

INDEPENDENT AUDITOR'S REPORT

To the members of Cue Energy Resources Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Cue Energy Resources Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2019, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial report, including a summary of significant accounting policies and the directors' declaration.

In our opinion the accompanying financial report of the Group, is in accordance with the *Corporations Act 2001*, including:

- (i) Giving a true and fair view of the Group's financial position as at 30 June 2019 and of its financial performance for the year ended on that date; and
- (ii) Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report. We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's *APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment of Production Assets

<i>Key audit matter</i>	<i>How the matter was addressed in our audit</i>
<p>The total carrying value of the oil and gas production property assets at 30 June 2019 is \$24.547 million (2018: \$26.814 million), which consists of Maari and Sampang (Oyong and Wortel) assets, as disclosed in Note 14.</p> <p>The nature of these production property assets requires management to assess for indicators of impairment. For the year ended 30 June 2019, management has undertaken a formal impairment test of these production property assets using a value in use (VIU) methodology. A VIU impairment assessment is complex and highly judgemental, and includes modelling a range of assumptions and cash flow estimates that are affected by expected future performance and market conditions.</p>	<p>During our audit, we evaluated management's assessment of the recoverable value of each production asset.</p> <p>Our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> • Obtaining and reviewing the reserve quantity reports from an external expert. This included assessing the competency, objectivity and independence of the expert and reviewing the report to determine if the assumptions were reasonable and in line with our understanding and expectations of the asset and the industry. • Engaged our corporate valuation specialists to assess the discount rates used by management to other comparable participants in the industry. • Benchmarking and analysing management's future oil price assumptions against external data. • Comparing the expected future costs to operator budgets and other third party reports. • Performing a sensitivity analysis over the underlying variables to determine the impact of unfavourable changes to cash flows and in turn recoverable value of each production asset.

Accounting treatment of the Ironbark Project Farm-Out

<i>Key audit matter</i>	<i>How the matter was addressed in our audit</i>
<p>During the 2019 financial year, a joint arrangement was formed between BP Developments Australia, Beach Energy Limited, New Zealand Oil & Gas and Cue Exploration Pty Ltd to drill the Ironbark-1 well in exploration permit WA-359-P in Western Australia. The arrangement in place stipulates that Cue Exploration Pty Ltd (Farmer) receives cash consideration for reimbursement of back costs and a free carry consideration up to a maximum of US\$11.308 million from the other parties (Farmees). This joint arrangement is material to the company.</p>	<p>During the audit, we evaluated the accounting adopted by the company for reimbursement of back costs and the free carry amount included as part of the Ironbark Farm-out.</p> <p>Our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> • Reviewing the underlying agreement for the joint arrangement including the obligations of each party involved. • Discussing the transaction with Cue Board of Directors and management to ensure all implications of the various accounting approaches were considered. • Reviewing Cue’s management position paper to support the accounting treatment of the Ironbark Project. • Obtaining a technical consultation from our IFRS accounting specialists to ensure that the accounting approach adopted is in line with best practice.

Other information

The directors are responsible for the other information. The other information comprises the information contained in the Group’s annual report for the year ended 30 June 2019, but does not include the financial report and our auditor’s report thereon, which we obtained prior to the date of this auditor’s report, and the Reserve Report, which is expected to be made available to us after that date.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor’s report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard. When we read the Reserve Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and will request that it is corrected. If it is not corrected, we will seek to have the matter appropriately brought to the attention of users for whom our report is prepared.

Responsibilities of the directors for the Financial Report

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

In preparing the financial report, the directors are responsible for assessing the ability of the group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website (<http://www.auasb.gov.au/Home.aspx>) at:

http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf

This description forms part of our auditor's report.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included pages 12 to 17 of the directors' report for the year ended 30 June 2019.

In our opinion, the Remuneration Report of Cue Energy Resources Limited, for the year ended 30 June 2019, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

BDO East Coast Partnership



David Garvey
Partner

Melbourne, 21 August 2019