

14 October 2011



My Fellow Shareholders

Please find enclosed the notice of meeting for Blue Energy Limited's 2011 Annual General Meeting. The meeting is scheduled for **11.00 am on Tuesday, 15 November** and will be held at **The Morgan Room, Christie Conference Centre, Level 1, 320 Adelaide Street, Brisbane**, and I encourage you to attend. In addition to the meeting notice, I also enclose a recent research report on Blue Energy by Intersuisse. This, along with other research reports and investor information, can be found on the Blue Energy web site (www.blueenergy.com.au).

2011 has been a challenging year with severe weather events affecting many CSG operators' activities. Continuing regulatory change and uncertainty has required additional time and resources to manage. In addition to this, financial market volatility continues to affect investment sentiment in the sector.

In spite of these challenges, a third major CSG to LNG project in Gladstone has reached financial sanction during the year and activities are now well advanced on site preparation of these LNG export terminals together with associated gas field developments and pipeline infrastructure. Consequently, one of the largest gas demand centres in eastern Australia is taking shape, and proponents are still actively looking to acquire additional gas resources both through appraisal and development activities, exploration of new unconventional plays and through corporate acquisition. As a result of the gas demand generated by the LNG industry in Gladstone, domestic gas pricing is expected to come under upward pressure in the coming years as industrial users and electricity generators vie for a more restricted supply of domestic gas. Price equilibration toward the LNG export netback price will likely be required to ensure domestic gas demand is met. With the advent of a proposed carbon dioxide tax in the next year, further pressure is likely to be placed on coal-fired electricity generators, with the resultant search for lower emitting fuels potentially favouring the domestic gas sector.

Blue Energy has been conscientiously appraising the Monslatt resource during the year, and whilst results have not been achieved as quickly as hoped, there is continued confirmation of the potential of this resource with the wells drilled during the year. With diligence, I am confident that the full value of this asset will be realised in the near future.

Yours Sincerely

A handwritten signature in black ink, appearing to read "JMP/L/12", is written over a large, faint, light blue flame graphic that serves as a background for the signature area.

John Phillips
Managing Director
Blue Energy Limited