these areas to facilitate grant of these permits.

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Maryborough Basin

(ATP 613, 674 & 733P 100% Blue Energy and Operator)

The Company has previously announced (in January 2014) the conditional acquisition of Australian Unconventional Gas Pty Ltd's ((AUG) a wholly owned subsidiary of Beach Energy Limited (ASX: BPT)) interest in ATPs 674 and 733 in the Maryborough Basin, Queensland. The acquisition subsequently became unconditional upon the grant by the Queensland Department of Natural Resources and Mines to the Company of a 100% interest in ATPs 674 and 733. On 30 January 2015, under the terms of the Sale and Purchase Agreement with AUG, the Company paid the final installment of $1 million of the total purchase price of $2.5 million. The final installment was due 12 months after payment of the initial installment of $1.5 million, which was paid in January 2014."

Blue Energy's permits in the Maryborough Basin are located only 150 km south of the Gladstone LNG complex.

As with most of Blue Energy's other exploration tenures in Queensland, a two year extension on work programs has been granted by the Government on the Maryborough permits.

CORPORATE

Cost reduction strategy yielding savings

The concerted and ongoing cost reduction strategy embarked on by Management and the Board 2 years ago continues in place. This course was commenced as good management practice and not by the rapid decline in commodity prices.

Cash Position

Cash on hand at the end of the 31 December 2014 quarter was $6.8m. Spend for last quarter was on budget and as forecast to the market in October 2014. Blue's target run rate is still to be below $2.0 million per annum.

Research and Development

Blue is currently preparing to lodge claims for Research and Development rebates available to industry under the current federal legislation.

2014 annual report addendum

As required by Listing Rule 5.39.3 the table below (Table 2) is supplementary to the table on page 4 of the Company's Financial Report for the year ended 30 June

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2014 (previously released to the market), and compares the Company's Reserves and Contingent Resources as at 30 June 2014 with those as at 30 June 2013.

Since the lodgment of the Company's Financial Report, the Company's overall Gas Resource volumes have increased. The table below is purely an addendum to a table from June 30 2014.

Table 2 Addendum to 2014 Annual Report

Permit	Block	Assessment Date	Announcement Date	1P (PJ) FY14	1C (PJ) FY14	1C (PJ) FY13	2P (PJ) FY14	2P (PJ) FY13	2C (PJ) FY14	2C (PJ) FY13	3P (PJ) FY14	3P (PJ) FY13	3C (PJ) FY14	3C (PJ) FY13
ATP854P		30/06/2012	19/03/2013	-	22	22	-		47	49	-		101	103
ATP813P		31/12/2010	29/06/2011	-	-		-		42	43	-		548	544
ATP814P	Sapphire	31/12/2012	26/02/2013	-	75	75	50	50	127	128	178	180	224	225
ATP814P	Central	31/12/2012	19/03/2013	-	27	27	-		81	102	-		438	463
ATP814P	Monslatt	31/12/2012	19/03/2013	-	-		-		476	481	-		1,693	1,711
ATP814P	Lancewood	30/09/2013	30/10/2013	-	7	7	5	-	11	23	15	1	421	439
ATP814P	South	30/06/2013	29/07/2013	-	15	15	-		27	27	6	6	30	30
Total (PJ)				**-**	**146**	**146**	**55**	**50**	**811**	**852**	**199**	**187**	**3,455**	**3,516**
Total (bcf)				**-**	**146**	**146**	**55**	**50**	**811**	**852**	**199**	**187**	**3,455**	**3,516**
All numbers are net to Blue Energy														

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 reviews at least quarterly 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 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.

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Petroleum Tenements Held

Permit	Location	Interest Held Previous Quarter	Interest Held Current Quarter	Comment
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

Beneficial Interests Held via Farm in's

Note 1 – Blue has the ability to earn up to 50% equity in these blocks subject to completion of farm in work program.

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