Cue Energy Resources Limited
A.B.N. 45 066 383 971

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Melbourne Victoria 3000
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TO : Company Announcements Office
10th Floor
20 Bond Street
Sydney NSW 2000

DATE : 29 September 2011 PAGES (including this page): 85

FROM : Andrew Knox

RE : **Annual Report for 2011**

Attached please find Cue Energy Resources Limited's release with respect to the above mentioned.

Yours faithfully

Andrew M Knox
Public Officer

# ANNUAL REPORT
2010/11

CUE ENERGY RESOURCES LIMITED

# INSIDE
## THIS REPORT

# HIGHLIGHTS
## IN 2010/11

### Corporate Results

Revenue of $59.67 million

Net profit of $19.1 million

Cash increased to $52.8 million

Debt reduced to AUD5.1 million

### Papua New Guinea

LNG project development commences

SE Gobe gas sale negotiations nears completion

### Indonesia

Farmed into Mahakam Hilir PSC, onshore Kalimantan

Oyong oil production continues significantly above budget

Full year of Oyong gas production

Wortel development commences and remains on schedule for completion in December 2011

### New Zealand

Manaia -1 extended reach well in production

3D and 2D Seismic completed in PEP51313

2D Seismic completed in PEP51149

### Australia

WA-389-P seismic completed by Woodside

Farmout of WA-359-P and WA-409-P to Apache

3D Seismic in WA-359-P and WA-409-P completed by Apache

Sale of 20% interest in AC/RL7 to PTTEP

# CORPORATE
## DIRECTORY

**Directors**

R.G. Tweedie LL.B - Chairman
L. Musca LL.B
S. Koroknay BE(Hons)

**Chief Executive Officer**

M.J. Paton B.SC (Hons), MIChemE

**Chief Financial Officer/ Company Secretary**

A.M. Knox B.Com

**Registered Office**

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Melbourne, Victoria 3000 Australia
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Website: www.cuenrg.com.au
ABN 45 066 383 971

**Stock Exchange Listings**

AUSTRALIA
Australian Securities Exchange Ltd
525 Collins Street
Melbourne, Victoria 3000 Australia
ASX Code: CUE

NEW ZEALAND
New Zealand Exchange Limited
Level 2, NZX Centre, 11 Cable Street
PO Box 2959
Wellington, New Zealand

PAPUA NEW GUINEA
Port Moresby Stock Exchange
Cnr of Champion Parade & Hunter Street
Port Moresby, Papua New Guinea

UNITED STATES OF AMERCIA
OTCQX
OTC Markets
304 Hudson Street 3rd Floor
New York, NY 10013-1015

**Solicitors**

Allens Arthur Robinson
530 Collins Street
Melbourne, Victoria 3000 Australia

**Auditor**
PKF
Level 14, 140 William Street
Melbourne, Victoria 3000 Australia

**Bankers**

National Australia Bank Limited
Level 4, 330 Collins Street
Melbourne Victoria 3000 Australia

ANZ Banking Group Limited
91 William Street
Melbourne Victoria 3000 Australia

Investec Bank (Australia) Limited
Level 31, The Chifley Tower
2 Chifley Square
Sydney NSW 2000 Australia

ASB Bank Limited
PO Box 35, Shortland Street
Auckland 1140 New Zealand

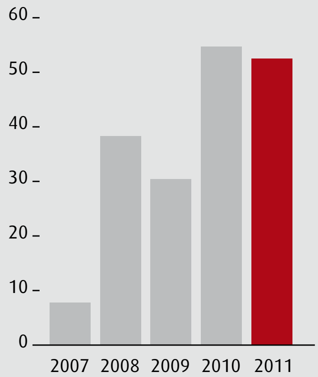
**Share Register**

AUSTRALIA
Computershare Investor Services Pty Ltd
Yarra Falls, 452 Johnston Street
Abbotsford, Victoria 3067 Australia
GPO Box 2975
Melbourne, Victoria 3000 Australia
Telephone: 1300 850 505 (within Australia)
or +61 (3) 9415 4000 (outside Australia)
Email: web.queries@computershare.com.au
Website: www.computershare.com

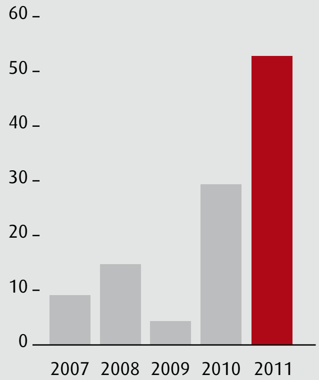
PAPUA NEW GUINEA
Computershare Investor Services Pty Limited
C/- Kina Securities
Level 2, Deloitte Tower
Douglas Street
(PO Box 1141)
Port Moresby, National Capital District
Papua New Guinea
Telephone: +67 (5) 308 3888
Facsimile: +67 (5) 308 3899

# RESULTS
## IN 2010/11

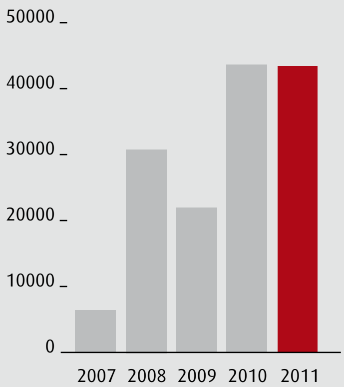
PRODUCTION INCOME
**$52.5M**



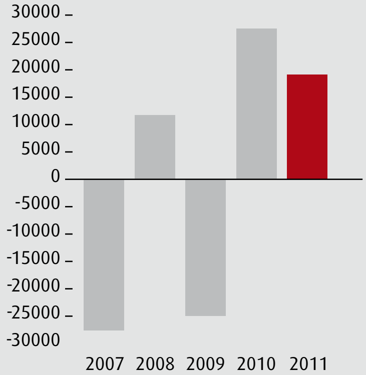

CASH BALANCE UP
**$52.8M**




GROSS PROFIT FROM PRODUCTION
**$43.4M**




AFTER TAX PROFIT
**$19.1M**



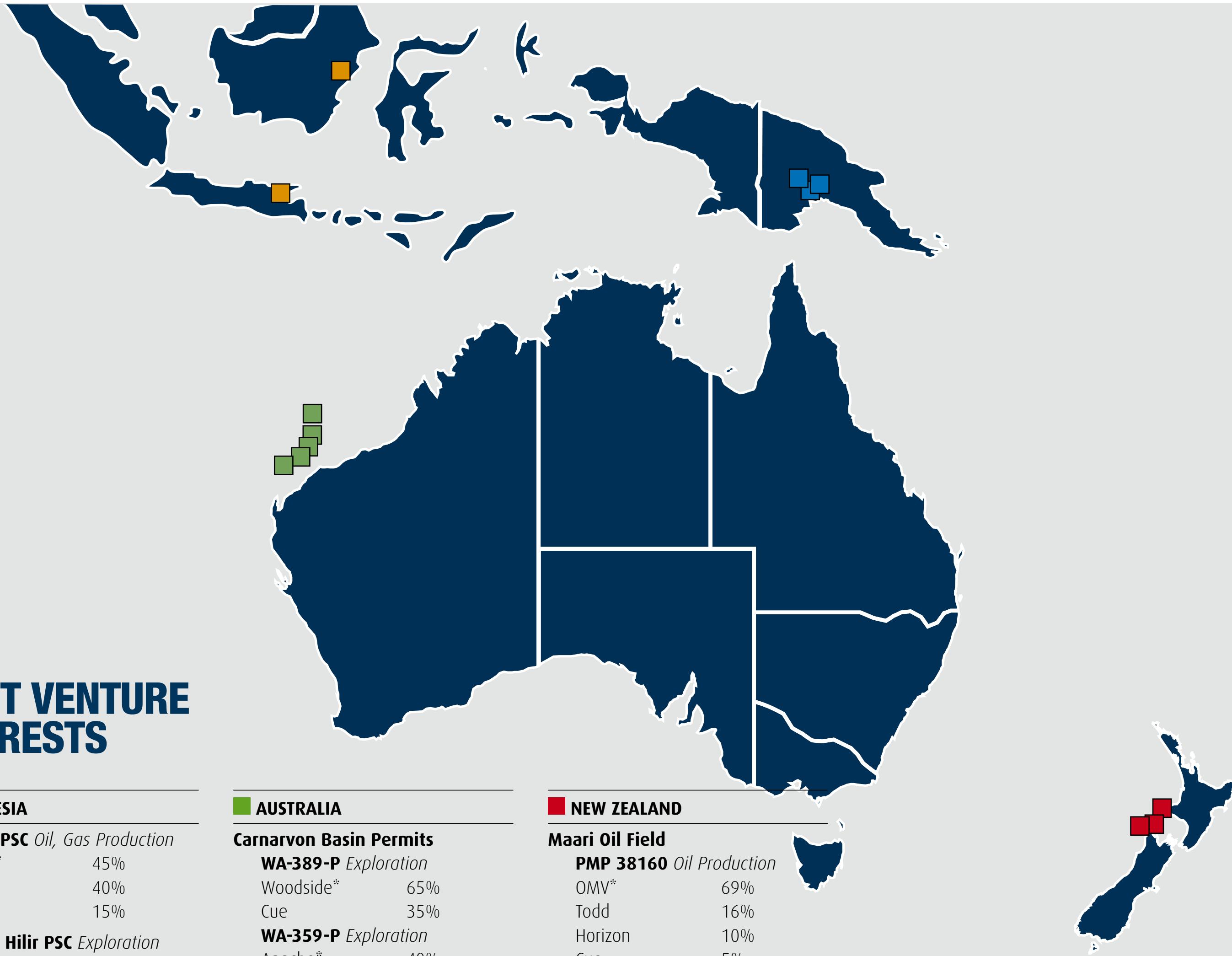
# ABOUT
## CUE ENERGY

Cue Energy Resources Limited is an oil and gas exploration and production company with a focus on SE Asia and Australasia. We have petroleum assets in Papua New Guinea, Indonesia, New Zealand and Australia.

The company has continuously grown over recent years through a mix of acquisitions and discoveries.

It is Cue Energy's objective to develop a robust and substantial E & P company with a focus on the Asia Pacific region and market capitalisation in excess of A$1 Billion through:

- maximising value of existing assets
- building organisational capability
- aggressively pursuing new E & P assets
- developing a balanced portfolio of exploration, development and production opportunities
- increasing stakes in assets to 30-50% rather than current levels of 20-40% and take up operatorship as required
- actively pursuing value accretive mergers and acquisitions



# JOINT VENTURE INTERESTS

## INDONESIA

**Sampang PSC** *Oil, Gas Production*

| | |
|---|---|
| Santos* | 45% |
| SPC | 40% |
| Cue(i) | 15% |

**Mahakam Hilir PSC** *Exploration*

| | |
|---|---|
| SPC* | 60% |
| Cue | 40% |

## PAPUA NEW GUINEA

**PDL 3** *Oil Production*

| | |
|---|---|
| SHP | 40.149650% |
| Oil Search | 36.35974% |
| Santos* | 15.921718% |
| Cue | 5.568892% |
| (SE Gobe Unit | 3.285651%) |
| PRG | 2.0% |

**PRL14** *Gas Resources*

| | |
|---|---|
| Oil Search* | 62.556% |
| Murray | 26.497% |
| Cue | 10.947% |

**PRL9** *Gas Resources*

| | |
|---|---|
| Oil Search* | 45.106% |
| Santos | 40% |
| Cue | 14.894% |

## AUSTRALIA

**Carnarvon Basin Permits**

**WA-389-P** *Exploration*

| | |
|---|---|
| Woodside* | 65% |
| Cue | 35% |

**WA-359-P** *Exploration*

| | |
|---|---|
| Apache* | 40% |
| Cue | 30% |
| Moby Oil & Gas | 28.5% |
| Exoil | 1.5% |

**WA-360-P** *Exploration*

| | |
|---|---|
| Braspetro BV* | 50% |
| MEO | 25% |
| Cue | 15% |
| Rankin | 10% |

**WA-409-P** *Exploration*

| | |
|---|---|
| Apache* | 40% |
| Cue | 30% |
| Moby Oil & Gas | 28.5% |
| Exoil | 1.5% |

**WA-361-P** *Exploration*

| | |
|---|---|
| MEO* | 50% |
| Mineralogy | 35% |
| Cue | 15% |

## NEW ZEALAND

**Maari Oil Field**

**PMP 38160** *Oil Production*

| | |
|---|---|
| OMV* | 69% |
| Todd | 16% |
| Horizon | 10% |
| Cue | 5% |

**PEP 51149** *Exploration*

| | |
|---|---|
| Todd* | 61.425% |
| Cue | 20% |
| AGL | 18.575% |

**PEP51313** *Exploration*

| | |
|---|---|
| Todd* | 50% |
| Horizon | 30% |
| Cue | 20% |

(i) 8.181878% in the Jeruk field.

* Operator

# CHAIRMAN'S
## LETTER

The past year was another good year for Cue in an increasingly uncertain business environment. Our net profit after tax for the year was $19.1 million down from $27.5 million for 2010. This was a creditable performance given the large fluctuations in the Australian dollar to US Dollar exchange rate which significantly impacted our Australian dollar earnings. The result was also significantly affected by the accounting treatment of our oil hedging activities (we hedged 10,000 barrels per month of our production at a price of USD98 per barrel) and the write off of our T/37P and T/38P exploration activities in the Bass Basin.

The company's gross profit was $43.4 million which is comparable to the 2010 result of $43.6 million. Oil production volumes were down from 590,000 barrels to 501,000 barrels but increased oil prices counteracted this fall to a large extent. Gas volumes sold were up to 2.9 BCF from 2.1 BCF in 2010 as a consequence of a full year of gas export from the Oyong field in Indonesia.

The company's balance sheet continues to improve. The company's cash balance increased with $52.5 million on hand on 30th June. Maari Project debt continued to be paid off with an outstanding balance on 30th June of only AUD5.1 million.

We continued to divest non-core assets and sold our 20% interest in the Cash/Maple gas field in AC/RL7 in the Timor Sea to PTTEP Australia for USD8 million.

In New Zealand the Maari and Manaia production was impacted by a number of electrical submersible pump failures. Workovers have been performed to replace the failed pumps and at the time of writing the reported pump reliability appears to have improved.

Further reserves are being evaluated in the Maari Mangahewa and M2A sands and in the Manaia Moki sands which could contain up to a further 40 million barrels of oil. Drilling activities and facility upgrades are being planned over the next 12 months with a view to drilling additional producers and water injectors in the summer of 2013/14.

Cue continues to explore in the Taranaki Basin. In permit PEP 51313 we acquired a new 3D seismic survey over the Matariki trend and a 2D seismic survey over the Te Whatu feature. In permit PEP 51149 we acquired 150 km of conventional 2D marine seismic data, 29 km of conventional land data and 60 km of shallow water "transition zone" data over the Pungaheru feature. All of this data is currently being interpreted to mature potentially drillable prospects.

In Indonesia the Oyong field continues to outperform expectations with oil and associated gas exports above forecast. The Wortel field development is well advanced, is on schedule for completion in December this year and is expected to be completed within budget. The addition of Wortel will increase gas production from the Sampang PSC to around 90 mmscfd. Realised gas price for Wortel gas has been negotiated with Indonesia Power at Grati at a significantly higher level than that of Oyong. Cue continues to work closely with the Operator of the Sampang PSC Santos to try and commercialise static resources in the permit such as the Jeruk discovery.

During the year Cue farmed in to the Mahakam Hilir permit in the Kutei basin. Cue will be in Joint Venture with Singapore Petroleum Company Limited (a subsidiary of Petrochina). Cue will pay 40% of the back costs and 40% of the costs of drilling two exploration wells in return for 40% equity in the permit. The Naga Selatan and Naga Utara prospects to be drilled in fourth quarter 2011 are expected to contain around 20 million barrels of recoverable oil and 80 billion cubic feet of recoverable gas respectively. The prospects are relatively low risk as they are onshore, there are numerous oil and gas seeps in the vicinity and the prospects are on trend with other discoveries within the basin. There are existing gas pipelines and processing infrastructure within close proximity of the permit and so gas may be rapidly monetised by sale of gas to local power stations or via the Bontang LNG facility. We are very pleased to be involved in this significant exploration opportunity with one of our major shareholders.

In Papua New Guinea, SE Gobe oil production continues to exceed expectations. Construction of the pipeline which is to be run from the gas fields in the Southern Highlands to the new LNG terminal in Port Moresby is under construction. A project is under way to build a gas processing plant to process the SE Gobe associated and gas cap gas to pipeline specification so that it may be used to commission the LNG terminal. A gas sales agreement for the SE Gobe gas is being finalised and first gas is expected to flow in June 2012. This will represent a significant step forward in the commercialisation of Cue's static gas resources in PNG. The Barikewa gas field is adjacent to the PNG LNG gas pipeline and Cue is working with the operator Oil Search to identify a way of monetising this resource. Once a commercial export route has been identified further appraisal drilling of Barikewa will be initiated.

In the Carnarvon basin in WA 389-P Woodside (65% and operator) completed the Movida 3D seismic survey and we expect an announcement to drill a well in the permit in the near future. We expect that drilling will commence in 1Q 2012. This will be very exciting for Cue with the potential for us to own 35% of a multi trillion cubic foot gas resource with the operator being committed to early commercialisation via its Pluto LNG facility. In WA 359-P and WA409-P Apache (40% and Operator) acquired the Zeebries 3D seismic survey. Drilling decisions in these permits are also expected in 2012.

All in all 2011 continued to create a solid platform for further growth of our company. Our forward production profile will continue to provide healthy cash flow to pay for the company's exploration and field development activities for the foreseeable future. Additional production is expected to come through exploration success and commercialising static resources in our existing asset portfolio. Additionally we are aggressively seeking further exploration and production opportunities to continue our growth.

Finally, Bob Coppin our long serving CEO retired after 16 years service with Cue. The Board of Cue thanks Bob for his contribution to the growth of the company. The Board also welcomes Mark Paton our new Chief Executive Officer. Mark has had a long and distinguished career in the oil and gas industry with BP in the North Sea and Middle East, BHP Petroleum in Northern Australia and AGR Asia Pacific (formerly Upstream Petroleum). Mark and his partners built Upstream Petroleum (a significant Australian oil and gas service company from 1997 to 2006) when it was sold to the AGR Group of Norway. The application of Mark's oil and gas expertise and proven entrepreneurial track record bodes well for Cue's future growth. The Board wishes Mark every success in his new role.

**Richard Tweedie**
Chairman

29th of September 2011

# CHIEF EXECUTIVE OFFICER'S REVIEW

This is my first annual report as CEO of Cue, having taken over from Bob Coppin in February who retired after 16 years with the company. Bob's legacy was a solid company with healthy cash flows from three oil and gas producing assets, over $40 million in cash and only USD8 million in debt. The company also had excellent exploration prospects in New Zealand and the North West Shelf of Australia with the near term exploration commitments being paid for by others as part of farm-out processes. The company had very low overheads employing just seven full time employees. This has established a company which provides an excellent platform for further growth.

In the first few months in the job I have reviewed Cue's current portfolio of assets and confirmed our forward strategy and focus. Going forward, Cue will continue to focus on Australia, New Zealand and SE Asian conventional oil and gas resources and our range is currently set as approximately an eight hour flight from our Melbourne headquarters.

Applying all of the latest exploration tools at our disposal improves the chances of a discovery, nevertheless, irrespective of how much work is done before drilling the risk cannot be reduced to zero. Typically, a good exploration prospect will have a chance of success in the range of one in four to one in eight but in the success case will provide a material addition to the company's reserves and cash flows. Hence, in order to improve the chances of growing

Cue through exploration we shall have to in future participate in a statistically significant number of wells. Last year Cue was involved in just one exploration well called Artemis, which was a multi trillion cubic feet prospect on the North West Shelf. Unfortunately this was a dry hole. In future my aim is to increase the number of exploration wells that Cue participates in, with a target of participating in approximately one well per quarter over the next few years. This should provide us with the opportunity to participate in material discoveries. We have already farmed in to the Mahakam Hilir permit in the Kutei basin, onshore Kalimantan and there are two near term drilling activities planned on the Naga Selatan and Naga Utara prospects with mean prospective resources of the order of 20 million barrels of oil and 80 billion cubic feet of gas. We have also reviewed a large number of farm-in opportunities and new acreage releases in our focus area. Next year we can look forward to firm drilling activities in WA-389-P and likely drilling activities in WA-359-P or WA-409-P on the North West Shelf and possible drilling activities in New Zealand permits PEP51313 and PEP51149. We are working hard to build our exploration asset portfolio to create a pipeline of exploration opportunities in future years. Exploration will be funded from net cash flow and farmout processes where possible.

In addition to increasing exploration activities, Cue will seek to acquire proven undeveloped resources and producing assets where we can see incremental value to be added through doing so. This may be achieved through direct acquisition of assets or through merger with or acquisition of companies which are value accretive to Cue shareholders. We will seek opportunities where Cue has a competitive advantage through our technical knowledge of the target assets or the relationships that we have within the region. An oil and gas exploration company is a business going out of business unless it continues to replace the reserves it produces, exploration provides the best returns but is accompanied with the highest risks. Cue will be investing a portion of its cash flows in acquiring reserves which have already been discovered but require further appraisal and development. Whilst this may not yield the highest return it provides a more certain path for growth of the company.

Within our existing portfolio of assets there are proven undeveloped resources such as the Maari Mangahewa, M2A sands and Manaia Moki sands in New Zealand, Barikewa, Cobra and Iehi in Papua New Guinea and Jeruk in Indonesia which we will endeavour to move from contingent resources to reserves in the coming year. To this end we are working closely with OMV, Oil Search and Santos as operators of these assets to try to find a commercial development approach and increase our production. The development of the PNG LNG project is a possible key to commercialising our static gas resources in PNG.

To date Cue has owned a small portion of producing assets in the range of 5 to 40% of the equity in a joint venture. In the future you will see Cue holding a larger percentage of the equity in our assets. As this percentage increases Cue will be more likely to be asked to operate the asset on behalf of the joint venture. To enable us to meet this challenge we are already investing in the key personnel and management systems required to be a successful operator. My background is a production and projects background and in my previous role built a company that established itself as a service provider operating assets on behalf of small oil companies.

Now to review the year just past. FY 2011 was a year of consolidation after the rapid growth of the company though the development and first oil production from Maari in FY2010. Oil production volumes were down from 589,978 barrels in 2010 to 500,923 barrels in 2011. This was partly due to the natural decline of the SE Gobe and Oyong reservoirs but also due to unreliability of the electrical submersible pumps (ESP) in the Maari field. A series of workovers to replace ESP's were successfully executed and we are hopeful that we will see improved pump reliability next year. The decline in Cue's total oil production was offset by increased gas production which was up from 2.1 BCF in 2010 to 2.9 BCF in 2011 and the increase in oil price. Our gross profit from production was similar to 2010 at $43.4 million. Net profit after tax reduced by around 30% from $27.5 million to $19.1 million. The majority of the reduction was as a result of one off impairment charges from T/37P and T/38P exploration write offs, exchange rate losses and accounting treatment of oil hedging activities. Debt continued to be paid off with the outstanding balance being only AUD5.1 million on 30th June. The company's cash resources continue to grow with A$52.8 million on the balance sheet as at 30th June 2011.

We also cleared the decks and divested of our underperforming or non strategic assets in 2011. We withdrew from the T/37P and T/38P permits in the Bass Basin as we believe these permits to be no longer prospective and wrote off the exploration expenditure associated with these permits. We also sold our 20% interest in the Cash/Maple field in AC/RL7 to PTTEP Australia for a consideration of USD8 Million.

# PAPUA NEW GUINEA

## Production

Cue's share of oil production from the SE Gobe field for the financial year was 30,998 barrels (2010: 40,444). The lower volume reflects the expected decline rate for the field.

Oil Search, the operator, has estimated field oil reserves at 31 December 2010 to be:

### Million Barrels of Oil (Gross)

| | Ultimate Recovery | Cumulative Production to 31 Dec 2010 | Remaining to be produced (Cue Share) |
|---|---|---|---|
| Proved (1P) | 44.185 | 41.401 | 2.784 (0.092) |
| Proved + Probable (2P) | 45.244 | 41.401 | 3.843 (0.127) |
| Proved, Probable & Possible (3P) | 47.175 | 41.401 | 5.774 (0.191) |

These reserves are consistent with SPE guidelines and definitions.

The Gobe and SE Gobe gas cap is planned to be blown down to the PNG LNG pipeline (subject to finalising the gas sales agreement) thus commercialising this static resource. The gas will be used as commissioning gas for the LNG processing plant in Port Moresby and hence will be the first gas to be exported. First gas export and commissioning of the PNG LNG facilities is expected in mid 2012. Oil Search are currently installing the processing facilities necessary to process the Gobe field's associated gas to achieve the gas specification required as a feedstock to the LNG plant. The total volume of gas reserves which could be produced to the PNG LNG plant is expected to be 175.9 BCF over approximately 10 years.

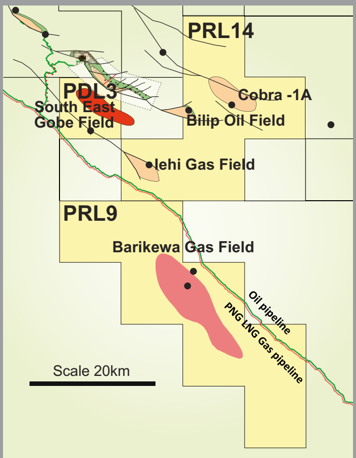
| | OCIP (MSTB) | Solution OGIP (BCF) | Free OGIP (BCF) | Total OGIP (BCF) | Ultimate Recovery (BCF) | Remaining to be produced (BCF) (Cue Share) |
|---|---|---|---|---|---|---|
| Proved (1P) | 1,000 | 137.0 | 91.9 | 229.0 | 144.3 | 144.3 (3.760) |
| Proved + Probable (2P) | 1,300 | 152.1 | 96.3 | 248.4 | 175.9 | 175.9 (4.584) |
| Proved, Probable & Possible (3P) | 1,500 | 167.6 | 100.6 | 268.2 | 211.2 | 211.2 (5.504) |

(1) OCIP is original condensate in place.

(2) Ultimate recovery is Raw Gas at the wellhead including condensate and LPG. No allowance has been made for fuel and flare consumption.

PAPUA NEW GUINEA - LOCATIONS


CUE LICENSES - PAPUA NEW GUINEA



## Appraisal

The gross recoverable contingent gas resources volume in the Barikewa discovery was 176 billion cubic feet (2C). Commercialising this static resource will be a key activity for the PRL9 joint venture in 2012. Negotiations have been initiated with the PNG LNG operator Exxon Mobil to establish whether Barikewa gas can contribute to further LNG processing trains in Port Moresby and thereby accelerate development of the field. Additionally alternative schemes using Barikewa gas for power generation for the local population or mine sites is being reviewed.

# INDONESIA

## Production

Cue's share of oil production for the financial year was 197,720 barrels (2010: 188,101 barrels). The field production volume exceeded that forecast due to better than expected reservoir performance and very high facility uptime.

Cue's share of gas production from the Oyong field was 2.93 billion cubic feet (2010: 2.12 billion cubic feet). The gas is being sold under a long term contract to the Indonesia Power electricity generating station at Grati.

Estimated gross oil and gas reserves as at 31 December 2010 were:

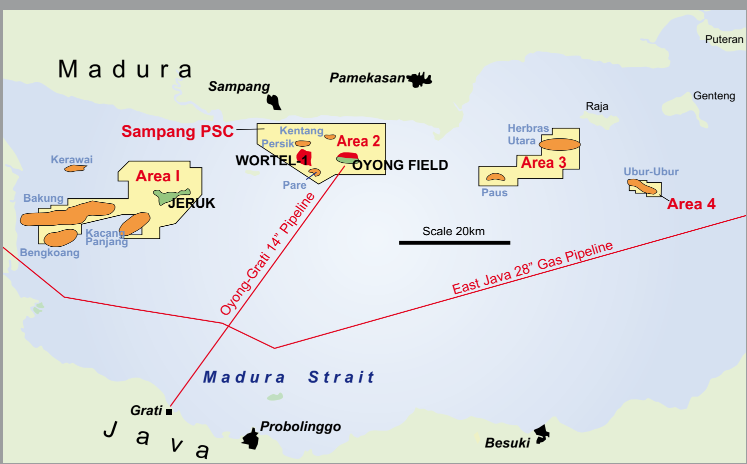
| | | Oil (million bbl) | | | Gas (BCF) (1) | | |
|---|---|---|---|---|---|---|---|
| | | 1P | 2P | 3P | 1P | 2P | 3P |
| In Place Volumes | | 58.8 | 65.6 | 77.4 | 119 | 136 | 159 |
| Ultimate Recovery | | 7.29 | 7.48 | 7.72 | 89 | 111 | 130 |
| Cumulative Production to 31 Dec 10 | | 5.9 | 5.9 | 5.9 | 25.9 | 25.9 | 25.9 |
| Remaining Reserves as at 31 Dec 10 | | | | | | | |
| Oil | Remaining oil | 1.39 | 1.58 | 1.82 | - | - | - |
| | Cue Share | 0.07 | 0.08 | 0.10 | - | - | - |
| Gas | Remaining gas | - | - | - | 63.1 | 85.1 | 104.1 |
| | Cue Share | - | - | - | 6.15 | 8.29 | 10.15 |

(1) For gas, estimates of in-place and recoverable volumes include both free gas and solution gas, and recoverable volume estimates are shown as "Sales Gas" figures.

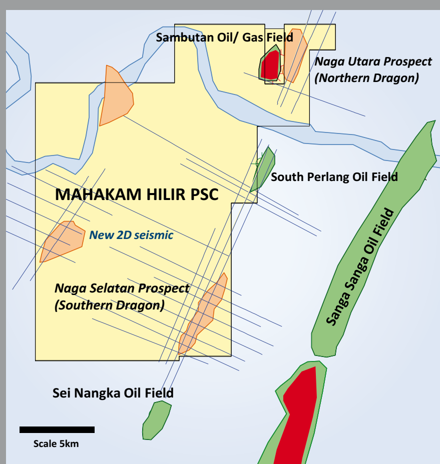
(2) Oil and gas volumes are net of Indonesian government share of production.

These reserves are consistent with SPE guidelines and definitions.

SAMPANG PSC - INDONESIA




MAHAKAM HILIR PSC - INDONESIA



## Development

### Wortel

The development of the Wortel gas field was progressed during 2011 and is expected to be on stream in December 2011. At the time of printing the report the project was on schedule and was expected to be completed within the USD105.1 million budget. The development comprises a small well head platform on the field with two gas production wells and a seven kilometre pipeline to the Oyong facilities, with subsequent gas transportation through the existing pipeline to Grati. The combined export gas rate for Oyong and Wortel is expected to increase from 60mmscfd in 2011 to 90mmscfd once Wortel is on stream.

Negotiations for the sale of Wortel gas have been concluded with the gas being sold to Indonesia Power at Grati at a significantly higher price than that agreed for the sale of Oyong gas.

| | Non associated gas in place (BCF) | Ultimate gas recovery (BCF) (Cue share) | Condensate recovery (Million barrels) (Cue share) |
|---|---|---|---|
| Proved (1P) | 95 | 62.8 (8.76) | 0.19 (0.02) |
| Proved + Probable (2P) | 134 | 103.6 (14.45) | 0.31 (0.03) |
| Proved, Probable & Possible (3P) | 166 | 122.4 (17.07) | 0.37 (0.036) |

Note: (1) Cue's share is net of Indonesian government share of production.

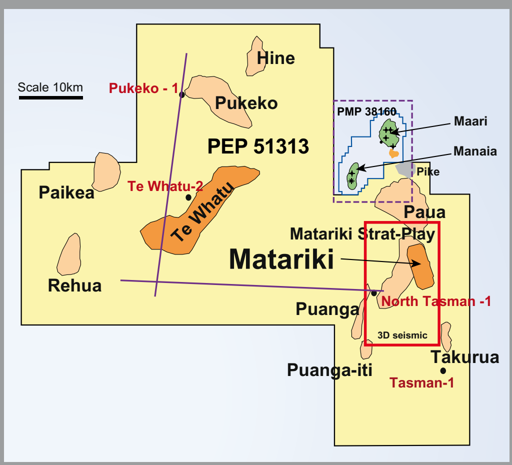
### Oyong

An additional infill well is planned to be drilled in the south east of the Oyong field immediately after drilling the Wortel development wells towards the end of 2011. The well is expected to add between 1.3 and 2.4 million barrels of additional recoverable oil.

### Jeruk

Further work was carried out on the Jeruk field during 2011. The Sampang PSC joint venture continues to investigate the potential for development of the Jeruk oilfield. The development of Jeruk is technically and economically challenging. Cue estimates that the P50 recoverable reserves (2C) at approximately 15 million barrels.

PEP 51313 - NEW ZEALAND



# NEW ZEALAND

## Maari Oil Field

Cue's share of oil production from the Maari field for the financial year was 269,680 barrels (2010: 360,750 barrels). This was significantly below forecast and was a disappointing result. Much of the deferred production was attributable to failures of electrical submersible pumps. A total of seven workovers were performed during the year to replace the pumps. We are hopeful that the reliability of the pumps will improve as we make improvements to the well completion and the pump configuration. Overall facility uptime has improved from 70% in calendar year 2010 to 83% in calendar year 2011 to date.

## Manaia

An eight kilometre Manaia -1 extended reach appraisal well was successfully drilled from the Maari platform to the Mangahewa reservoir of the nearby Manaia oil discovery. Manaia -1 commenced production in October 2010 at a rate of around 3800bopd.

## Development

A number of incremental development opportunities exist in the Maari and Manaia fields. The Mangahewa sand below the current Moki horizon in the Maari field is currently not being produced but has been confirmed to contain producible oil via intersection by other wells. Additionally, the Moki horizon in the Manaia reservoir is not intersected by the extended reach well but Moki reserves at Manaia were confirmed by the drilling of the Maui 4 well. There is also potential oil in the deeper F sands at Maari and Manaia. The development of these additional reserves is being studied and should culminate in further appraisal and development drilling commencing in 2013.

OMV, the operator, has estimated field reserves at 31 December 2010 to be:

| Reservoir | Ultimate recovery Proved (1P) | Ultimate recovery Proved + Probable (2P) | Cumulative Production to 31 Dec 2010 | Remaining to be produced (2P) (Cue share) |
|---|---|---|---|---|
| Maari Moki | 39.6 (28.5 developed) | 57.5 | 11.7 | 48.8 (2.29) |
| Maari M2A* | 1.4 | 3.0 | | |
| Manaia Mangahewa* | 1.57 | 6.27 | 0.17 | 6.1 (0.31) |

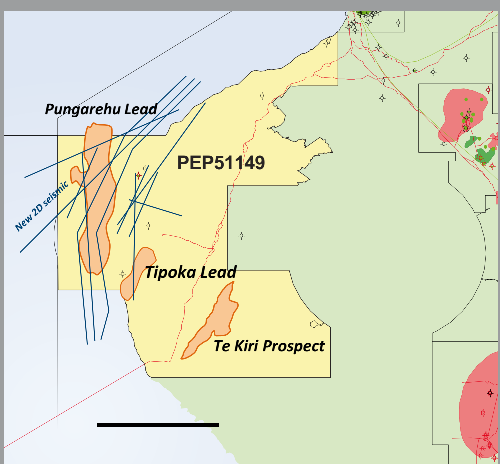
* Reserves relate to a single production well in each reservoir.

These reserves are consistent with SPE guidelines and definitions.

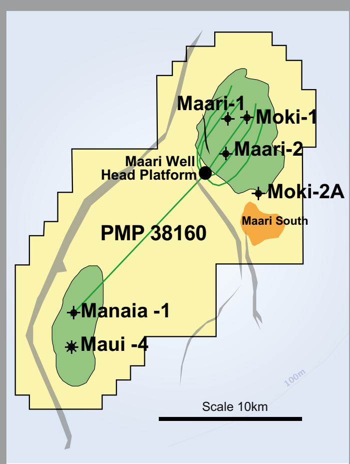
Oil production between 31 December 2010 and 30 June 2011 was 2.73 million barrels.

Remaining to be produced at 30 June 2011 was 43.1 million barrels (2P) with Cue's share being 2.15 million barrels.

PEP 51149 - NEW ZEALAND




PMP 38160 - NEW ZEALAND



## Taranaki Basin

Cue farmed into the offshore PEP 51313 and the onshore PEP 51149 permits in the Taranaki Basin in October, 2009.

PEP 51313 is adjacent to the Maari and Manaia fields and incorporates the area of the earlier PEP 38494 permit in which Cue had an interest. The permit contains several large prospects. In April and May 2010, a 200 square km 3D seismic survey was acquired over the large Matariki prospect and subsequently in April 2011 a 636 km 2D seismic survey was acquired over the Te Whatu prospect. This data is currently being used to mature prospects for future drilling decisions.

The onshore PEP 51149 permit has potential to contain significant gas accumulations with some potential for oil. The Te Kiri 3D dataset has recently been reprocessed and in April 2011 150 km of conventional 2D marine data, 29 km of conventional land data and 60 km of shallow water "transition zone" data was acquired. This data will be used to mature prospects for future drilling decisions.

# AUSTRALIA

## Carnarvon Basin

Cue has a participating interest in five large contiguous offshore exploration permits in the Outer Rankin area of the Carnarvon Basin. The permits have the potential to contain large gas accumulations in a region where there are three LNG developments proposed or under development.

In April 2010, Woodside Energy Ltd agreed to farm into Cue's 100% interest in permit WA-389-P. Woodside obtained a 65% interest in the permit by committing to pay US$5 million in past costs, funding the reprocessing of the existing 3D seismic data, the acquisition of 1440 square kilometres of new 3D seismic data and the drilling of the first exploration well. Cue retains a 35% free carried interest through the farmin work programme. Woodside became operator of the permit. WA-389-P contains the large Caterina prospect which has potential to contain up to 8 trillion cubic feet of recoverable gas.

The permit also contains several other large prospects that each has the potential to contain in excess of one trillion cubic feet of recoverable gas. The new and reprocessed 3D seismic data will be available in late September, 2011. The first exploration well is expected to be drilled in late 1Q, 2012.

In the southern most WA-360-P permit, where Cue has farmed out to MEO Australia, MEO drilled the Artemis-1 well in late 2010. Unfortunately this was a dry hole. Cue had a 15% free carried interest in the well.

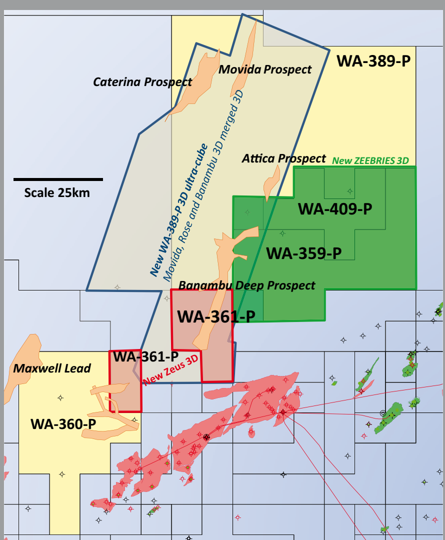
In October, 2010 Apache Northwest Pty Ltd agreed to farmin to Cue's 50% interest in permits WA-359P and WA-409-P. Apache agreed to acquire a minimum of 1000 square kilometres of seismic data over both permits in return for a 40% interest in both permits. Cue's interest was reduced to 30% in both permits. Apache has the option to commit to drilling one well in one of the permits in return for up to a 30% interest. Apache has become operator of both permits. Apache completed acquisition of the new 3D seismic called the Zeebries 3D in May, 2011 and is expected to make drilling decisions in 2012.

## Bass Basin

Cue withdrew from the T/37P and T/38P permits in the Bass Basin in late 2010. We believe the permits to be unprospective following the drilling of the Spikey Beach-1 well in September 2009. This was a dry hole.

**Mark John Paton**
Chief Executive Officer

29th of September 2011




CARNARVON BASIN PERMITS - AUSTRALIA


OCEAN PLUTO
SHANGHAI

# CORPORATE GOVERNANCE
## STATEMENT

### Introduction

The Directors of Cue Energy Resources Limited recognise the need for high standards of corporate governance and are focused on fulfilling their responsibilities individually and as a Board to all of the Company's stakeholders. The following description of the governance arrangements of Cue Energy Resources Limited ("the Company") for the year ended 30 June 2011 addresses those principles set out in the 2nd edition of the ASX Corporate Governance Principles and Recommendations (Revised Recommendations).

Given the size and structure of the Company, the nature of its business, the stage of its development and the cost of strict and detailed compliance with all of the recommendations the Company has adopted some modified systems, procedures and practices which it considers allow it to meet the principles of good corporate governance.

The Company's practices aim for consistency with those of the principles and recommendations. The Company considers that its adopted practices are appropriate to it in this regard. At the end of this Corporate Governance Statement a table is included detailing the recommendations with which the Company does not strictly comply.

The following detail addresses the Company's practices in complying with the principles.

## Principle 1: Laying Solid Foundations for Management and Oversight

The role of the Board is to lead and oversee the management and direction of the Company.

After appropriate consultation with Executive management, the Board:

- defines and sets its business objectives. It subsequently monitors performance and achievement of the Company's objectives;
- oversees the reporting on matters of compliance with corporate policies and laws, takes responsibility for risk management processes and a review of Executive management, remuneration practices and insurance needs of the Company;
- monitors and approves financial performance and budgets; and
- reports to shareholders.

The Board regularly discusses and reviews its performance. The Chairperson also discusses with each Director their requirements, performance and aspects of involvement in the Company. The Directors discuss and evaluate the role fulfilled by management individually and together. This is reviewed against the discussed and agreed objectives of the Company and the effectiveness in carrying out those objectives.

Each member of the Board has committed to spending sufficient time to enable them to carry out their duties as a Director of the Company. One third of the Directors retire annually and are free to seek re-election by shareholders.

## Principle 2: Structuring the Board to Add Value

### Composition of the Board

The ASX Corporate Governance Council recommends that the composition of the Board be determined so as to provide a Company with a broad base of industry, business, technical, administrative, corporate skills and experience considered necessary to represent shareholders and fulfill the business objectives of a Company.

The recommendations of best practice are that a majority of the Directors and in particular the Chairperson should be independent. An independent Director is one who:

- does not hold an executive position;
- is not a substantial shareholder of the Company or an officer or otherwise associated directly or indirectly with a substantial shareholder of the Company;
- has not within the last 3 years been employed in an executive capacity by the Company or another group member or been a Director after ceasing to hold such employment;
- is not a principal of a professional adviser to the Company or another group member;
- is not a significant supplier or customer of the Company or another group member, or an officer of, or otherwise associated directly or indirectly with a significant supplier or customer;
- has no significant contractual relationship with the Company or any other group member other than as a Director of the Company; and
- is free from any interest and any business or other relationship which could or could reasonably be perceived to materially interfere with the Directors ability to act in the best interests of the Company.

It is considered that a majority of independent Directors is the optimal composition to add value to your Company. This is due to the size and nature of the Company's business and risk profile of the Company. Corporate Governance practices are in place to support competent and objective operation of the Board and to provide investor assurance in relation to Board decision making.

### Nomination of Other Board Members

The Board at least annually reviews its composition to determine if additional core strengths are required to be added to the Board in light of the nature of the Company businesses and its objectives. The Board does not believe that at this point in the Company's development it is necessary to appoint additional Directors.

### Independent Advice

Each of the Directors is entitled to seek independent advice at Company expense to assist them to carry out their responsibilities.

## Principle 3: Promotion of Ethical and Responsible Decision-Making

Directors, officers, employees and consultants to the Company are required to observe high standards of behavior and business ethics in conducting business on behalf of the Company and they are required to maintain a reputation of integrity on the part of both the Company and themselves. The Company does not contract with or otherwise engage any person or party where it considers integrity may be compromised.

Directors are required to disclose to the Board actual or potential conflicts of interest that may or might reasonably be thought to exist between the interests of the Director or the interests of any other party in so far as it affects the activities of the Company and to act in accordance with the Corporations Act if conflict cannot be removed or if it persists. That involves taking no part in the decision making process or discussions where that conflict does arise.

Directors are required to make disclosure of any share trading. The Company policy in relation to share trading is that officers, employees and contractors are prohibited from trading whilst in possession of unpublished price sensitive information concerning the Company. That is information which a reasonable person would expect to have a material effect on the price or value of the Company shares. An officer must discuss the proposal to acquire or sell shares with the chairman prior to doing so to ensure that there is no price sensitive information of which that officer might not be aware. The undertaking of any trading in shares must be notified to the Company secretary who makes disclosure to ASX.

The company does not have a formal diversity policy, given the size of the Company at this point in time. However, the Company applies the common sense principle that the person of the right experience, skills and aptitude for a particular vocational need will be chosen for a vacancy within the company.

## Principle 4: Safeguarding Integrity in Financial Reporting

An Audit Committee has been established.

The committee consists of the following:
R.G. Tweedie (Chairman)
L. Musca
S.J. Koroknay

The main responsibilities of the Audit Committee are to;

- review the annual financial statements with the Chief Executive Officer, the Chief Financial Officer and the external auditors and make appropriate recommendations to the Board;
- review all regular financial reports to be made to the public prior to their release and make appropriate recommendations to the Board;
- monitor compliance with statutory Australian and secondary stock exchange requirements for financial reporting;
- review reports from management and external auditors on any significant proposed regulatory, accounting or reporting issues, to assess the potential impact on the Company's financial reporting process.

The Chief Executive Officer and the Chief Financial Officer are required to state in writing that the Company's Financial Reports present a true and fair view in all material respects of the Company's financial condition and operational results in accordance with relevant accounting standards.

The committee is also charged with the responsibilities of recommending to the Board the appointment, removal and remuneration of the external auditors and reviewing the terms of their engagement and the scope and quality of the audit.

An analysis of fees paid to the external auditors, including a breakdown of fees for non audit services, is provided in the notes to the financial statements. It is the policy of the external auditors to provide an annual declaration of their independence to the Board.

Each Board member has access to the external auditors and the auditor has access to each Board member.

## Principle 5: Making Timely and Balanced Disclosure

The Public Officer A.M. Knox, has been nominated as the person responsible for communications with the Australian Securities Exchange (ASX). This role includes responsibility for ensuring compliance with the continuous disclosure requirement in the ASX Listing Rules and overseeing and co-ordinating information disclosure to the ASX, analysts, brokers, shareholders, secondary exchanges, the media and the public.

All material information concerning the Company, including its financial situation, performance and ownership are posted on the Company web site to ensure all investors have equal and timely access.

## Principle 6: Respecting the Rights of Shareholders

The Board recognises its responsibility to ensure that its shareholders are informed of all major developments affecting the Company.

All shareholders receive a copy of the Company's annual report and both the annual and half yearly reports are posted on the Company's web site.

Quarterly reports are prepared in accordance with ASX listing rules. A copy is posted on the Company's web site.

Regular updates on operations are made via ASX releases.

Information on the Company is posted on the Company's website. When analysts are briefed on aspects of the Company's operation, the material used in the presentation is released to the ASX and posted on the Company's website.

The Company website includes the option for shareholders to contact the Company for direct email updates of Company matters.

The external auditor is requested to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the audit report.

## Principle 7: Recognising and Managing Risk

The Board is responsible for reviewing and approving the Company's risk management systems and internal controls by working in conjunction with management to ensure that the Company continues to develop appropriate and sound systems and strategies for risk management, including the appropriate segregation of duties and the employment and training of suitably qualified and experienced personnel.

### Risk Management

The four key risks for the Company are exploration success, loss of production facility integrity and oil and gas prices and markets.

The issue with exploration is one of balancing the potential rewards with the cost of information and the cost of drilling a dry hole. The Company employs a number of strategies to mitigate its risks including farming out prospects which do not meet it's risk profile, and acquiring 3D seismic in order to better define prospects. The Company utilises industry standard software to evaluate prospect economics. Another way in which the Company reduces it's exploration risk is by peer review of prospects both internally and by co-venturers.

Cue currently produces oil and gas from three production facilities which are operated by others. The operators of the facilities are competent oil companies with a track record of safely and economically operating oil and gas facilities. The operator is responsible for maintaining facility integrity so that it can continue to produce oil and gas. Cue regularly reviews the processes used by the operator to maintain facility integrity through attendance at Technical Committee meetings and site visits.

The Company is subject to commodity and currency price fluctuation through the sale of crude oil denominated in $US. The Company constantly monitors crude oil price swaps and currency option contracts available to manage its commodity price risk.

The Board is responsible for approval of acquisition and disposal of exploration and development interests. The Board is also responsible for overseeing identification and development of strategies to mitigate price risk, including hedging and also asset protection and potential liabilities via insurance.

The Company has in place internal control processes, and undertakes such modifications as are necessary to ensure reasonable levels of control are maintained.

Authorisation of equity raisings, entering into debt facilities and major capital expenditure or commitments require Board approval. All routine operating expenditures are the responsibility of management in accordance with programmes and budgets approved by the Board.

The Company currently has a full time staff of ten. The company also employs a part time health, safety, environment and quality coordinator who provides an internal audit function. The company's intention is to operate its business in accordance with the latest revision of the international standards ISO 9001, ISO14001 and ISO18001. In relation to its responsibilities the Board's consideration includes the following:

- Review of internal controls and recommendations of enhancements;
- Monitoring of compliance with the Corporations Act 2001, Australian Securities Exchange, Australian Taxation Office and Australian Securities and Investments Commission requirements;
- Improving the quality of the management and accounting information; and
- Follow-up and rectification by management of deficiencies or breakdown in controls or procedures.
- Monitoring compliance with all applicable laws in the countries in which Cue operates.

### Occupational Health, Safety & Environment (OHS&E)

The Board has determined that due to its small size it would not be efficient to maintain a separate Occupational Health, Safety & Environment Committee. The responsibilities performed by this Committee is assumed by the Board. During 2010 the company appointed a professional health, safety, environment and quality coordinator to provide the Board and management of the company with advice relating to OHS & E matters.

## Principle 8: Remunerate Fairly and Responsibly

A Remuneration and Nomination Committee has been established.

The committee consists of the following:
L. Musca (Chairman)
R.G. Tweedie
S.J. Koroknay

The Remuneration and Nomination Committee makes recommendations to the full Board on remuneration packages and other terms of employment and reviews the composition of the Board having regard to the Company's present and future needs.

Remuneration and other terms of employment are reviewed annually by the committee having regard to performance and relevant comparative information. As well as a base salary, remuneration packages include superannuation, termination entitlements, fringe benefits, shares and options.

Remuneration packages are set at levels that are intended to attract and retain high calibre staff and align the interest of the executives with those of the Company shareholders.

Remuneration of Non-Executive Directors is determined by the Board within the maximum amount approved by the shareholders from time to time.

Further information on Directors' and Executives' remuneration is set out in the Directors' Report and Remuneration Report.

**Table of Departures and Explanations (from the Recommendations of the ASX Corporate Governance Council)**

| | Departure (from Recommendation) | Explanation |
|---|---|---|
| 2.5 and 2.6 | There has been no formal documented disclosure of the process for performance evaluation of the Board, committees, individual Directors and Key Executives.<br>There is no separate section on the Company website currently devoted to Corporate Governance. | Given the size of the Company and the involvement of all three Directors a policy has not to date been required. The Directors continually monitor and discuss performance. |
| 3.1 | No formal code of conduct has been established as to practices necessary to maintain confidence in the Company integrity or as to reporting and investigating unethical practices. | It is not considered that a code of conduct or reporting guide is yet necessary. The principles are followed. |
| 3.2 and 3.3 | No formal policy exists for work place personnel diversity, which includes gender diversity. | It is not considered that a formal diversity policy is required, given the small size of the Company and its work force. The principles are followed to the extent that appropriate skill, experience, aptitude and competence are the key criteria for personnel selection. The practices adopted by the Board recognise that proper compliance with legal and other obligations is mandatory for the Company as a whole. |
| 4.3 | The Audit Committee does not have a formal charter. | Given the size of the Company, the entire Board works intimately with the management and Audit Committee. The Board feels that adequate procedures are in place and that a formal audit charter is not necessary at this time. |
| 5.1 | No written policy and procedure exists to ensure that compliance with ASX Listing Rules disclosure requirements are met at senior management level. | There are only four Key Management Personnel of the Company and the Board does not consider that a written policy is at this time required. It will be reviewed as the activities of the Company increase. |
| 6.1 | The Company ensures continuous disclosure is met but has no further formally designed or disclosed communication strategy with shareholders. | The Board is conscious of the need to continually keep shareholders and markets advised. The procedures adopted within the Company, although not written, are weighted towards informing shareholders and markets. |
| 7.1 and 7.2 | There has been no written implementation of policy on risk oversight and management or for senior management to make statements to the Board concerning those matters. However senior management makes regular written reports on risk assessment to the Board. | Given the nature and size of the Company, its business interests and the involvement of all Directors who all have business management skills, it is not considered necessary to document this practice at this time. |


RAROA
MONROVIA
IMO 7913971

# ANNUAL REPORT OF DIRECTORS

Your Directors present their report on the Company and its controlled entities ("the Group") for the financial year ended 30 June 2011.

## Directors

The names of Directors of the Company in office during the year and up to the date of this report were:

Richard G. Tweedie

Leon Musca

Steven J. Koroknay

## Company Secretary

Andrew M. Knox

## Principal Activities

The principal activities of the group are petroleum exploration, development and production. There has been no significant change in the nature of these activities during the year.

Cue Energy Resources Limited ('Cue') is listed on the Australian Securities Exchange, the New Zealand Stock Exchange and the Port Moresby Stock Exchange. The Company has an American Depositary Receipt (ADR) program sponsored by the Bank of New York and these are traded via the OTCQX Market in the US.

## Principal Place of Business

Level 21, 114 William Street
Melbourne 3000
Australia

## Registered Office

Level 21, 114 William Street
Melbourne 3000
Australia

## Dividends

No dividends were paid to members during the financial year (2010: NIL) or have been approved subsequent to balance date.

## Changes in State of Affairs

During the financial year, there was no significant change in the state of affairs of the consolidated entity.

## 2010/2011 Results

Consolidated entity revenue for the year ended 30 June 2011 was $59.670M (2010: $64.488M).

Consolidated entity expenses totalled $33.909M (2010: $25.137M) including production and amortisation expenses and impairment write downs.

The operating profit before income tax expense for the year was $25.761M (2010: $39.351M). Consolidated entity tax expense for the year was $6.654M (2010: $11.841M). Consolidated entity profit after income tax expense was $19.107M (2010: $27.510M).

The Net Tangible Assets of the company on 30th June 2011 were 17.3 cents per share (2010: 10.7 cents)

## Review of Operations

Information on the operations and financial position of the group and its business strategies and prospects is set out in the Chairman's and Chief Executive Officer's report sections of this annual report.

## Shareholders' Equity & Capital Structure

Total Shareholders' Equity as at 30 June 2011 was $118.833M (2010: $99.426M). At balance date Cue had issued share capital of $151.8M (2010: $151.5M).

The total number of shares on issue at 30 June 2011 was 694,819,718 (2010: 693,319,718).

## Options and Other Rights of Conversion

### Options

As at 30 June 2011 the following options were outstanding:

### Unlisted

4,300,000 unlisted options to senior management and employees over fully paid ordinary shares. Options are exercisable as follows:

| Number of Options | Exercise Price (cents) | Expiry Date |
|---|---|---|
| 1,200,000 | 15 | 19/04/12 |
| 700,002 | 20 | 19/04/12 |
| 1,033,333 | 22.5 | 19/04/12 |
| 1,033,332 | 25 | 19/04/12 |
| 333,333 | 35 | 19/04/12 |

At the date of this report the following options were outstanding:

3,966,665 unlisted options to senior management and employees over fully paid ordinary shares. Options are exercisable as follows:

| Number of Options | Exercise Price (cents) | Expiry Date |
|---|---|---|
| 1,033,333 | 15 | 19/04/12 |
| 533,334 | 20 | 19/04/12 |
| 1,033,333 | 22.5 | 19/04/12 |
| 1,033,332 | 25 | 19/04/12 |
| 333,333 | 35 | 19/04/12 |

## Environmental Regulation and Performance

This year has seen a renewed focus in the area of Health, Safety and Environment (HSE). Within the last year there have been zero incidents, zero lost time injuries and zero significant spills within Cue Energy Resources. Among our joint venture operations there has been one lost time injury and three minor spills at the Maari Field and zero significant incidents or injuries for SE Gobe and Oyong fields. Cue Energy Resources continues to monitor the progress and close out of these incidents and work with our Joint Venture partners and operators to improve overall health and safety performance and minimise any impact on the environment.

There have been a number of initiatives taken in order to improve HSE performance through the implementation of an HSE management system that is suitable for all countries and all levels of operations that the business may wish to be involved with. The overall aim of the system is to not just meet legislative requirements but to show a true commitment to HSE for the sake of Cue Energy Resources personnel, contractors, assets and the environment.

The HSE Management system itself consists of HSE policies and objectives, outlines the risks identified for the business and what controls and processes are required to reduce these risks to as low as reasonably practicable. The system is compliant with not only Australia and New Zealand standards but international standards and industry best practices and expectations. Through ongoing commitment by both senior management and staff alike, this system will continually improve overall Health, Safety and Environmental performance of the company.

The Group holds participating interests in a number of exploration and production titles as detailed in Note 12 and 14 to the financial statements. The various authorities granting such licences require the holder to comply with the directions and terms of the grant of the licence.

The Group aims to ensure that the highest standard of environmental care is achieved. The Board maintains the responsibility to ensure that the Group's environment policies are adhered to and to ensure that the Group is aware of and is in compliance with all relevant environmental legislation. There have been no environmental breaches during the 2011 financial year.

There have been no significant known breaches of the Group's licence conditions during the 2011 financial year.

## Future Developments

The particular information required by Section 299(1) (e) of the Corporations Act 2001 has been omitted from the report because the Directors believe that it would result in unreasonable prejudice to the economic entity.

## Directors Meetings

The following table sets out the number of meetings of the Board of Directors held during the year and the number of meetings attended by each Director.

| | Board | | Audit Committee | | Remuneration and Nomination Committee | |
|---|---|---|---|---|---|---|
| | **Held** | **Attended** | **Held** | **Attended** | **Held** | **Attended** |
| Richard G. Tweedie | 6 | 6 | 2 | 2 | 1 | 1 |
| Leon Musca | 6 | 6 | 2 | 2 | 1 | 1 |
| Steven J. Koroknay | 6 | 5 | 2 | 1 | 1 | 1 |

Information on directors and executives, including qualifications and experience is as follows:

| | Qualifications and Experience | Special Responsibilities | Particulars of Directors' Interests in shares and options of Cue Energy Resources Limited at the date of this report | |
|---|---|---|---|---|
| **Directors:** | | | **Direct** | **Indirect** |
| R.G. Tweedie | LL.B<br>Director of Todd Petroleum Mining(ii) Company Limited - Appointed 04/09/1987 retired 31/12/2010<br>Director of Cue Energy Resources Limited(i) Appointed 16/07/2001 | Chairman of Board of Directors<br>Member of Remuneration and Nomination Committee<br>Chairman of Audit Committee | 277,541 | 3,363,477<br>Nil options |
| S.J. Koroknay | BE(Hons)- Civil Eng (Sydney) FAICD, FIEA<br>Non-Executive Director Innamincka Petroleum Limited(i) - Appointed 15/05/08 - resigned 24/06/11<br>Non-Executive Chairman Galilee Energy Limited(i) - Appointed 20/01/09<br>Non-Executive Director Cue Energy Resources Limited(i) - Appointed 09/10/09<br>Non-Executive Director Metgasco Limited(i) - Appointed 20/01/10 | Non-Executive Director<br>Member of Audit Committee<br>Member of Remuneration and Nomination Committee | Nil | 100,000<br>Nil options |
| L. Musca | LL.B<br>Barrister and Solicitor<br>Director of Cue Energy Resources Limited(i) - Appointed 17/11/1999 | Independent Non-Executive Director<br>Chairman of Remuneration and Nomination Committee<br>Member of Audit Committee | Nil | 12,771,227<br>Nil options |

| | Qualifications and Experience | Special Responsibilities | Particulars of Directors' Interests in shares and options of Cue Energy Resources Limited at the date of this report | |
|---|---|---|---|---|
| **Executives:** | | | **Direct** | **Indirect** |
| M.J Paton | B.SC (Hons), MIChemE | Chief Executive Officer - Appointed 08/02/2011 | Nil | 1,492,881 |
| R.J. Coppin | B.Sc (Hons), FAICD<br>Director of Cue Energy Holdings Limited | Chief Executive Officer - Retired 07/02/2011 | 2,700,000 | 500,000 |
| A.M. Knox | B.Com, CA, CPA, FAICD<br>Director of Cue Energy Resources Limited - Appointed 16/09/2009 - Resigned 09/10/2009(i)<br>Director of all Cue Energy Resources Limited subsidiaries<br>Director of Rimfire Pacific Mining NL - Appointed 08/07/2005(i) - Retired 31/03/2011<br>Director of Axis Mining NL - Appointed 08/07/2005(ii) - Retired 31/03/11 | Chief Financial Officer<br>Company Secretary<br>Public Officer | 1,058,252<br>1,500,000 options | 1,500,000 |

(i) Refers to ASX listed directorship held over the past three years.

(ii) Refers to unlisted public company directorships held over the past three years.

No shares in subsidiary companies are held by the Directors and no remuneration or other benefits were paid or are due and payable by subsidiary companies.

## Remuneration Report (Audited)

This Remuneration Report, which forms part of the Directors Report, sets out information about the remuneration of Cue Energy Limited's Directors and its senior management for the financial year ended 30 June 2011.

The prescribed details for each person covered by this report are detailed below under the following headings:

(A) Director and Executive Details

(B) Remuneration Policy

(C) Details of Remuneration of Directors and Executives

(D) Equity Based Remuneration

(E) Relationship between Remuneration Policy and Company Performance

### (A) Director and Executive Details

The following persons acted as Directors of the company during or since the end of the financial year:

R.G. Tweedie *(Chairman)*

L. Musca *(Non Executive Director)*

S. Koroknay *(Non Executive Director)*

The term "Key Management Personnel" is used in this Remuneration Report to refer to the following persons:

M.J. Paton *(Chief Executive Officer appointed 8 February 2011)*

R.J. Coppin *(Chief Executive Officer retired 7 February 2011)*

A.M. Knox *(Chief Financial Officer/Company Secretary)*

A. B. Parks *(Chief Commercial Officer appointed 21 March 2011)*

T. White *(Exploration Manager)*(i)

(i) Mr T White was designated as a Key Management Personnel from 1 July 2010.

Unless otherwise stated the persons named above held their current position for the whole of the financial year and since the end of the financial year.

## (B) Remuneration Policy

The Board's policy for remuneration of Executives and Directors is detailed below.

Remuneration packages are set at levels that are intended to attract and retain high calibre Directors and employees and align the interest of the Directors and Executives with those of the Company shareholders. Remuneration policy is established and implemented solely by the Remuneration and Nomination Committee which is comprised of Non Executive Directors only.

Remuneration and other terms and conditions of employment are reviewed annually by the Remuneration and Nomination Committee having regard to performance and relevant employment market information. As well as a base salary, remuneration packages include superannuation, annual incentive plan cash bonuses, termination entitlements, fringe benefits and share based incentives in the form of a share option scheme. From 1 July 2011, the company has implemented a performance rights plan as the primary share based incentive for services provided from that date. The performance rights plan is described below.

Performance measures and targets applicable to the award of performance rights and annual cash bonuses will be established by the Board on an annual basis.

However, the Board is conscious of its responsibility for the performance of the Company. Directors and Executives are encouraged to hold shares in the Company to align their interests with those of shareholders.

No remuneration or other benefits are paid to Directors or Key Executives by any subsidiary companies.

## (C) Details of Remuneration

### Remuneration structure

The structure of non-executive Director and executive remuneration is separate and distinct.

#### Non-Executive Directors

Remuneration of Non-Executive Directors is determined by the Board within the maximum amount approved by the shareholders from time to time. The amount currently approved is $400,000, which was approved at the Annual General Meeting held on 12 November 2009. The Company's policy is to remunerate Non-Executive Directors at a fixed fee for time, commitment and responsibilities. Remuneration for Non-Executive Directors is not linked to individual or company performance, however, to align Directors' interests with shareholders' interests, Non-Executive Directors are encouraged to hold shares in the Company. The Board retains the discretion to award options or performance rights to Non-Executive Directors based on the recommendation of the Remuneration and Nomination Committee subject always to shareholder approval.

During 2011 the Remuneration and Nomination Committee reviewed fees payed to Non Executive Directors and resolved that the Director's fees for each of the two Non Executive Directors and Chairman be increased to $100,000 per annum effective 1 January 2011.

#### Executives

Executives receive a mixture of fixed and variable pay and a blend of short and long term incentives as appropriate. Remuneration packages contain the following key elements:-

- Fixed compensation component inclusive of base salary, superannuation and non-monetary benefits.
- Short term incentive programme incorporating performance based cash bonuses.
- Superannuation.
- Long term incentives incorporating share based payments including performance rights (from 1 July 2011) and share options granted as long term performance incentives or in lieu of services.

The award of long term incentives, such as share options and/or performance rights (as discussed below from 1st July 2011) ensures that the total compensation package awarded to executives matches the stage of development of the Company at a given point in time. The grant of share options or performance rights is designed to recognise and reward the efforts of executives as well as to provide additional incentive. These grants may be subject to the successful completion of performance hurdles. Executives are prohibited from entering into transactions or arrangements which limit the economic risk of participating in unvested entitlements.

The Remuneration and Nomination Committee is responsible for determining and reviewing remuneration arrangements. The Remuneration and Nomination Committee assesses the appropriateness of the nature and amount of remuneration of executives on a periodic basis, by reference to relevant employment market conditions, with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality, high performing Director and executive team. The charter adopted by the Remuneration and Nomination Committee aims to align rewards with achievement of strategic objectives and creation of shareholder wealth.

#### Fixed Compensation

Fixed Compensation consists of base salary (which is calculated on a total cost base and including any FBT changes related to employee benefits including motor vehicles), as well as employer contributions to superannuation funds.

The base salary is reflective of market rates for companies of similar size and industry which is reviewed annually to ensure market competitiveness. During 2011, the Remuneration and Nomination Committee reviewed the salaries paid to peer company executives in determining the salary of Cue Key Management Personnel. This base salary is fixed remuneration and is not subject to performance of the company. Base salary is reviewed annually and adjusted as determined by the Remuneration and Nomination Committee on 1st January each year. There is no guaranteed base salary increase included in any executive's contracts.

#### Short term incentives

The Board at its sole discretion may elect to pay short term incentives in the form of performance based cash bonuses to executives based on the recommendation of the Remuneration and Nomination Committee. Any payment of short term incentives is dependent on the achievement of performance targets as determined by the Board. These targets shall include a combination of key strategic, financial and personal performance measures which have major influence over company performance in the short term. Short term incentive payments may also be made at the discretion of the Board to reward an executive's participation in ad-hoc projects or activities.

The Remuneration and Nomination Committee may adjust short-term incentive payments based on an executive's achievement of performance milestones. During the year, the Board exercised its discretion to pay short term incentives to Key Management Personnel who were employed by the company during the 2009/10 Financial Year in recognition of the company's exceptional performance in that year.

On 22nd June the Board approved the implementation of a new annual incentive plan and established the performance measures and targets for the 2012 Financial Year. Letters of offer to participate in the annual incentive plan detailing the cash bonuses to be paid under the plan and the performance standards to be achieved to realise the bonus payments were distributed to Key Management Personnel and other qualifying employees on 30th June 2011 applicable for service from 1 July 2011.

### Long term incentives

The Board has decided to implement a performance rights plan effective from 1 July 2011. The Remuneration and Nomination Committee recommends the grant of performance rights as incentives for its executives, to maintain their long term commitment to the Company. The use of long term incentives is considered a valuable means of aligning the interest of shareholders and the individuals to whom such long term incentives are provided.

It also provides the Remuneration and Nomination Committee with a range of incentives to attract and retain key management, including executives. The number of share options or performance rights granted and their terms and conditions are determined by the Board and defined in the Performance Rights Plan Rules and can be adjusted to reflect specific performance hurdles (as discussed below) in order to best match such awards with the actual circumstances of the Company at a given point in time.

### Post employment benefits

The Company makes superannuation contributions for the Australian based employees and directors as required by law.

Details of the nature and amount of each major element of remuneration of each Director of the Company and other Key Management Personnel of the consolidated entity are:

## Compensation of Key Management Personnel – 2011:

| 2011 | Short-Term | | | Post Employment | | | Share-Based | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Name** | **Cash salary and fees $** | **Annual Incentive Plan Bonus (iv) $** | **Non monetary benefits (ii) $** | **Super-annuation $** | **Retire-ment benefits $** | **Share Purchases (i) $** | **Options (iii) $** | **Total Option Based Related %** | **Total $** | **Total Perfor-mance Based %** |
| **Non-Executive Directors** | | | | | | | | | | |
| R.G. Tweedie | - | - | - | - | - | 83,332 | - | - | 83,332 | - |
| S.J. Koroknay | 76,453 | - | - | 6,881 | - | - | - | - | 83,334 | - |
| L. Musca | 83,332 | - | - | - | - | - | - | - | 83,332 | - |
| Total | 159,785 | - | - | 6,881 | - | 83,332 | - | - | 249,998 | - |
| **Key Management Personnel** | | | | | | | | | | |
| R.J. Coppin | 179,963 | - | 12,732 | 50,000 | 505,835 | - | - | - | 748,530 | - |
| M.J. Paton | 170,207 | - | - | 19,792 | - | - | - | - | 189,999 | - |
| A.M. Knox | 326,803 | 70,000 | 45,578 | 23,245 | - | - | - | - | 465,626 | 15 |
| A.B. Parks | 114,800 | - | - | 4,259 | - | - | - | - | 119,059 | - |
| T. White | 344,141 | 70,000 | - | 50,004 | - | - | - | - | 464,145 | 15 |
| Total | 1,135,914 | 140,000 | 58,310 | 147,300 | 505,835 | - | - | - | 1,987,359 | - |
| Total remuneration of Executives and Directors | 1,295,699 | 140,000 | 58,310 | 154,181 | 505,835 | 83,332 | - | - | 2,237,357 | - |

(i) Shares purchased on market (refer Directors Saving Plan below).

(ii) Non performance based salary sacrifice benefits, including motor vehicle expenses.

(iii) Relates to shares and options granted in prior periods; which have vested in the current period.

(iv) Relates to bonuses granted in the current period.

## (C) Details of Remuneration (Cont')

### Compensation of Key Management Personnel – 2010:

| 2010 | Short-Term | | | Post Employment | | | Share-Based | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Name | Cash salary and fees $ | Annual Incentive Plan Bonus $ | Non monetary benefits (ii) $ | Super-annuation $ | Retire-ment benefits $ | Share Purchases (i) $ | Options (iii) $ | Total Option Based Related % | Total $ | Total Perfor-mance Based % |
| **Non-Executive Directors** | | | | | | | | | | |
| R.G. Tweedie | - | - | - | - | - | 66,667 | - | - | 66,667 | - |
| S. Koroknay | 29,252 | - | - | 19,300 | - | - | - | - | 48,552 | - |
| L. Musca | 66,667 | - | - | - | - | - | - | - | 66,667 | - |
| E.G. Albers(iv) | 12,055 | - | - | - | - | - | - | - | 12,055 | - |
| Total | 107,974 | - | - | 19,300 | - | 66,667 | - | - | 193,941 | - |
| **Key Management Personnel** | | | | | | | | | | |
| R.J. Coppin | 259,326 | - | 67,238 | 49,200 | - | - | 14,919 | 3.8 | 390,683 | - |
| A.M. Knox | 249,499 | - | 50,190 | 23,460 | - | 39,981 | 14,919 | 14.5 | 378,049 | - |
| Total | 508,825 | - | 117,428 | 72,660 | - | 39,981 | 29,838 | - | 768,732 | - |
| Total remuneration of Executives and Directors | 616,799 | - | 117,428 | 91,960 | - | 106,648 | 29,838 | - | 962,673 | - |

(i) Shares purchased on market (refer Directors Saving Plan below).

(ii) Non performance based salary sacrifice benefits, including motor vehicle expenses.

(iii) Relates to shares and options granted in prior periods; which have vested in the current period.

(iv) E.G. Albers retired 04/09/09.

A.M. Knox is a Director of all the subsidiaries in the Group and an Executive of the parent company.

R.J. Coppin was a Director of Cue Energy Holdings Ltd and an Executive of the parent company until 7 February 2011.

### Service Contracts

Remuneration and other terms of employment for M.J. Paton is formalised in a service agreement. Details of this agreement are as follows:

**Title:** Chief Executive Officer

**Agreement commenced:** 8 February 2011

**Details:** Base salary of $480,000 including superannuation to be reviewed annually by the Remuneration and Nomination Committee. 3 months termination notice by either party, short term incentive up to 50% of base salary as per Remuneration and Nomination Committee approval and KPI achievement. Eligible for Long Term Incentive Program. Non solicitation and non compete clauses.

No other Key Management Personnel at present has a service contract. Employment letters outline the components of compensation paid to other Key Management Personnel but does not prescribe how compensation levels are modified year to year. Compensation levels are reviewed each year to take into account cost of living changes, any change in the scope of the role performed and any changes to meet the principles of the compensation policy.

### Retirement Benefits

Mr R.J. Coppin retired 7 February 2011. The retirement payment of $505,835 to Mr R.J. Coppin in the 30 June 2011 financial year was a discretionary ex gratia payment resolved by the Board of Directors for services provided inclusive of statutory long service and annual leave payments.

### (D) Equity Based Remuneration

#### Share Options

As previously stated, from 1 July 2011 the company has implemented a Performance Rights Plan as a mechanism for providing a share based performance incentive for Key Management Personnel and to achieve alignment between Key Management and Shareholder objectives. Until 30 June options were granted to the Executives as part of their remuneration as approved by the Directors. Options granted were not related to a specific performance condition. Options were granted to reward key management personnel for their contribution to achieving specific milestones.

Options are granted under the plan for no consideration. Options granted carry no dividend or voting rights. No options were granted in the financial year to 30 June 2011 (2010: Nil).

#### Analysis of movements in share options

The movement during the reporting period, by value, of options over ordinary shares in the company held by each Key Management Personnel is detailed below:

| | Granted in Year | Value of options Exercised in Year $ (ii) | Lapsed in Year |
|---|---|---|---|
| A.M. Knox | Nil | Nil | Nil |
| R.J. Coppin (i) | Nil | 202,500 | Nil |

(i) Retired 7 February 2011.

(ii) The value of options exercised during the year is calculated as the market price of shares of the Company as at close of trading on the date options were exercised after deducting the price paid to exercise the option.

#### Share Options Granted as Compensation

No share options were granted to Directors or other Key Management Personnel in the financial year to 30 June 2011 (2010: Nil).

Share option expense recorded in the 30 June 2010 financial year related to options granted in prior financial years. These vested in the 30 June 2010 financial year.

Details of vesting profiles of options granted as remuneration to each Key Management personnel in prior financial years which were recorded as an expense in the 30 June 2010 financial year are detailed below:

| Executive | Number Granted | Date Granted | Total Value of Option Granted | Value of Expensed in 2010 Financial year | Year Options Expire | Financial Year Options Vested |
|---|---|---|---|---|---|---|
| R.J. Coppin (i) | - | - | - | - | - | - |
| A.M. Knox | - | - | - | - | - | - |

(i) Retired 7 February 2011.

No terms of equity settled share based payment transactions granted in prior year (including options granted to Key Management Personnel) have been modified or altered during the reporting period or prior period.

### Exercise of Share Options Granted as Compensation

During the reporting period, the following shares were issued on the exercise of options previously granted as compensation:

| Executive | No. of Options | No. of Shares Issued | Total Amount Paid $/Share | Value of Options Exercised (ii) $ |
|---|---|---|---|---|
| R.J. Coppin (i) | 500,000 | 500,000 | 75,000 | 92,500 |
| | 333,334 | 333,334 | 66,667 | 45,000 |
| | 333,333 | 333,333 | 75,000 | 36,667 |
| | 333,333 | 333,333 | 83,333 | 28,333 |
| | 1,500,000 | 1,500,000 | 300,000 | 202,500 |

(i) Retired 7 February 2011.

(ii) The value of options exercised during the year is calculated on the market price of shares of the Company as of close of trading on the date options were exercised after deducting the price paid to exercise the option.

There are no amounts unpaid on the shares issued as a result of the exercise of the options in the 2011 financial year.

### Performance Right Plan

Performance rights over shares in Cue Energy Resources Limited are to be granted under the Cue Energy Resources Ltd Performance Rights Plan ("Plan") from 1 July 2011 for future services provided as approved by the Board on 22nd June 2011. The Plan is designed to align the interests of executives with shareholders by providing direct participation in the benefits of future Company performance over the medium to long term. It is contemplated that Performance rights will be granted to Key Management personnel on an annual basis. Non Executive Directors will not be eligible to participate in the 2011/12 Plan.

The participants in the 2011/12 plan are: M.J. Paton, A.M. Knox, A.B. Parks and T. White.

For employee services provided from 1 July 2011 participants were granted performance rights under the Plan. On 30 June the closing share price of Cue Energy Resources Ltd on the ASX (Code: CUE) was 26.5 cents. The performance rights granted to Key Management Personnel will vest as ordinary shares in the company if the 30 day volume weighted average share price in Cue Energy Resources Ltd quoted on the ASX increases to 53 cents during the period 1st July 2012 to 30th June 2013. In the event that the share price target is not met within this period then the performance rights lapse.

Long term performance targets of the Company will be established every year and the future award of performance rights may be made at the Board's sole discretion.

Following exercise of a performance right, the Company must issue or transfer to the person exercising the performance right the number of shares in respect of which the performance right has been exercised and credited as fully paid. All shares issued or transferred to a participant under this Plan, will, from the date of issue or transfer, rank equally with all other issued shares. Once rights have vested as shares in the company 50% of the shares may be sold on vesting but 50% must be held by the participant for a period of 12 months.

Participants will not be required to make any payment for the grant of the performance rights or on the exercise of a vested performance right.
The following performance rights were granted to Key Management Personnel on 1 July 2011.

| | Vesting Date | Vesting Target | M.J. Paton | A.M. Knox | A.B. Parks | T. White |
|---|---|---|---|---|---|---|
| 2011 Performance Rights Issue | Expire if not vested by 30 June 2013 | ASX CUE 53 Cents | 1,600,000 | 800,000 | 800,000 | 800,000 |

The maximum number of performance rights that could vest in future periods and hence be exercised by the participants are as follows:

| | Before 30 June 2013 | Total |
|---|---|---|
| M.J. Paton | 1,600,000 | 1,600,000 |
| A.M. Knox | 800,000 | 800,000 |
| A.B. Parks | 800,000 | 800,000 |
| T. White | 800,000 | 800,000 |
| Total | 4,000,000 | 4,000,000 |

The performance hurdles for the grant of performance rights under the Plan to participants, as described above, are classified as market-based hurdles.

### Directors Savings Plan

Pursuant to the Directors Savings Plan, Directors can purchase through an appointed trustee, Cue Energy Resources Limited- shares on market in lieu of being paid Directors fees in cash.

The number of ordinary shares purchased for the Directors as part of the Plan during the financial year are set out below with the movement in each individual Director's shareholding:

| Director Shareholdings | | | | | | |
|---|---|---|---|---|---|---|
| | Balance at start of year | Acquired during year on exercise of options | Purchases other than remuneration | Purchases as Part of Directors Savings Plan | Sales During the year | Balance at Report Date |
| **Directors 2011** | | | | | | |
| R.G. Tweedie | 3,363,477 | - | - | 277,541 | - | 3,641,018 |
| S.J. Koroknay | 100,000 | - | - | - | - | 100,000 |
| L. Musca | 12,771,227 | - | - | - | - | 12,771,227 |
| **Directors 2010** | | | | | | |
| R.G. Tweedie | 3,088,539 | - | - | 274,938 | - | 3,363,477 |
| S.J. Koroknay | - | - | 100,000 | - | - | 100,000 |
| L. Musca | 12,771,227 | - | - | - | - | 12,771,227 |

## (E) Relationship Between Remuneration Policy and Company Performance

### Company Performance Review

The tables below set out summary information about the company's earnings and movements in shareholder wealth and Key Management remuneration for the five years to 30 June 2011.

| Profit Performance | 30 June 2011 $000's | 30 June 2010 $000's | 30 June 2009 $000's | 30 June 2008 $000's | 30 June 2007 $000's |
|---|---|---|---|---|---|
| Revenue | 59,670 | 64,488 | 32,543 | 38,845 | 9,669 |
| Net profit/(loss) before tax | 25,761 | 39,351 | (20,905) | 15,544 | (26,099) |
| Net profit/(loss) after tax | 19,107 | 27,510 | (24,958) | 11,719 | (27,623) |
| Key Management Remuneration | 2,237 | 963 | 970 | 966 | 1,026 |
| **Share Performance** | **30 June 2011** | **30 June 2010** | **30 June 2009** | **30 June 2008** | **30 June 2007** |
| Share price at start of year (cents) | 25.0 | 14.5 | 22.5 | 17.5 | 19.0 |
| Share price at end of year (cents) | 26.5 | 25.0 | 14.5 | 22.5 | 17.5 |
| Dividends (cents) | - | - | - | - | - |
| Basic earnings/ (loss share (cents) | 2.7 | 4.0 | (4.0) | 1.9 | (4.4) |
| Diluted earnings/(loss) share (cents) | 2.7 | 4.0 | (4.0) | 1.9 | (4.4) |

The company's remuneration policy seeks to reward staff members for their contribution to adding shareholder value and from 30 June 2011 there will be a direct link between remuneration and company share price or financial performance.

## Auditor

In accordance with the provisions of the Corporations Act 2001 the Company's auditor, PKF Chartered Accountants, continues in office.

## Non-audit Services

The Company may decide to employ the auditor on assignments additional to its statutory audit duties where the auditor's expertise and experience with the Company are important.

The Board of Directors has considered the position and is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The Directors are satisfied that the provision of non-audit services by the auditor as set out below, did not compromise the audit independence requirement, of the Corporations Act 2001, based on advice received from the Audit Committee, for the following reasons:

- All non-audit services have been reviewed by the Board to ensure they do not impact the impartiality and objectivity of the auditor.
- None of the services undermine the general principle relating to auditor independence as set out in the Code of Ethics for Professional Accountants, including reviewing or auditing the auditor's own work, acting in a management or a decision making capacity for the Company, acting as advocate for the Company or jointly sharing economic risk and reward.

| **Audit Services** | **$** |
|---|---|
| Audit and review of financial reports | 71,000 |
| **Non-Audit Services** | |
| Tax compliance services including review of tax accounting, tax returns and tax advice re tax losses | 42,682 |
| Total | 113,682 |

## Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001, is set out on page 33.

## Rounding Off of Amounts

The Company is a company of the kind referred to in ASIC Class Order 98/0100, dated 10 July 1998, and in accordance with the Class Order amounts in the directors' report and the financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

## Directors' Insurance and Indemnification of Directors and Auditors

During the financial year, the company paid a premium in respect of a contract insuring the directors of the company, the company secretary, and all executive officers of the company and of any related body corporate against a liability incurred as a director, company secretary or executive officer to the extent permitted by the Corporations Act 2001. In accordance with commercial practice, the insurance policy prohibits disclosure of the terms of the policy, including the nature of the liability insured against and the amount of the premium.

The company has not otherwise, during or since the end of the financial year indemnified or agreed to indemnify an officer or auditor of the company or any related body corporate against a liability incurred as an officer or auditor.

## Events Subsequent to Balance Date

The Directors are not aware of any matter or circumstance since the end of the financial year, not otherwise dealt with in this report or group financial statements that has significantly or may significantly affect the operations of Cue Energy Resources Limited, the results of those operations or the state of affairs of the Company or Group.

On behalf of the Board

**Richard Tweedie**
Chairman

Dated in Melbourne on this 29th day of September 2011 and signed in accordance with a resolution of the Directors made pursuant to S.298 (2) of the Corporations Act 2001.

# AUDITOR'S INDEPENDENCE DECLARATION

Chartered Accountants
& Business Advisers

**LEAD AUDITOR'S INDEPENDENCE DECLARATION**
**UNDER SECTION 307C OF THE CORPORATIONS ACT 2001**

**To: The Directors**
**Cue Energy Resources Limited and the entities it controlled during the year**

I declare to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2011 there have been:

- no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit, and
- no contraventions of any applicable code of professional conduct in relation to the audit.

David Garvey

**D J Garvey**
**Partner**
**PKF**

29 September 2011
Melbourne

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# DIRECTORS' DECLARATION

The directors of Cue Energy Resources Limited declare that:

(a) in the Directors' opinion the financial statements and notes and the Remuneration report in the Directors Report set out on pages 25 to 31, are in accordance with the Corporations Act 2001, including:

  (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance, for the financial year ended on that date; and

  (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and Corporations Regulations 2001.

(b the financial report also complies with International Financial Reporting Standards as disclosed in Note 1; and

(c) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

The Directors have been given the declarations required by Section 295A of the Corporations Act 2001 by the Chief Executive Officer and Chief Financial Officer for the financial year ended 30 June 2011.

Signed in accordance with a resolution of the Directors.

Dated in Melbourne this 29th day of September 2011.

**Richard Tweedie**

Chairman

# FINANCIAL REPORT 2011

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 30 June 2011

| | | Consolidated | |
|---|---|---|---|
| | Note | 2011 $000's | 2010 $000's |
| Production income | 3 | 52,506 | 54,700 |
| Production costs | 4 | (9,113) | (11,076) |
| **Gross profit from production** | - | 43,393 | 43,624 |
| Other income | 3 | 7,164 | 5,464 |
| Amortisation costs | 4 | (9,644) | (11,418) |
| Impairment expenses | 4 | (2,838) | (236) |
| Finance costs | | | |
| · Interest expense | 4 | (173) | (240) |
| · Net realised gain/(loss) on oil hedge derivatives | 4, 3 | (1,209) | 575 |
| · Change in fair value of derivatives | 10 | (935) | 1,420 |
| · Net foreign currency exchange gain/(loss) | 4, 3 | (5,328) | 2,329 |
| Other expenses | 4 | (4,669) | (2,167) |
| **Profit before income tax** | | 25,761 | 39,351 |
| Income tax expense | 6 | (6,654) | (11,841) |
| **Net profit for the year** | | 19,107 | 27,510 |
| Change in the value of available for sale financial assets | | - | (141) |
| Other comprehensive income for the year net of tax | | - | (141) |
| **Total comprehensive income for the year** | | 19,107 | 27,369 |
| **Net Profit is attributable to: owners of Cue Energy Resources Limited** | | 19,107 | 27,510 |
| **Total comprehensive income for the year is attributable to: owners of Cue Energy Resources Limited** | | 19,107 | 27,369 |

| | Note | $ | $ |
|---|---|---|---|
| Basic earnings per share | 21 | 0.03 | 0.04 |
| Diluted earnings per share | 21 | 0.03 | 0.04 |

The accompanying notes form part of and are to be read in conjunction with these Financial Statements.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 30 June 2011

| | | Consolidated | |
|---|---|---|---|
| | Note | 2011 $000's | 2010 $000's |
| **Current Assets** | | | |
| Cash and cash equivalents | 25(b) | 52,811 | 29,373 |
| Trade and other receivables | 8 | 17,286 | 13,035 |
| Other financial assets | 10 | - | 1,420 |
| **Total Current Assets** | | 70,097 | 43,828 |
| | | | |
| **Non Current Assets** | | | |
| Property, plant and equipment | 9 | 72 | 72 |
| Deferred tax assets | 6 | 11,612 | 15,124 |
| Exploration and evaluation expenditure | 12 | 13,166 | 24,817 |
| Production properties | 14 | 68,786 | 66,714 |
| **Total Non Current Assets** | | 93,636 | 106,727 |
| **Total Assets** | | 163,733 | 150,555 |
| | | | |
| **Current Liabilities** | | | |
| Trade and other payables | 15 | 5,547 | 4,090 |
| Other financial liabilities | 10 | 935 | - |
| Financial liability-secured | 16 | 5,086 | 7,720 |
| Tax liabilities | 6 | 5,280 | 4,478 |
| Provisions | 17 | 379 | 348 |
| **Total Current Liabilities** | | 17,227 | 16,636 |
| | | | |
| **Non Current Liabilities** | | | |
| Financial liability - secured | 16 | - | 6,403 |
| Deferred tax liabilities | 6 | 26,727 | 27,217 |
| Provisions | 17 | 946 | 873 |
| **Total Non Current Liabilities** | | 27,673 | 34,493 |
| **Total Liabilities** | | 44,900 | 51,129 |
| | | | |
| **Net Assets** | | 118,833 | 99,426 |
| | | | |
| **Equity** | | | |
| Issued capital | 7 | 151,768 | 151,468 |
| Reserves | 7 | 391 | 391 |
| Accumulated losses | | (33,326) | (52,433) |
| **Total Equity** | | 118,833 | 99,426 |

The accompanying notes form part of and are to be read in conjunction with these Financial Statements.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 30 June 2011

| | Issued Capital | Accumulated Losses | Share-based Payments Reserve | Available for Sale Reserve | Total |
|---|---|---|---|---|---|
| **Consolidated** | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** |
| **Balance at 1 July 2010** | **151,468** | **(52,433)** | **391** | **-** | **99,426** |
| Profit for the period | - | 19,107 | - | - | **19,107** |
| Other comprehensive income | - | - | - | - | **-** |
| **Total comprehensive income for the period** | - | 19,107 | - | - | **19,107** |
| | | | | | |
| **Transactions with the owners in their capacity as owners:** | | | | | |
| Security-based payments | - | - | - | - | **-** |
| Issue of shares, net of costs | 300 | - | - | - | **300** |
| **Balance at 30 June 2011** | **151,768** | **(33,326)** | **391** | **-** | **118,833** |

| | Issued Capital | Accumulated Losses | Share-based Payments Reserve | Available for Sale Reserve | Total |
|---|---|---|---|---|---|
| **Consolidated** | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** |
| **Balance at 1 July 2009** | **141,800** | **(79,943)** | **334** | **141** | **62,332** |
| Profit for the period | - | 27,510 | - | - | **27,510** |
| Other comprehensive income | - | - | - | (141) | **(141)** |
| **Total comprehensive income for the period** | - | 27,510 | - | (141) | **27,369** |
| | | | | | |
| **Transactions with the owners in their capacity as owners:** | | | | | |
| Security-based payments | - | - | 57 | - | **57** |
| Issue of shares, net of costs | 9,668 | - | - | - | **9,668** |
| **Balance at 30 June 2010** | **151,468** | **(52,433)** | **391** | **-** | **99,426** |

The accompanying notes form part of and are to be read in conjunction with these Financial Statements.

## CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 30 June 2011

| | | Consolidated | |
|---|---|---|---|
| | Note | 2011 $000's | 2010 $000's |
| **Cash Flows From Operating Activities** | | | |
| Receipts from customers | | 49,026 | 54,713 |
| Interest received | | 349 | 288 |
| Payments to employees and other suppliers | | (3,459) | (11,268) |
| Interest paid | | (173) | (386) |
| Income tax paid | | (2,901) | (229) |
| Royalties paid | | (1,607) | (898) |
| **Net Cash Provided by Operating Activities** | **25(a)** | 41,235 | 42,220 |
| | | | |
| **Cash Flows From Investing Activities** | | | |
| Payments for exploration expenditure | | (2,185) | (6,734) |
| Proceeds on refund of exploration expenditures | | 5,050 | - |
| Payment for office equipment | | (24) | (23) |
| Payments for production property | | (6,575) | (11,426) |
| Proceeds on sale of investments | | - | 670 |
| **Net Cash Used In Investing Activities** | | (3,734) | (17,513) |
| | | | |
| **Cash Flows From Financing Activities** | | | |
| Proceeds from borrowings | | 300 | - |
| Repayment of borrowings | | (9,036) | (10,070) |
| Proceeds from entitlement offer, net of costs | | - | 9,668 |
| **Net Cash Used In Financing Activities** | | (8,736) | (402) |
| | | | |
| **Net Increase in Cash and Cash Equivalents** | | 28,765 | 24,305 |
| Cash and cash equivalents at the beginning of the period | | 29,373 | 4,324 |
| Effect of exchange rate change on foreign currency balances held at the beginning of the year | | (5,327) | 744 |
| **Cash and Cash Equivalents at the end of the Period** | **25(b)** | 52,811 | 29,373 |

The accompanying notes form part of and are to be read in conjunction with these Financial Statements.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cue Energy Resources Limited is incorporated and domiciled in Australia. The financial report was authorised for issue by the Directors on the date the Directors' Declaration was signed.

### (a) Operations and principal activities

Operations comprise petroleum exploration, development and production activities.

### (b) Statement of compliance

The financial report is a general purpose financial report presented in Australian dollars which has been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations adopted by the Australian Accounting Standards Board ("AASB") and the Corporations Act 2001. International Financial Reporting Standards ("IFRSs") form the basis of Australian Accounting Standards adopted by the AASB. The financial reports of the consolidated entity also comply with IFRS and interpretations adopted by the International Accounting Standards Board.

The accounting policies set out below have been applied consistently to all periods presented in this report.

### (c) Basis of preparation

The financial report has been prepared for a going concern using the historical cost basis except for shares held in listed companies, which are recognised at fair value.

Fair value means the amount for which an asset could be exchanged, or liability settled, between knowledgeable, willing partners in an arm's length transaction.

### (d) Critical accounting estimates and judgements

The preparation of a financial report in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. These accounting policies have been consistently applied by each entity in the consolidated entity.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

*(i) Recovery of deferred tax assets*

Deferred tax assets resulting from unused tax losses have been recognised on the basis that management considers it is probable that future tax profits will be available to utilise the unused tax losses.

*(ii) Share-based payment transactions*

The Group measures the cost of equity settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using the Black Scholes Option Valuation Model. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact expenses and equity (see note 23).

The Group measures the cost of cash-settled share-based payments at fair value at the grant date using the Black-Scholes Option Valuation Model by taking into account the terms and conditions upon which the instruments were granted.

*(iii) Impairment testing*

Determining whether exploration expenditure and production properties is impaired.

Production properties impairment testing requires an estimation of the value in use of the cash generating units to which deferred production property expenses have been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash generating unit and a suitable discount rate in order to calculate present value.

*(iv) Useful life of production property assets*

As detailed at Note 1 (m) "Production Properties", production properties are amortised on a unit of production basis, with separate calculations being made for each resource. Estimates of reserve quantities are a critical estimate impacting amortisation of production property assets.

*(v) Estimates of reserve quantities*

The estimated quantities of Proven and Probable hydrocarbon reserves reported by the Company are integral to the calculation of depletion and depreciation expense and to assessments of possible impairment of assets. Estimated reserve quantities are based upon interpretations of geological and geophysical models and assessments of the technical feasibility and commercial viability of producing the reserves. These assessments require assumptions to be made regarding future development and production costs, commodity prices, exchange rates and fiscal regimes. The estimates of reserves may change from period to period as the economic assumptions used to estimate the reserves can change from period to period, and as additional geological data is generated during the course of operations. Reserves estimates are prepared in accordance with the Company's policies and procedures for reserves estimation which conform to guidelines prepared by the Society of Petroleum Engineers.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont')

### (e) Adoption of new and revised accounting standards

All new and revised Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that are relevant to Cue Energy Resources Limited and its subsidiary's operations and effective for annual reporting periods beginning on 1 July 2010 have been adopted by the consolidated entity.

Consideration has been given to the following standards, amendments to standards and interpretations, identified as those which may impact the entity in the period of initial application. They are available for early adoption at 30 June 2011, but have not been applied in preparing this financial report:

| AASB No. | Title | Details of New Standard / Amendment / Interpretation | Issue Date | Operative Date (Annual reporting period beginning on or after) |
|---|---|---|---|---|
| 10 | Consolidation | AASB 10 replaces AASB 127 and outlines 3 key elements of control. According to AASB 10 an investor controls an investee if and only if the investor has all the following:<br>(a) power over the investee;<br>(b) exposure, or rights, to variable returns from its involvement with the investee; and<br>(c) the ability to use its power over the investee to affect the amount of the investor's returns | Aug 2011 | 1 Jan 2013 |
| 11 | Joint Arrangements | AASB 11 replaces the AASB 131 Interests in Joint Ventures. The previous standard had 3 types of Joint ventures whereas AASB 11 only has two. These are:<br>· Joint Operations; and<br>· Joint Ventures.<br>**A joint operation** is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Those parties are called joint operators.<br>**A joint venture** is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Those parties are called joint venturers.<br>Joint ventures must now be accounted for using the equity method of accounting. **The option to proportionately consolidate a joint venture entity has been removed.** This will have significant implications for entities that currently use proportionate consolidation. Some entities only have interests in joint ventures and only use proportionate consolidation. Adopting AASB 11 will cause them to use equity accounting and will result in a different presentation in the Statement of Comprehensive Income, Statement of Financial Position and Statement of Cash Flows. | Aug 2011 | 1 Jan 2013 |
| 12 | Disclosure of Interests in Other Entities | AASB 12 provides the disclosure requirements for entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. As such, it pulls together and replaces disclosure requirements from many existing standards. | Aug 2011 | 1 Jan 2013 |

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont')

| AASB No. | Title | Details of New Standard / Amendment / Interpretation | Issue Date | Operative Date (Annual reporting period beginning on or after) |
|---|---|---|---|---|
| 13 | Fair Value Measurement | AASB 13: defines fair value;<br>(a) sets out in a single IFRS a framework for measuring fair value; and<br>(b) requires disclosures about fair value measurements.<br>Fair value is defined as:<br>"the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price)".<br>The standard does not require fair value measurements in addition to those already required or permitted by other IFRSs. | Sep 2011 | 1 Jan 2013 |
| 1053 | Application of Tiers of Australian Accounting Standards | This Standard establishes a differential financial reporting framework consisting of two Tiers of reporting requirements for preparing general purpose financial statements:<br>(a) Tier 1: Australian Accounting Standards; and<br>(b) Tier 2: Australian Accounting Standards – Reduced Disclosure.<br>(c) As a listed company, Cue Energy Resources Limited is required to comply with Tier 1 reporting. | June 2010 | 1 July 2013 |
| 2010 – 2 | Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements | This Standard gives effect to Australian Accounting Standards – Reduced Disclosure Requirements. AASB 1053 provides further information regarding the differential reporting framework and the two tiers of reporting requirements for preparing general purpose financial statements. | Jun 2010 | 1 Jul 2013 |

The Company does not anticipate early adoption of any of the above reporting requirements. The consolidated entity is still currently evaluating the impact that ASSB II "Joint Arrangements" will have on its financial statements, however, the Company does not expect the requirements of other Accounting Standards to have any material effect on the consolidated entity's financial statements.

### (f) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Cue Energy Resources Limited (''company'' or ''parent entity'') as at 30 June 2011 and the results of all subsidiaries for the year then ended. Cue Energy Resources Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

Subsidiaries are all those entities over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group. Refer to Note 1(w) for the details.

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group.

A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest is recognised directly in equity attributable to the parent.

Non-controlling interest in the results and equity of subsidiaries are shown separately in the statement of comprehensive income and statement of financial position of the consolidated entity. Losses incurred by the consolidated entity are attributed to the non-controlling interest in full, even if that results in a deficit balance.

Where the consolidated entity loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The consolidated entity recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

Investments in subsidiaries are accounted for at cost in the individual financial statements of Cue Energy Resources Limited.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont')

### (g) Revenue recognition

Revenue is recognised in the statement of comprehensive income when the significant risks and rewards of ownership have been transferred to the buyer. Revenue is recognised and measured at the fair value of the consideration or contributions received, net of goods and service tax ("GST"), to the extent it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

#### Sales revenue

Sales revenue is recognised on the basis of the Group's interest in a producing field ("entitlements" method), when the physical product and associated risks and rewards of ownership pass to the purchaser, which is generally at the time of ship or truck loading, or in certain instances the product entering the pipeline.

Revenue earned under a production sharing contract ("PSC") is recognised on a net entitlements basis according to the terms of the PSC.

#### Interest income

Interest revenue is recognised as interest accrues using the effective interest method. This is a method calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial assets to the net carrying amount of the financial asset.

#### Other income

Other income is recognised in the statement of comprehensive income at the fair value of the consideration received or receivable, net of GST, when the significant risks and rewards of ownership have been transferred to the buyer or when the service has been performed.

The gain or loss arising on disposal of a non-current asset is included as other income at the date control of the asset passes to the buyer. The gain or loss on disposal is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal.

### (h) Exploration and evaluation project expenditure

Costs incurred during the exploration, evaluation and development stages of specific areas of interest are accumulated. Such expenditure comprises net direct costs and an appropriate portion of related overhead expenditure, but does not include general overheads or administrative expenditure not having a specific nexus with a particular area of interest.

Expenditure is only carried forward as an asset where it is expected to be fully recouped through the successful development of the area, or where activities to date have not yet reached a stage to allow adequate assessment regarding existence of economically recoverable reserves, and active and significant operations in relation to the area are continuing. Ultimate recoupment of costs is dependent on successful development and commercial exploitation, or alternatively, sale of respective areas.

Costs are written off as soon as an area has been abandoned or considered to be non-commercial.

No amortisation is provided in respect of projects in the exploration, evaluation and development stages until they are reclassified as production properties.

Restoration costs recognised in respect of areas of interest in the exploration and evaluation stage are carried forward as exploration, evaluation and development expenditure.

### (i) Impairment

The carrying amounts of the Company's and consolidated entity's assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indications exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds the recoverable amount. Impairment losses are recognised in the statement of comprehensive income, unless an asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through profit or loss.

Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the unit (group of units) on a pro rata basis.

### (j) Calculation of recoverable amount

For oil and gas assets the estimated future cash flows are based on value in use calculations using estimates of hydrocarbon reserves, future production profiles, commodity prices, operating costs and any future development costs necessary to produce the reserves. Estimates of future commodity prices are based on contracted prices where applicable or based on forward market prices where available. The recoverable amount of other assets is the greater of their net selling price and value in use.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the assets belongs.

### (k) Reversals of impairment

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. No impairment loss is reversed in respect of goodwill.

### (l) Capitalisation of borrowing costs

Borrowing costs, including interest and finance charges relating to major oil and gas assets under development up to the date of commencement of commercial operations, are capitalised as a component of the cost of development. Where funds are borrowed specifically for qualifying projects the actual borrowing costs incurred are capitalised. Where the projects are funded through general borrowings the borrowing costs are capitalised based on the weighted average borrowing rates.

Borrowing costs incurred after commencement of commercial operations are expensed.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont')

### (m) Production properties

Production properties are carried at balance date at cost less accumulated amortisation and accumulated impairment losses. Production properties represent the accumulation of all exploration, evaluation, development and acquisition costs in relation to areas of interest in which production licences have been granted.

Amortisation of costs is provided on the unit-of-production basis, separate calculations being made for each resource. The unit-of-production basis results in an amortisation charge proportional to the depletion of economically recoverable reserves (comprising both proven and probable reserves).

Amounts (including subsidies) received during the exploration, evaluation, development or construction phases which are in the nature of reimbursement or recoupment of previously incurred costs are offset against such costs.

### (n) Property, plant and equipment

| Class of Fixed Asset | Depreciation Rate |
|---|---|
| Plant and equipment | 5-33% |

All items of property, plant and equipment are initially recorded at cost. Property, plant and equipment is carried at cost less accumulated depreciation and accumulated impairment losses. Depreciation is calculated on a diminishing value basis so as to allocate the cost of each item of equipment over its expected economic life. The economic life of equipment has due regard to physical life limitations and to present assessments of economic recovery. Estimates of remaining useful lives are made on a regular basis for all assets, with annual reassessment for major items. Gains and losses on disposal of property, plant and equipment are taken into account in determining the operating results for the year.

### (o) Cash and cash equivalents

For purposes of the statement of cash flows, cash includes deposits at call which are readily convertible to cash on hand and which are used in the cash management function on a day-to-day basis, net of outstanding bank overdrafts.

### (p) Receivables

Trade accounts receivable, amounts due from related parties and other receivables represent the principal amounts due at balance date plus accrued interest and less, where applicable, any unearned income and allowance for doubtful accounts.

### (q) Payables

Payables represent the principal amounts outstanding at balance date plus, where applicable, any accrued interest. Trade payables are normally paid within 30 days.

### (r) Provisions

A provision is recognised in the statement of financial position when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risk specific to the liability.

#### Restoration

Provisions for future environmental restoration are recognised where there is a present obligation as a result of exploration, development, production, transportation or storage activities having been undertaken, and it is probable that an outflow of economic benefits will be required to settle the obligation. The estimated future obligations include the costs of removing facilities, abandoning wells and restoring the affected areas.

The provision of future restoration costs is the best estimate of the present value of the future expenditure required to settle the restoration obligation at the reporting date, based on current legal requirements. Future restoration costs are reviewed annually and any changes in the estimate are reflected in the present value of the restoration provision at the balance sheet date, with a corresponding change in the cost of the associated asset.

The amount of the provision for future restoration costs relating to exploration, development and production facilities is capitalised and depleted as a component of the cost of those activities.

### (s) Employee benefits

The following liabilities arising in respect of employees benefits are measured at their nominal amounts:

- wages and salaries and annual leave expected to be settled within twelve months of the reporting date; and
- other employee benefits expected to be settled within twelve months of the reporting date.

All other employee benefit liabilities expected to be settled more than 12 months after the reporting date are measured at the present value of the estimated future cash outflows in respect of services provided up to the reporting date. Liabilities are determined after taking into consideration estimated future increase in wages and salaries and past experience regarding staff departures. Related on-costs are included.

### (t) Joint ventures

When a member of the group participates in a joint venture arrangement, the member recognises its proportionate interest in the individual assets, liabilities, revenue and expenses of the joint venture. The liabilities recognised include its share of those for which it is jointly liable.

Details of major joint venture interests are set out in Note 18.

### (u) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont')

### (u) Income tax (Cont')

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

Cue Energy Resources Limited (the 'head entity') and its wholly-owned Australian controlled entities have formed an income tax consolidated group under the tax consolidation regime effective 1 July 2010. The head entity and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. The tax consolidated group has applied the group allocation approach in determining the appropriate amount of taxes to allocate to members of the tax consolidated group.

In addition to its own current and deferred tax amounts, the head entity also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entitles in the tax consolidated group.

Assets or liabilities arising under tax funding agreement with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the tax consolidated group. The tax funding arrangement ensures that the intercompany charge equals the current tax liability or benefit of each tax consolidated group member, resulting in neither a contribution by the head entity to the subsidiaries nor a distribution by the subsidiaries to the head entity.

### (v) Foreign currency

#### Functional and presentation currency

The financial statements of each group entity are measured using its functional currency, which is the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars, as this is the parent entity's functional and presentation currency.

#### Transactions and Balances

Transaction in foreign currencies of entities within the consolidated entity are translated into functional currency at the rate of exchange ruling at the date of the transaction.

Foreign currency monetary items that are outstanding at the reporting date (other than monetary items arising under foreign currency contracts where the exchange rate for that monetary item is fixed in the contract) are translated using the spot rate at the end of financial year.

Resulting exchange differences arising on settlement or re-statement are recognized as revenues and expenses for the financial year.

### (w) Business Combinations

The acquisition method of accounting is used to account for business combinations regardless of whether equity instruments or other assets are acquired.

The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued or liabilities incurred by the acquirer to former owners of the acquiree and the amount of any non-controlling interest in the acquiree. For each business combination, the non-controlling interest in the acquiree is measured at either fair value or at the proportionate share of the acquiree's identifiable net assets. All acquisition costs are expensed as incurred to profit or loss.

On the acquisition of a business, the consolidated entity assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the consolidated entity's operating or accounting policies and other pertinent conditions in existence at the acquisition-date.

Where the business combination is achieved in stages, the consolidated entity remeasures its previously held equity interest in the acquiree at the acquisition-date fair value and the difference between the fair value and the previous carrying amount is recognised in profit or loss.

Contingent consideration to be transferred by the acquirer is recognised at the acquisition-date fair value. Subsequent changes in the fair value of contingent consideration classified as an asset or liability is recognised in profit or loss. Contingent consideration classified as equity is not measured and its subsequent settlement is accounted for within equity.

The difference between the acquisition-date fair value of assets acquired, liabilities assumed and any non-controlling interest in the acquiree and the fair value of the consideration transferred and the fair value of any pre-exiting investment in the acquiree is recognised as goodwill. If the consideration transferred and the pre-existing fair value is less than the fair value of the identifiable net assets acquired, being a bargain purchase to the acquirer, the difference is recognised as a gain directly in profit or loss by the acquirer on the acquisition-date, but only after a reassessment of the identification and measurement of the net assets acquired, the non-controlling interest in the acquiree, if any, the consideration transferred and the acquirer's previously held equity interest in the acquirer.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont')

### (w) Business Combinations (cont)

Business combinations are initially accounted for on a provisional basis. The acquirer retrospectively adjusts the provisional amounts recognised and also recognises additional assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed at the acquisition-date. The measurement period ends on either the earlier of (i) 12 months form the date of acquisition or (ii) when the acquirer receives all the information possible to determine fair value.

### (x) Share-based payment transactions

#### Equity settled transactions:

The Group provides benefits in the form of share-based payments to executives, senior management and general staff. These personnel render services in exchange for shares or rights over shares (equity-settled transactions).

The cost of these equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value for the options over ordinary shares are determined using the Black-Scholes Option Valuation Model.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company (market conditions) if applicable. The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the vesting date).

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting date has expired and (ii) the Group's best estimate of the number of equity instruments that will ultimately vest. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date. The profit and loss charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is only conditional upon a market condition.

If the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

If an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share (see note 21).

### (y) Financial instruments

#### Classification

The group classifies its financial instruments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its financial instruments at the initial recognition.

#### Financial assets at fair value through profit or loss

Upon initial recognition a financial asset or financial liability is designated as at fair value through profit or loss when:

(a) an entire contract containing one or more embedded derivatives is designated as a financial asset or financial liability at fair value through profit or loss.

(b) doing so results in more relevant information, because either:

  (i) it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising gains or losses on them on different bases; or

  (ii) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to key management personnel.

Investments in equity instruments that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured are not designated as at fair value though profit or loss.

Present investment strategy is to keep assets in a highly liquid state and almost all of the investment assets are held in cash.

A gain or loss arising from a change in the fair value of a financial asset or financial liability classified as at fair value through profit or loss is recognised in profit or loss.

#### Derivate financial instruments and hedging

The Group can use derivative financial instruments (including forward currency contracts, forward commodity contracts and interest rate swaps) to hedge its risks associated with foreign currency, commodity prices and interest rate fluctuations. Such derivate financial instruments are initially recognised at fair value on the date at which a derivate contract is entered into and are subsequently remeasured to fair value.

Certain other derivate instruments which are economic hedges are also held for trading for the purpose of making short-term gains. These derivatives do not qualify for hedge accounting and changes in fair value are recognised immediately in profit or loss in income or expenses.

Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Held for trading derivate assets and liabilities are classified as current in the statement of financial position. Derivative assets and liabilities are classified as non-current when the remaining maturity is more than 12 months, or current when the remaining maturity is less than 12 months.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont')

### (y) Financial instruments (Cont')

The fair values of forward currency contracts are calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair values of interest rate swaps are determined using a valuation technique based on cash flows discounted to present value using current market interest rates. The fair value of commodity contracts are also determined using a discounted cash flow valuation technique using cash flow estimates based on observable and unobservable forward prices for the commodity.

Any gains or losses arising from changes in the fair value of derivatives, except for those that qualify as cash flow hedges, are taken directly to profit or loss for the year.

Non-listed investments for which fair value cannot be reliably measured, are carried at cost and tested for impairment.

#### Held-to-maturity investments

Fixed term investments intended to be held to maturity are classified as held-to-maturity investments. They are measured at amortised cost using the effective interest rate method.

#### Loans and receivables

Loan and receivables are measured at fair value at inception and subsequently at amortised cost using the effective interest rate method. Interest income is recognised by applying the effective interest rate method.

#### Available-for-sale

Available-for-sale financial assets include any financial assets not included in the above categories and are measured at fair value. Unrealised gains and losses arising from changes in fair value are taken directly to equity. The cumulative gain or loss is held in equity until the financial asset is de-recognised, at which time the cumulative gain or loss held in equity is recognised in profit and loss. An impairment loss arising in relation to an "available-for-sale" instrument is recognised directly in profit and loss for the period

#### Financial liabilities

Financial liabilities include trade payables, other creditors and loans from third parties including inter-company balances and loans from or other amounts due to director-related entities.

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principle payments and amortisation.

#### Impairment of financial assets

The Group assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of a security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss - is removed from equity and recognised in the statement of comprehensive income. Impairment losses recognised in the statement of comprehensive income on equity instruments classified as available-for-sale are not reversed through the statement of comprehensive income.

Full disclosure of information about financial instruments to which the Group is a party is provided in Note 2.

### (z) Leases

Leases of property, plant and equipment where substantially all the risks and benefits incidental to ownership of the asset, are classified as finance leases. Finance leases are capitalised, recorded as an asset and a liability equal to the present value of the minimum lease payments, including any residual payments as determined by the lease contract. Leased assets are amortised on a straight line basis over the estimated useful lives where it is likely that the consolidated entity will obtain legal ownership of the asset on expiry of the lease. Lease payments are allocated over both the lease interest expense and the lease liability.

Lease payments for operating leases where substantial risks and benefits remain with the lessor are charged as expenses in the periods in which they are incurred.

### (aa) Contributed equity

Ordinary share capital is recognised at the fair value of the consideration received by the company. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received. Ordinary share capital bears no special terms or conditions affecting income or capital entitlements of the shareholders.

### (ab) Earnings per share

Basic earnings per share is calculated as net profit attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings per share is calculated as net profit attributable to members of the parent, adjusted for:

- costs of servicing equity (other than dividends) and preference share dividends;
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares; divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

### (ac) Rounding

The amounts contained in this financial report have been rounded to the nearest $1,000 (where rounding is applicable) under the option available to the company under ASIC Class Order 98/0100. The Company is an entity to which the Class Order applies.

## 2. FINANCIAL INSTRUMENTS

The Group's principal financial instruments comprise receivables, payables, borrowings, available for sale financial assets, cash and short term deposits.

The Group manages its exposure to key financial risks, including interest rate and currency risk through management's regular assessment of financial risks. The objective of the assessment is to support the delivery of the Group's financial targets whilst protecting future financial security.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, commodity price risk, other price risk, credit risk and liquidity risk. The Group uses different methods to measure and manage different types of risk to which it is exposed. These include monitoring levels of exposure to interest rate and foreign exchange risk and assessments of market forecasts for interest rate, foreign exchange and commodity prices. Aging analyses and monitoring of specific credit allowances are undertaken to manage credit risk and liquidity risk is monitored through the development of future rolling cash flow forecasts.

These risks are summarised below.

Primary responsibility for identification and control of financial risks rests with the Chief Financial Officer under the authority of the Board. The Board reviews and agrees management's assessment for managing each of the risks identified below, including foreign currency risk, interest rate risk, credit allowances, and future cash flow forecast projections.

The carrying amounts and net fair values of the economic entity's financial assets and liabilities at balance date are:

| | Carrying Amount | | Net Fair Value | |
|---|---|---|---|---|
| **Consolidated** | **2011 $000's** | **2010 $000's** | **2011 $000's** | **2010 $000's** |
| **Financial assets** | | | | |
| Cash and cash equivalents | 52,811 | 29,373 | 52,811 | 29,373 |
| Trade and other receivables | 17,286 | 13,035 | 17,286 | 13,035 |
| Other financial assets | - | 1,420 | - | 1,420 |
| **Non-traded financial assets** | 70,097 | 43,828 | 70,097 | 43,828 |
| | | | | |
| **Financial liabilities** | | | | |
| Trade and other payables | 5,547 | 4,090 | 5,547 | 4,090 |
| Other financial liabilities-derivatives | 935 | - | 935 | - |
| Current liability – tax | 5,280 | 4,478 | 5,280 | 4,478 |
| Financial liabilities-secured | 5,086 | 14,123 | 5,086 | 14,123 |
| **Non-traded financial liabilities** | 16,848 | 22,691 | 16,848 | 22,691 |

### Risk Exposures and Responses

### (a) Fair Values

The financial assets and liabilities of the Group are recognised on the statement of financial position at their fair value in accordance with the accounting policies in Note 1.

#### Net Fair Values

The net fair value of traded instruments have been valued at the quoted market bid price at balance date adjusted for transaction costs expected to be incurred. For other assets and other liabilities the net fair value approximates their carrying value.

#### Basis for determining fair values

The following summarises the significant methods and assumptions used in estimating the fair values of financial instruments:

***Trade and other receivables***

The carrying value less impairment provision of trade receivables is a reasonable approximation of their fair values due to the short-term nature of trade receivables.

## 2. FINANCIAL INSTRUMENTS (Cont')

### Available-for-sale financial assets

The fair value of available-for-sale financial assets is determined by reference to their quoted bid price at the reporting date.

### Derivatives

10,000 barrels per month have been sold forward up until 31 December 2011 at Dated Brent USD98 per barrel (2010: 90,000 bbls at Tapis USD86 per barrel). Fair value is determined by reference to active market pricing at balance date.

### Financial liabilities

Fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. Where these cash flows are in a foreign currency the present value is converted into Australian dollars at the foreign exchange spot rate prevailing at reporting date.

### Trade and other payables

The carrying value of trade payables is a reasonable approximation of their fair values due to the short term nature of trade payables.

The following table details the entities fair value of financial instruments categorised by the following levels:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices)

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs)

| 30 June 2011 | Level 1 | Level 2 | Level 3 | Level 4 |
|---|---|---|---|---|
| Financial assets held at fair value through profit & loss | | | | |
| Forward Sale (Swap) instrument | - | (935) | - | - |
| Total | **-** | **(935)** | **-** | **-** |

| 30 June 2010 | Level 1 | Level 2 | Level 3 | Level 4 |
|---|---|---|---|---|
| Financial assets held at fair value through profit & loss | | | | |
| Forward Sale (Swap) instrument | 1,420 | - | - | 1,420 |
| Total | **1,420** | **-** | **-** | **1,420** |

### (b) Interest Rate Risk

The Group's exposure to market interest rate is related primarily to the Group's cash deposits (Note 25b) and borrowings (Note 16).

At balance date, the Group had the following mix of financial assets and liabilities exposed to Australian and overseas variable interest rate risk that are not designated in cash flow hedges:

| | Consolidated | |
|---|---|---|
| | 2011 $000's | 2010 $000's |
| Financial Assets | | |
| Cash & cash equivalents | 52,811 | 29,373 |
| | | |
| Financial Liabilities | | |
| Other financial liabilities | (935) | - |
| Financial liabilities-secured | (5,086) | (14,123) |
| Net exposure | 46,790 | 15,250 |

## 2. FINANCIAL INSTRUMENTS (Cont')

The Group constantly analyses its interest rate opportunity and exposure. Within this analysis consideration is given to existing positions and alternative arrangement on fixed or variable deposits.

The following sensitivity analysis is based on the interest rate opportunity/risk in existence at balance date.

At 30 June, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post tax profit and equity would have been affected as follows:

Based upon the average balance of net exposure during the year, if interest rates changed by +/-1%, with all other variables held constant, the estimated impact on post-tax profit and equity would have been:

| | **Consolidated** | |
|---|---|---|
| | **2011 $000's** | **2010 $000's** |
| Impact on post-tax profit | | |
| Interest rates +1% | 519 | 161 |
| Interest rates –1% | (519) | (161) |
| Impact on equity | | |
| Interest rates +1% | 519 | 161 |
| Interest rates –1% | (519) | (161) |

A movement of + and – 1% is selected because this historically is within a range of rate movements and available economic data suggests this range is reasonable.

### (c) Foreign Exchange Risk

The Group is subject to foreign exchange rate risk on its international exploration and appraisal activities where costs are incurred in foreign currencies, in particular United States dollars.

The Board approved the policy of holding certain funds in United States dollars to manage foreign exchange risk.

The Group's exposure to foreign exchange risk at the reporting date was as follows (holdings are shown in AUD equivalent):

| | **30 June 2011** | | | **30 June 2010** | | |
|---|---|---|---|---|---|---|
| **Consolidated** | **USD $000's** | **NZD $000's** | **PNG KINA $000's** | **USD $000's** | **NZD $000's** | **PNG KINA $000's** |
| **Financial assets** | | | | | | |
| Cash and cash equivalents | 49,571 | 1,229 | 7 | 22,693 | 363 | 9 |
| Receivables | 9,557 | 216 | - | 12,608 | 302 | - |
| **Financial liabilities** | | | | | | |
| Current payables | 2,889 | 1,205 | - | 2,830 | 968 | 5 |
| Financial liabilities-secured | 5,086 | - | - | 14,123 | - | - |

For the year ended as at 30 June, if the currencies set out in the table below, strengthened or weakened against the US dollar by the percentage shown, with all other variables held constant, net profit for the year would increase/(decrease) and net assets would increase / (decrease) by:

| | **Consolidated** | |
|---|---|---|
| | **2011 $000's** | **2010 $000's** |
| Impact on post-tax profit | | |
| AUD/USD +10% | (2,195) | (1,589) |
| AUD/USD -10% | 2,195 | 1,589 |
| Impact on equity | | |
| AUD/USD +10% | (2,195) | (1,589) |
| AUD/USD -10% | 2,195 | 1,589 |

Management believes the balance date risk exposures are representative of the risk exposure inherent in the financial instruments. A movement of + and – 10% is selected because a review of recent exchange rate movements and economic data suggests this range is reasonable.

## 2. FINANCIAL INSTRUMENTS (Cont')

### (d) Commodity price risk

The Group is involved in oil and gas exploration and appraisal and since April 1998 has received revenue from the sale of hydrocarbons. Exposure to commodity price risk is therefore limited to this production and from successful exploration and appraisal activities the quantum of which at this stage cannot be measured.

#### Commodity price risk exposure

The Group is exposed to commodity price fluctuations through the sale of petroleum products denominated in US dollars. The Group may enter into commodity crude oil price swap and option contracts to manage its commodity price risk.

At 30 June 2011 the Group has an open oil price swap contract (2010: 90,000 bbls at Tapis USD86 per bbl). The contract is current for 60,000 barrels at Dated Brent USD98 per barrel. Sensitivity of the oil swap contract to changes of +/- 20% would impact on post tax profit and equity as follows:

| | Consolidated | |
|---|---|---|
| | 2011 $000's | 2010 $000's |
| | | |
| Impact on post-tax profit | | |
| US dollar oil price +20% | 429 | 199 |
| US dollar oil price −20% | (429) | (199) |
| Impact on equity | | |
| US dollar oil price +20% | 429 | 199 |
| US dollar oil price −20% | (429) | (199) |

If the US dollar oil price changed by +/-20% from the average oil price during the year, with all other variables held constant, the estimated impact on post-tax profit and equity would have been:

| | Consolidated | |
|---|---|---|
| | 2011 $000's | 2010 $000's |
| | | |
| Impact on post-tax profit | | |
| US dollar oil price +20% | 4,674 | 6,157 |
| US dollar oil price −20% | (4,674) | (6,157) |
| Impact on equity | | |
| US dollar oil price +20% | 4,674 | 6,157 |
| US dollar oil price −20% | (4,674) | (6,157) |

Management believes the balance date risk exposures are representative of the risk exposure inherent in the financial instruments. A movement of + and – 20% is selected because a review of historical oil price movements and economic data suggests this range is reasonable.

#### Other price risks

The Group is exposed to equity price risks arising from equity investments. Equity investments are held for strategic rather than trading purposes. The Group does not actively trade these investments and the potential impact of any movements in equity market prices would have an insignificant impact on profit and equity.

The Group's sensitivity to equity prices has not changed significantly from the prior year and is not material.

## 2. FINANCIAL INSTRUMENTS (Cont')

### (e) Liquidity risk

Liquidity Risk is the risk that the group, although balance sheet solvent, cannot meet or generate sufficient cash resources to meet its payment obligations in full as they fall due, or can only do so at materially disadvantageous terms.

Ultimate responsibility for liquidity risk management rests with the Board of directors, who have established an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. he Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities and by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The Group predominantly funded the Maari oil field development from external borrowings as part of its liquidity risk management process. As the field is now in production, the production receipts are being used to directly pay down the project borrowings directly reducing the Group's exposure to liquidity risk.

During the year the Company received equity of $0.3 million on conversion of options.

The Group is consequently more than sufficiently solvent to meet its payment obligations in full as they fall due.

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The Group aims to maintain flexibility in funding to meet ongoing operational requirements, exploration and development expenditure, and small-to-medium-sized opportunistic projects and investments, by keeping committed credit facilities available.

The following table analyses the contractual maturities of the Group's financial liabilities into relevant groupings based on the remaining period at the reporting date to the contractual undiscounted cash flows comprising principal and interest repayments. Estimated variable interest expense is based upon appropriate yield curves existing as at 30 June 2011.

| Consolidated | 12 months or less $000's | 1 to 2 years $000's | 2 to 5 years $000's | More than 5 years $000's |
|---|---|---|---|---|
| **2011** | | | | |
| **Non-derivative financial liabilities** | | | | |
| Trade and other payables (i) | 5,547 | - | - | - |
| Current tax liability | 5,280 | - | - | - |
| Bank loans | 5,086 | - | - | - |
| | 15,913 | - | - | - |
| **Derivative financial liabilities** | | | | |
| Other financial liabilities-derivatives | 935 | - | - | - |
| | 935 | - | - | - |
| **2010** | | | | |
| **Non-derivative financial liabilities** | | | | |
| Trade and other payables (i) | 4,090 | - | - | - |
| Current tax liability | 4,478 | - | - | - |
| Bank loans | 7,720 | 6,403 | - | - |
| | 16,288 | 6,403 | - | - |

(i) Repayment within 3 months.

### (f) Credit risk

Credit risk arises from the financial assets of the group, which comprise cash and cash equivalents, trade and other receivables, available-for-sale financial assets. The Group's exposure to credit risk arises from potential default of the counter party, with maximum exposure equal to the carrying amount of these instruments. Exposure at balance date is addressed in each applicable note.

The Group does not hold any credit derivatives to offset its credit exposure.

The Group trades only with recognised, creditworthy third parties, and as such collateral is not requested nor is it the Group's policy to securitize its trade and other receivables.

It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures including an assessment of their independent credit rating, financial position, past experience and industry reputation. The risks are regularly monitored.

At balance date there are no significant concentrations of credit risk within the Group.

## 3. REVENUE

| | Consolidated | |
|---|---|---|
| | 2011 $000's | 2010 $000's |
| **Operating Revenue** | | |
| Production income | 52,506 | 54,700 |
| | | |
| **Other Income** | | |
| Management fees | 73 | 163 |
| Interest from cash and cash equivalents | 312 | 322 |
| | | |
| Profit on sale of available for sale | | |
| Financial assets | - | 474 |
| | | |
| Profit on sale of exploration assets | 6,779 | 4,505 |
| | | |
| **Oil Hedge Recognition (at fair value) Income:** | | |
| – realised | - | 575 |
| – unrealised | - | 1,420 |
| – Net foreign currency gain | - | 2,329 |
| | - | 4,324 |
| **Total Revenue** | 59,670 | 64,488 |

## 4. EXPENSES

| | Consolidated | |
|---|---|---|
| | 2011<br>$000's | 2010<br>$000's |
| **Operating Expenses** | | |
| Production costs | 9,113 | 11,076 |
| Amortisation production properties | 9,644 | 11,418 |
| Interest expense | 173 | 240 |
| Net realised loss on oil hedge derivatives | 1,209 | - |
| Change in fair value of derivatives | 935 | - |
| Net foreign currency loss | 5,328 | - |
| Exploration and evaluation costs written off (Note 12) | 2,838 | 236 |
| | | |
| **Other Expenses** | | |
| Depreciation | 24 | 26 |
| Employee expense (net of superannuation) | 2,956 | 1,200 |
| Superannuation contribution expense | 191 | 156 |
| Administrative expenses | 1,265 | 522 |
| Operating lease expense | 150 | 156 |
| Share based payments expense | 83 | 107 |
| Other expense | 4,669 | 2,167 |
| **Total Operating Expenses** | 33,909 | 25,137 |

## 5. AUDITORS REMUNERATION

| | Consolidated | |
|---|---|---|
| | 2011 | 2010 |
| Amounts paid or due and payable to the auditor for: | | |
| | | |
| Audit or review of the financial reports | 71,000 | 71,500 |
| | | |
| Other Services: | | |
| Tax compliance services | 42,682 | 20,000 |
| | 113,682 | 91,500 |

No other services were provided by the auditor during the period, other than those set out above.

## 6. TAXATION

| | Consolidated Entity | |
|---|---|---|
| | **2011 $000's** | **2010 $000's** |
| **Income Tax Expense** | | |
| Current tax | 3,632 | 3,160 |
| Adjustment to prior periods | - | 822 |
| Deferred tax | 3,022 | 7,859 |
| | **6,654** | **11,841** |
| | | |
| Income tax expense/(benefit) is attributable to: | | |
| Profit from continuing operations | 6,654 | 11,841 |
| | **6,654** | **11,841** |
| **Aggregate income tax expense** | | |
| **Deferred Income tax (revenue)/expenses included in income tax comprises:** | | |
| Decrease/(increase) in deferred tax assets | (3,512) | (3,456) |
| (Decrease)/increase in deferred tax liabilities | 490 | 11,315 |
| | **(3,022)** | **7,859** |
| **Numerical reconciliation of income tax expense to prima facie tax on accounting profit/(loss)** | | |
| Profit/(loss) from continuing operations before income tax expense | 25,761 | 39,351 |
| | | |
| Tax expense/(benefit) at Australian tax rate of 30% (2010: 30%) | 7,742 | 11,805 |
| | | |
| Exploration written off | - | - |
| Equity cost deductions | - | (214) |
| Unrealised timing differences | 3,501 | - |
| Difference in overseas tax rates | (767) | 1,770 |
| Non-Allowable/(Allowable) mining deductions | (2,337) | - |
| Other adjustments | | |
| Tax losses carried forward | 870 | - |
| Adjustments to current tax from prior periods | 87 | (822) |
| Previously unrecognised tax losses now recognised to reduce tax expense | (2,442) | (698) |
| | | |
| **Income tax expense/(benefit)** | **6,654** | **11,841** |
| | | |
| **Tax losses** | | |
| Unused tax losses for which no deferred tax asset has been recognised | 14,257 | 19,509 |
| **Potential tax benefit at 30%** | **4,277** | **5,853** |
| | | |
| **Current tax liabilities** | | |
| Income tax payable attributable to: | | |
| Parent Entity | - | - |
| Other wholly owned subsidiaries | 5,280 | 4,478 |
| | **5,280** | **4,478** |

## 6. TAXATION (Cont')

| | Tax Losses $000's | Total $000's |
|---|---|---|
| **Non-current assets – deferred tax assets** | | |
| | | |
| **Movements - Consolidated** | | |
| **At 30 June 2009** | **11,668** | **11,668** |
| (Charged)/credited to the income statement | 3,456 | 3,456 |
| **At 30 June 2010** | **15,124** | **15,124** |
| (Charged)/credited to the income statement | (3,512) | (3,512) |
| **At 30 June 2011** | **11,612** | **11,612** |

| | Exploration Assets | Total |
|---|---|---|
| **Non-current liabilities – deferred tax liabilities** | | |
| | | |
| **Movements - Consolidated** | | |
| **At 30 June 2009** | **(15,902)** | **(15,902)** |
| (Charged)/credited to the income statement | (11,315) | (11,315) |
| **At 30 June 2010** | **(27,217)** | **(27,217)** |
| (Charged)/credited to the income statement | 490 | 490 |
| **At 30 June 2011** | **(26,727)** | **(26,727)** |
| Deferred tax balances – net impact on income tax expenses | | |
| **30 June 2010** | **(12,093)** | **(12,093)** |
| **30 June 2011** | **(15,115)** | **(15,115)** |

The Company has also prepared forward projections of taxable future profits over 5 years to determine whether it will have sufficient taxable profits to recoup the losses it has recorded in the current period as deferred tax assets. These projections are based upon taxable income to the subsidiary entity in the form of hydrocarbon receipts.

## 7. CAPITAL AND RESERVES

### (a) Share capital

| | Consolidated | | | |
|---|---|---|---|---|
| | 2011 $000's | 2010 $000's | 2011 | 2010 |
| Issued and paid up 694,819,718 (2010: 693,319,718) ordinary fully paid shares | | | | |
| Balance at 1 July 2010 | 151,468 | 141,800 | 693,319,718 | 628,239,007 |
| Entitlement offer of 1 for 5 @ 0.15 cents 64,455,711 shares | - | 9,668 | - | 64,455,711 |
| 625,000 shares issued to employees (refer to share based payment reserve) | - | - | - | - |
| 1,500,000 options exercised | 300 | - | 1,500,000 | 625,000 |
| **Closing balance** | **151,768** | **151,468** | **694,819,718** | **693,319,718** |

#### Shares

Ordinary shares have the right to receive dividends as declared and, in the event of winding up the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and moneys paid up on shares held. Ordinary shares entitle holders to one vote, either in person or by proxy at a meeting of the Company. The Company has an unlimited authorised capital and the shares have no par value.

### (b) Share based payment reserve

| | Consolidated | |
|---|---|---|
| | 2011 $000's | 2010 $000's |
| **Balance at 1 July** | | |
| Share Rights | 391 | 334 |
| 625,000 share rights granted 16/04/08 Vested 01/01/10 | - | 46 |
| 150,000 share rights granted 01/10/08 Vested 01/01/11 | - | 11 |
| | | |
| **Closing balance** | **391** | **391** |

#### Share based payment reserve

***Nature and purpose of reserve***

This reserve is used to record the value of equity benefits provided as part of agreements entered into by the company during the year. Refer to note 23 and the remuneration section of the Director's Report for details.

## 7. CAPITAL AND RESERVES (Cont')

### (c) Unlisted Options

As at 30 June 2011 the following Unlisted options were outstanding:

4,300,000 Unlisted options to employees, over fully paid shares. Options are exercisable as follows:

| No. of Options 01/07/10 | Exercise Price (cents) | Grant Date | Expiry Date | Granted During Year | Expired | Lapsed | No. of Options 30/06/11 | Vested |
|---|---|---|---|---|---|---|---|---|
| 1,700,000 | 15 | 12/02/09 | 19/04/12 | - | - | 500,000 | 1,200,000 | 1,200,000 |
| 333,334 | 22.5 | 01/10/08 | 19/04/12 | - | - | - | 333,334 | 333,334 |
| 333,333 | 25 | 01/10/08 | 19/04/12 | - | - | - | 333,333 | 333,333 |
| 333,333 | 35 | 01/10/08 | 19/04/12 | - | - | - | 333,333 | 333,333 |
| 1,033,334 | 20 | 23/04/07 | 19/04/12 | - | - | 333,334 | 700,000 | 700,000 |
| 1,033,333 | 22.5 | 23/04/07 | 19/04/12 | - | - | 333,333 | 700,000 | 700,000 |
| 1,033,333 | 25 | 23/04/07 | 19/04/12 | - | - | 333,333 | 700,000 | 700,000 |
| 5,800,000 | | | | - | - | 1,500,000 | 4,300,000 | 4,300,000 |

There are no further conditions attached to the options.

**Options:**

Option holders do not have the right to receive a dividend and are not entitled to vote at a meeting of the Company. Options may be exercised at any time from the date they vest to the date of their expiry. Share options convert into ordinary shares on a one for one basis on the date they are exercised.

### (d) Available for sale financial assets reserve

**Nature and purpose of reserve**

The fair value reserve recognises the cumulative net change in the fair value of the available for sale investments until the investment is realised. Refer to Statement of Changes in Equity for movement in the reserve accounts.

### (e) Capital management

When managing capital, management's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management also aims to maintain a capital structure that ensures the lowest cost of capital available to the entity.

Management are constantly adjusting the capital structure to take advantage of favourable costs of capital or high returns on assets. As the market is constantly changing, management may change the amount of dividends to be paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

## 7. CAPITAL AND RESERVES (Cont')

During 2011 management did not pay any dividends.

There has been no change to the strategy adopted by management to control the capital of the entity.

The gearing ratios for the year ended 30 June 2011 and 30 June 2010 are as follows:

| | Consolidated Group | |
|---|---|---|
| | 2011 $000's | 2010 $000's |
| Financial liabilities-secured | 5,086 | 14,123 |
| Other current liabilities (excluding provisions) | 11,762 | 8,568 |
| Total | 16,848 | 22,691 |
| Less cash and cash equivalents | 52,811 | 29,373 |
| Net debt | (35,963) | (6,682) |
| Total equity | 118,833 | 99,426 |
| Total capital | 151,768 | 151,468 |
| | | |
| Gearing ratio | -% | -% |

Net assets have significantly increased from 2010, as the proceeds from production from the Maari oil field has been used to reduce the Groups borrowings which funded the development of the Maari oil field development.

Cue Taranaki Pty Ltd, pursuant to its debt facility arrangements, has undertaken not to issue shares to third parties. Apart from this undertaking the Group is not subject to any externally imposed capital requirements.

## 8. TRADE AND OTHER RECEIVABLES

| | Consolidated Group | |
|---|---|---|
| | 2011 $000's | 2010 $000's |
| **Current receivables** | | |
| Trade receivables | 8,782 | 6,295 |
| Non-trade receivables and prepayments | 8,504 | 6,740 |
| | 17,286 | 13,035 |
| The ageing of trade receivables at the reporting date was as follows: | | |
| Less than one month | 8,782 | 6,295 |
| One to three months | - | - |
| Three to six months | - | - |
| Six to twelve months | - | - |
| Greater than twelve months | - | - |
| | 8,782 | 6,295 |

Trade receivables are non-interest-bearing and settlement terms are generally within 30 days.

Trade receivables are neither past due nor impaired and relate to a number of independent customers for whom there is no recent history of default.

At 30 June 2011 non trade receivables include an amount of $8.224 million owing from the sale of exploration assets, which was paid on 5 July 2011.

### Impaired receivables

At 30 June 2011 there were no current trade receivables that were impaired (2010: $nil).

The balance of the allowance for impairment in respect of trade receivables at 30 June 2011 was $nil (2010: $nil). There has been no movement in the allowance during the year.

The Directors consider the carrying value of receivables reflect their fair values.

## 9. PROPERTY, PLANT AND EQUIPMENT

| | Consolidated | |
|---|---|---|
| | 2011 $000's | 2010 $000's |
| | | |
| **Office and computer equipment** | | |
| Cost | 312 | 288 |
| Accumulated depreciation | (240) | (216) |
| | 72 | 72 |

Reconciliation of the carrying amounts of each class of property plant and equipment at the beginning and end of the current financial year are set out below:

| | Consolidated | |
|---|---|---|
| | 2011 $000's | 2010 $000's |
| | | |
| Balance at beginning of year | 72 | 75 |
| Additions | 24 | 23 |
| Disposals | - | - |
| Depreciation expense | (24) | (26) |
| **Balance at end of year** | 72 | 72 |

## 10. OTHER FINANCIAL ASSETS

| | Consolidated | |
|---|---|---|
| | 2011 $000's | 2010 $000's |
| | | |
| **Current Assets**<br>Recognition of oil swap based on market price at balance date | - | 1,420 |
| | | |
| | | |
| **Balance at end of year** | - | 1,420 |
| | | |
| **Current Liability**<br>Recognition of oil swap based on market price at balance date | 935 | - |
| **Balance at end of year** | 935 | - |

## 11. SHARES IN SUBSIDIARIES AT BALANCE DATE

Shares held by the parent entity at balance date:

| | Parent | | | | |
|---|---|---|---|---|---|
| **Subsidiary Companies** | **2011 $** | **2010 $** | **Interest Held** | **Country of Incorporation** | **Principal Activity** |
| Cue PNG Oil Company Pty Ltd | 1 | 1 | 100% | Australia | Petroleum production & exploration |
| Cue Energy Holdings Ltd | 1 | 1 | 100% | Australia | Administration |
| Cue Mahakam Hilir Pty Ltd (formerly Cue Energy Indonesia Pty Ltd) | 1 | 1 | 100% | Australia | Petroleum production & exploration |
| Cue (Ashmore Cartier) Pty Ltd | 2 | 2 | 100% | Australia | Petroleum exploration |
| Cue Sampang Pty Ltd | 1 | 1 | 100% | Australia | Petroleum exploration |
| Cue Taranaki Pty Ltd | 1 | 1 | 100% | Australia | Petroleum exploration |
| Toro Oil Pty Ltd | 1 | 1 | 100% | Australia | Petroleum exploration |
| Cue Malaysia Sdn Bhd* | 2 | - | 100% | Malaysia | Petroleum production |
| Galveston Mining Corporation Pty Ltd | 1,286,678 | 1,286,678 | 100% | Australia | Petroleum exploration |
| Less accumulated impairment losses | (1,286,678) | (1,286,678) | | | |
| | - | - | | | |
| Cue Exploration Pty Ltd | 1,929,077 | 1,929,077 | 100% | Australia | Petroleum exploration |
| Less accumulated impairment losses | (1,343,808) | (1,343,808) | | | |
| | 585,269 | 585,269 | | | |
| Total | 585,279 | 585,277 | | | |

All companies in the Group have a 30 June balance date.

*On 8 June 2011, Cue Malaysia Sdn Bhd was incorporated. The two Malaysian resident directors are Kevin Forbes Blues and Peter Ian Dias.

## 12. EXPLORATION AND EVALUATION EXPENDITURE

| | Consolidated | |
|---|---|---|
| | 2011 $000's | 2010 $000's |
| | | |
| Costs carried forward in respect of areas of interest in exploration and evaluation phase | 24,817 | 17,377 |
| Expenditure incurred during the year | 1,791 | 7,515 |
| Expenditure transferred to Production properties during the year | (5,109) | - |
| Expenditure refunded during the year | (5,050) | - |
| Expenditure reversed on sale of exploration licence | (445) | - |
| Expenditure written off during the year | (2,838) | (75) |
| Closing balance | 13,166 | 24,817 |
| | | |
| Accumulated costs incurred on current areas of interest net of amounts written off - | | |
| - Sampang PSC | 3,023 | 8,530 |
| - Mahakam Hilir PSC | 26 | - |
| - PNG PRL 9 | 1,977 | 1,894 |
| - PNG PRL14 | 220 | 180 |
| - PNG PDL 3 (non unitized) | 209 | 209 |
| - Carnarvon Basin EP363 | - | 45 |
| - WA-359-P | 120 | 117 |
| - WA-360-P | 470 | 450 |
| - WA-361-P | 143 | 144 |
| - 1,677 | 1,677 | 5,982 |
| - 135 | 135 | 106 |
| - T/37P | - | 2,041 |
| - T/38P | - | 762 |
| - PEP 51313 | 3,768 | 2,612 |
| - PEP 51149 | 1,398 | 1,300 |
| - AC/RL7 | - | 445 |
| Net accumulated exploration and evaluation expenditure | 13,166 | 24,817 |

## 13. IMPAIRMENT OF PRODUCTION PROPERTY ASSETS

At 30 June 2011 the Group reassessed the carrying amount of its oil and gas assets, Production Properties (refer Note 14 and Note 1(j)), for indicators of impairment such as changes in future prices, future costs and reserves. As a result, the recoverable amounts of cash-generating units were formally reassessed but no impairment write-downs were required.

Estimates of recoverable amounts are based on the assets' value in use, determined by discounting each asset's estimated future cash flows at asset specific discount rates. The pre-tax discount rates applied were equivalent to post-tax discount rates of 10% (2010: 10%) depending on the nature of the risks specific to each asset. Where an asset does not generate cash flows that are largely independent from other assets or groups of assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

## 14. PRODUCTION PROPERTIES

| | Consolidated | |
|---|---|---|
| | 2011 $000's | 2010 $000's |
| | | |
| Balance at beginning of year | 66,714 | 68,290 |
| Expenditure incurred during the year | 6,607 | 9,842 |
| Expenditure transferred from exploration expenditure | 5,109 | - |
| Amortisation and restoration expense | (9,644) | (11,418) |
| | | |
| Balance at end of year | 68,786 | 66,714 |
| | | |
| Net accumulated costs incurred on areas of interest | | |
| - PNG PDL 3 (unitized) | 488 | 617 |
| - Oyong – Sampang PSC(i) | 21,093 | 17,581 |
| - Maari – PMP 38160 | 47,205 | 48,516 |
| Total | 68,786 | 66,714 |

(i) As a result of a project arrangement in the Jeruk field within the Sampang PSC, Indonesia; Cue may have to reimburse certain monies spent by the incoming party from future profit oil within the Sampang PSC. However, due to the significant uncertainty surrounding the probability of having to make such reimbursement the Company has not recorded a liability in relation to the costs that may be reimbursed.

## 15. TRADE AND OTHER PAYABLES

| | Consolidated | |
|---|---|---|
| | 2011 $000's | 2010 $000's |
| | | |
| **Current** | | |
| Trade Creditors and accruals | 5,472 | 4,040 |
| Directors and Director related entities | 75 | 50 |
| | 5,547 | 4,090 |

The Directors consider the carrying amount of payables reflect their fair values. Trade creditors are generally settled within 30 days.
The Group does not have any significant concentration of credit risks.

## 16. INTEREST-BEARING LOANS AND BORROWINGS

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings. For more information about the Group's exposure to interest rate and foreign currency risk, see Note 2.

| | | Consolidated | |
|---|---|---|---|
| | | 2011 $000's | 2010 $000's |
| | | | |
| **Interest bearing liabilities** | | | |
| Bank loans – secured | - current | 5,086 | 7,720 |
| | - non-current | - | 6,403 |
| | | 5,086 | 14,123 |

**Bank loans – secured**

A lending facility of US$20 million was entered into during the 2008 reporting period which bears a floating rate of interest. The facility is secured by a first charge over the Group's interests in the Maari assets in New Zealand with a carrying amount at 30 June 2011 of $47.205 million. The parent company has also provided a financial guarantee for Cue Taranaki Pty Ltd's performance, as required by the Maari FPSO lease and contract. The Group is subject to certain covenants which are common for such a facility. The average rate for the year was 1.5% (2010: 1.5%), and $5.1 million (2010: $14.1 million) was outstanding at balance date. The facility is available until 2012, and the current amount drawn down is expected to be fully repaid by 2012 directly from production receipts following commencement of production in February 2009.

## 17. PROVISIONS

| | Consolidated | |
|---|---|---|
| | 2011 $000's | 2010 $000's |
| | | |
| **Current** | | |
| Employee benefits | 379 | 348 |
| **Non-Current** | | |
| Employee benefits | 106 | 33 |
| Restoration | 840 | 840 |
| | 946 | 873 |

Movements in each class of provision during the financial year, other than provisions relating to employee benefits are set out below:

| | Total Restoration $000's |
|---|---|
| | |
| **Consolidated** | |
| Balance at 1 July 2010 | 840 |
| Provisions made during the year | - |
| Provisions used during the year | - |
| Balance at 30 June 2011 | 840 |

**Restoration**

Provisions for future removal and restoration costs are recognised where there is a present obligation as a result of exploration, development, production, transportation or storage activities having been undertaken, and it is probable that an outflow of economic benefits will be required to settle the obligation. The estimated future obligations include costs of removing facilities, abandoning wells and restoring the affected areas. Expected timing of outflow of restoration liabilities is not in the next 12 months from balance date.

## 18. INTERESTS IN JOINT VENTURES

| Property | Operator | Cue Interest (%) | Gross Area ($Km^2$) | Net Area ($Km^2$) | Permit Expiry Date |
|---|---|---|---|---|---|
| **Petroleum Exploration Properties** | | | | | |
| **Carnarvon Basin – Western Australia** | | | | | |
| WA-359-P | Cue Energy Resources Limited | 30 | 1,218 | 609 | 31/01/2012 |
| WA-360-P | Cue Energy Resources Limited | 15 | 1,215 | 243 | 31/01/2012 |
| WA-361-P | Cue Energy Resources Limited | 15 | 649 | 97 | 30/01/2016 |
| WA-389-P | Cue Energy Resources Limited | 35 | 3,825 | 3,825 | 29/08/2013 |
| WA-409-P | Cue Energy Resources Limited | 30 | 569 | 284 | 30/04/2014 |
| **New Zealand** | | | | | |
| PEP 51149 | Todd Exploration Limited | 20 | 636 | 127 | 22/09/2013 |
| PEP 51313 | Todd Exploration Limited | 20 | 2,593 | 519 | 29/07/2014 |
| **Papua New Guinea** | | | | | |
| PRL 9 | Oil Search Ltd | 14.894 | 596 | 89.1 | 17/12/2012 |
| PRL 14 | Oil Search Ltd | 10.947 | 427 | 46.8 | 21/11/2015 |
| **Petroleum Production and Exploration Properties** | | | | | |
| **New Zealand** | | | | | |
| PMP 38160 | OMV New Zealand Limited | 5 | 80 | 4 | 02/12/2027 |
| **Madura - Indonesia** | | | | | |
| Sampang PSC | Santos (Sampang) Pty Ltd | 15 (8.181818 Jeruk field) | 2,006 | 300.9 | 04/12/2027 |
| **Papua New Guinea** | | | | | |
| PDL 3 | Barracuda Pty Ltd | 5.568892 | 85 | 4.7 | 23/12/2021 |

## 18. INTERESTS IN JOINT VENTURES (Cont')

| | Consolidated | |
|---|---|---|
| | 2011 $000's | 2010 $000's |
| **The share of assets and liabilities of the joint ventures and borrowings attributed to Joint Ventures have been included under the relevant headings:** | | |
| | | |
| **Current Assets:** | | |
| Receivables | 8,782 | 6,606 |
| | | |
| **Non Current Assets:** | | |
| Exploration and Evaluation Expenditure (Note 12) | 13,166 | 24,817 |
| Production Properties (Note 14) | 68,786 | 66,714 |
| Net Assets employed in the Joint Ventures | 81,952 | 91,531 |
| | | |
| **Current Liabilities:** | | |
| Payables – cash calls by operator | 5,547 | - |
| Other financial liabilities | 935 | - |
| Financial liabilities-secured | 5,086 | 7,720 |
| | | |
| **Non Current Liabilities:** | | |
| Financial liabilities-secured | - | 6,403 |
| Other | - | 840 |
| | | |
| **Income and expenses of the consolidated entity attributable to joint ventures:** | | |
| Income | 52,506 | 54,700 |
| Expenses | 9,113 | 22,970 |

No contingent liabilities exist. Commitments are disclosed in Note 19.

## 19. COMMITMENTS FOR EXPENDITURE

### a) Exploration tenements

In order to maintain current rights of tenure to petroleum exploration tenements, the Group has discretionary exploration expenditure requirements up until expiry of the primary term of the tenements. These requirements, which are subject to renegotiation and are not provided for in the financial statements, are payable as follows:

| | Consolidated | |
|---|---|---|
| | 2011 $000's | 2010 $000's |
| Not later than one year | 21,015 | 2,587 |
| Later than one year but not later than 2 years | 921 | 6,782 |
| Later than 2 years but not later than 5 years | 26 | 216 |
| Later than 5 years | - | - |
| | 21,962 | 9,585 |

If the economic entity decides to relinquish certain tenements and/or does not meet these obligations, assets recognised in the balance sheet may require review in order to determine the appropriateness of carrying values. The sale, transfer or farm-out of exploration rights to third parties could potentially reduce or extinguish these obligations.

All commitments relate to Joint Venture projects.

## 19. COMMITMENTS FOR EXPENDITURE (Cont')

### b) Development expenditure

| | Consolidated | |
|---|---|---|
| | 2011 $000's | 2010 $000's |
| Not later than one year | 9,964 | 13,100 |
| Later than one year but not later than 2 years | - | 4,300 |
| Later than 2 years but not later than 5 years | - | - |
| Later than 5 years | - | - |
| | 9,964 | 17,400 |

All development expenditure commitments relates to the development of oil and gas fields.

### c) Lease commitments

| | Consolidated | |
|---|---|---|
| | 2011 $000's | 2010 $000's |
| Non-cancellable operating lease relating to rentals are payable as follows: | | |
| Not later than one year | 123 | 95 |
| Later than one year but not later than five years | 369 | - |
| Later than five years | - | - |
| | 492 | 95 |

During the year ended 30 June 2011 the Group recognised $0.15 million (2010: $0.15 million) as an expense in the income statement in respect of operating leases relating to the lease over the company's business premises.

## 20. EVENTS SUBSEQUENT TO BALANCE DATE

The Directors are not aware of any matter or circumstance since the end of the financial year, not otherwise dealt with in this report that has significantly or may significantly affect the operations of Cue Energy Resources Limited, the results of those operations or the state of affairs of the Company or Group..

## 21. EARNINGS PER SHARE

| | Consolidated | |
|---|---|---|
| | 2011 | 2010 |
| Basic earnings per share | $0.03 | $0.04 |
| Diluted earnings per share | $0.03 | $0.04 |
| | | |
| Net profit after tax ($'000) | $19,107 | $27,510 |
| Weighted average number of ordinary shares outstanding during the year (adjusted for ordinary shares issued during the year) used in the calculation of basic earnings per share | 693,812,869 | 689,848,012 |

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the Parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity of the Parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

| | Consolidated | |
|---|---|---|
| | 2011 | 2010 |
| Earnings used in the calculation of basic and diluted earnings per share reconciles to the net profit after tax in the income statement as follows: | | |
| Net profit/(loss) attributable to ordinary equity holders of the Parent from continuing operations ($000's) | 19,107 | 27,510 |
| | | |
| The weighted average number of shares used for the purposes of calculating diluted earnings per share reconciles to the number used to calculate basic earnings per share as follows: | 698,112,869 | 690,871,346 |
| | | |
| Share options on issue (i) | 4,300,000 | 1,023,334 |
| Diluted earnings/(loss) per share | $0.03 | $0.04 |

(i) Options outstanding issued under the Cue Energy's Executive Share Option Plan issued to eligible executives have been classified as potential ordinary shares and included in the calculation of diluted earnings per share in 2011.

During the year, 1,500,000 (2010: Nil) options were converted to ordinary shares. The diluted earnings per share calculation includes that portion of these options and partly paid shares assumed to be issued for nil consideration weighted with reference to the date of conversion. The weighted average number to be included in 2011 is 493,151 (2010: 1,023,334).

### Information concerning the classification of securities

All outstanding Options are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share. However diluted earnings per share is not materially different from basic earnings per share. The options have been included in the determination of basic earnings per share. Details relating to the options are set out in Note 7(c).

## 22. FINANCIAL REPORTING BY SEGMENTS

### Segment information

The Group operates predominantly in one business, namely the exploration development and production of hydrocarbons. Revenue is derived from the sale of gas and liquid hydrocarbons.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items mainly comprise interest-earning assets and revenue, interest-bearing, borrowings and expenses, and corporate assets and liabilities.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

## 22. FINANCIAL REPORTING BY SEGMENTS (Cont')

### Geographic segments

The Group operates primarily in Australia but also has international operations in Indonesia, Papua New Guinea and New Zealand. Therefore the Group is organised into four principles geographic segments: Australia, New Zealand, Indonesia and Papua New Guinea. These segments are based on the internal reports that are reviewed and used by the Board of directors (who are identified as the chief operating decision makers(CODM)) in assessing performance and in determining the allocation of resources.

The CODM assesses the performance of the operating segments based upon a measure of earnings before interest, tax, depreciation and amortisation. The information reported to the CODM is on at best monthly basis.

| 2011 | AUSTRALIA $000's | NZ $000's | INDONESIA $000's | PNG $000's | All Other Segments $000's | TOTAL $000's |
|---|---|---|---|---|---|---|
| Production Revenue | - | 23,970 | 25,583 | 2,953 | - | 52,506 |
| Production Expenses | - | (5,048) | (3,201) | (864) | - | (9,113) |
| | | | | | | |
| Gross Profit | - | 18,922 | 22,382 | 2,089 | - | 43,393 |
| | | | | | | |
| Other revenue | 7,164 | - | - | - | - | 7,164 |
| | | | | | | |
| **Earnings before interest, tax, depreciation and amortisation** | (4,952) | 18,922 | 22,382 | 2,089 | - | 38,441 |
| | | | | | | |
| Interest revenue | 312 | - | - | - | - | 312 |
| Interest expense | 173 | - | - | - | - | 173 |
| Depreciation and Amortisation | - | 4,918 | - | 136 | - | 9,644 |
| Impairment Writedowns | 2,838 | - | - | 70 | - | 2,838 |
| Income tax expense | - | 3,644 | 2,702 | 308 | - | 6,654 |

| 2010 | AUSTRALIA $000's | NZ $000's | INDONESIA $000's | PNG $000's | All Other Segments $000's | TOTAL $000's |
|---|---|---|---|---|---|---|
| Production Revenue | - | 28,480 | 22,574 | 3,646 | - | 54,700 |
| Production Expenses | - | (3,950) | (5,977) | (1,149) | - | (11,076) |
| | | | | | | |
| Gross Profit | - | 24,530 | 16,597 | 2,497 | - | 43,624 |
| | | | | | | |
| Other revenue | 9,788 | - | - | - | - | 9,788 |
| | | | | | | |
| **Earnings before interest, tax, depreciation and amortisation** | 6,825 | 25,398 | 16,596 | 2,452 | - | 51,271 |
| | | | | | | |
| Interest revenue | 322 | - | - | - | - | 322 |
| Interest expense | - | 240 | - | - | - | 240 |
| Depreciation and Amortisation | 26 | 6,014 | 4,356 | 1,047 | - | 11,443 |
| Impairment Writedowns | 166 | - | - | 70 | - | 236 |
| Income tax expense | - | 3,473 | 8,531 | (163) | - | 11,841 |

## 22. FINANCIAL REPORTING BY SEGMENTS (Cont')

| | AUSTRALIA $000's | NZ $000's | INDONESIA $000's | PNG $000's | All Other Segments $000's | TOTAL $000's |
|---|---|---|---|---|---|---|
| | | | | | | |
| **Total segment assets** | | | | | | |
| 30 June 2011 | 63,682 | 65,140 | 31,486 | 3,425 | - | 163,733 |
| 30 June 2010 | 47,377 | 68,116 | 31,084 | 3,978 | - | 150,555 |
| **Total segment liabilities** | | | | | | |
| 30 June 2011 | 2,737 | 24,219 | 16,685 | 1,259 | - | 44,900 |
| 30 June 2010 | 623 | 33,023 | 15,865 | 1,618 | - | 51,129 |

Reconciliation of earnings before interest, tax, depreciation and amortisation (EBITDA) to Net Profit before Income Tax:

| | 2011 $000's | 2010 $000's |
|---|---|---|
| EBITDA | 38,440 | 51,271 |
| Interest expense | (173) | (240) |
| Depreciation | (24) | (26) |
| Amortisation | (9,644) | (11,418) |
| Impairment writedowns | (2,838) | (236) |
| **Net Profit before Income Tax** | 25,761 | 39,351 |

## 23. SHARE BASED PAYMENTS

### Directors and employee benefits – share based payment plans

Ownership based compensation payments for employees and executives of the group are made at the discretion of the Board.

No share based payments have occurred during the current financial year (2010: Nil). Total share based payment expense recognised during the year ended 30 June 2010 of $58,066 related to share options granted in prior financial years that vested in the 30 June 2010 year.

### Share-based payments

The following reconciles the outstanding options and share rights granted as remuneration in prior financial years at the beginning and end of the year.

| | 2011 Number of Share Rights | 2011 Number of Options |
|---|---|---|
| **Balance at beginning of the Year** | 150,000 | 5,800,000 |
| Granted during the Year | - | - |
| Forfeited during the Year | - | - |
| Exercised during the Year | - | (1,500,000) |
| Expired during the Year | (150,000) | - |
| Issued Shares during the Year | - | - |
| Balance at end of the Year | - | 4,300,000 |

Weighted average remaining contractual life of share rights is nil (2010: 1.5 years) and the remaining weighted average contracted life of options is 0.75 years (2010: nil). Range of exercise prices for options is disclosed in the Remuneration Report.

| | 2010 Number of Share Rights | 2010 Number of Options |
|---|---|---|
| **Balance at beginning of the Year** | 150,000 | 6,800,000 |
| Granted during the Year | - | - |
| Lapsed/forfeited during the Year | - | - |
| Expired during the Year | - | (1,000,000) |
| Issued Shares during the Year | - | - |
| Balance at end of the Year | 150,000 | 5,800,000 |

Range of exercise prices for options as share rights is disclosed in the Remuneration Report.

## 24. KEY MANAGEMENT PERSONNEL AND RELATED PARTY DISCLOSURES

### Key Management Personnel

The following were Directors of Cue Energy Resources Limited during the financial year:

#### Chairman

R.G. Tweedie (Non-Executive)

#### Non-Executive Directors

L. Musca

S.J. Koroknay

#### Key Management Personnel

Executives (other than Directors with the authority for strategic direction and management).

| Name | Position |
|---|---|
| R.J. Coppin (retired 7 Feb 2011) | Chief Executive Officer |
| M.J. Paton (appointed 8 Feb 2011) | Chief Executive Officer |
| A.M. Knox | Company Secretary and Chief Financial Officer |
| A. Parks | Chief Commercial Officer |
| T. White (effective KMP 01/07/2010) | Exploration Manager |

### Remuneration

#### Management personnel

Total remuneration payments and equity issued to Directors and Key Management personnel are summarised below:

Elements of Directors and executives remuneration:

- Short term employments benefits
- Post employment benefits – superannuation
- Share based payments – shares
- Retirement benefits

#### Directors and Key Management Personnel Compensation

The aggregate compensation of the directors and key management personnel of the entity is set out below:

| | Consolidated Entity | |
|---|---|---|
| | 2011<br>$ | 2010<br>$ |
| Short term employment benefits | 1,494,009 | 734,227 |
| Post employment benefits | 154,181 | 91,960 |
| Other long term benefits | - | - |
| Termination benefits | 505,835 | - |
| Share based payment | 83,332 | 136,486 |
| | 2,237,357 | 962,673 |

Refer to the Remuneration Report in the Director's Report for detailed compensation disclosures on key management personnel.

## 24. KEY MANAGEMENT PERSONNEL AND RELATED PARTY DISCLOSURES (Cont')

### Options holdings

The number of options in ordinary shares in the Company held during the financial year by each Director of Cue Energy Resources Limited and each of the Executive Key Management Personnel including their personally related entities are set out below:

| 2011 | Balance at start of year | Granted during year as remuneration | Exercised during year | Expired during year | Balance at end of year | Vested and exercisable at end of year |
|---|---|---|---|---|---|---|
| **Directors** | | | | | | |
| R.G. Tweedie | - | - | - | - | - | - |
| S.J. Koroknay | - | - | - | - | - | - |
| L. Musca | - | - | - | - | - | - |
| **Executives** | | | | | | |
| R.J. Coppin (i) | 1,500,000 | - | 1,500,000 | - | - | - |
| M. Paton (ii) | - | - | - | - | - | - |
| A.M. Knox | 1,500,000 | - | - | - | 1,500,000 | 1,500,000 |

| 2010 | Balance at start of year | Granted during year as remuneration | Exercised during year | Expired during year | Balance at end of year | Vested and exercisable at end of year |
|---|---|---|---|---|---|---|
| **Directors** | | | | | | |
| R.G. Tweedie | - | - | - | - | - | - |
| S.J. Koroknay | - | - | - | - | - | - |
| L. Musca | - | - | - | - | - | - |
| **Executives** | | | | | | |
| R.J. Coppin (i) | 2,000,000 | - | - | 500,000 | 1,500,000 | 1,500,000 |
| A.M. Knox | 2,000,000 | - | - | 500,000 | 1,500,000 | 1,500,000 |

Options issued have been valued using the Black Scholes option valuation methodology in prior financial years and are not based on Company performance, but industry practice. There are no further conditions attached to the options.

### Shareholdings

| | Balance at start of year | Acquired during year on exercise of options | Other Purchases | Purchases as part of Directors Savings Plan* | Sales during the year | Balance at Report Date |
|---|---|---|---|---|---|---|
| **Directors 2011** | | | | | | |
| R.G. Tweedie | 3,363,477 | - | - | 277,541 | - | 3,641,018 |
| S.J. Koroknay | 100,000 | - | - | - | - | 100,000 |
| L. Musca | 12,771,227 | - | - | - | - | 12,771,227 |
| **Directors 2010** | | | | | | |
| R.G. Tweedie | 3,088,539 | - | - | 274,938 | - | 3,363,477 |
| S.J. Koroknay | - | - | 100,000 | - | - | 100,000 |
| L. Musca | 12,771,227 | - | - | - | - | 12,771,227 |
| **Key Management Personnel 2011** | | | | | | |
| R.J. Coppin (i) | 1,700,000 | 1,500,000 | - | - | - | 3,200,000 |
| M.J. Paton (ii) | - | - | 1,492,881 | - | - | 1,492,881 |
| A.M. Knox | 2,337,245 | - | - | - | - | 2,337,245 |
| A. Parks | 106,378 | - | 33,043 | - | - | 139,421 |
| T. White | 24,000 | - | - | - | - | 24,000 |
| **Key Management Personnel 2010** | | | | | | |
| R.J. Coppin (retired 7 Feb 2011) | 1,500,000 | - | 200,000 | - | - | 1,700,000 |
| A.M. Knox | 1,938,336 | - | 398,909 | - | - | 2,337,245 |

* Share purchases made on behalf of Directors as part of their remuneration for the year ended 30 June 2011.

(i) R.J. Coppin retired 7 February 2011.

(ii) M. Paton commenced 8 February 2011.

## 24. KEY MANAGEMENT PERSONNEL AND RELATED PARTY DISCLOSURES (Cont')

### Related party transactions and balances.

#### Members of the Board of Directors

The Directors in office during the year were R.G. Tweedie, L. Musca and S.J. Koroknay. During the year Directors' fees were paid by the parent company of $249,998 (2010: $193,941). Included in this amount are cash payments of $83,332 to Leon Nominees Pty Ltd of which one Director is associated, $76,453 to S.J. Koroknay and $6,881 to SJK Superannuation Funds of which one Director is associated.

#### Consolidated Entities

Details of controlled entity companies are shown in Note 11.

Advances to/(from) controlled entities net of provisions at balance date are as follows:

| | 2011 $ | 2010 $ |
|---|---|---|
| Galveston Mining Corporation Pty Ltd | - | 2,803,088 |
| Cue Exploration Pty Ltd | 2,042,812 | 6,293,700 |
| Cue PNG Oil Pty Ltd | 1,678,343 | 2,668,066 |
| Cue (Ashmore Cartier) Pty Ltd | 534,304 | 398,226 |
| Cue Mahakam Hilir Pty Ltd | 25,768 | - |
| Cue Sampang Pty Ltd | - | 10,853,003 |
| Cue Taranaki Pty Ltd | 19,090,157 | 20,651,806 |
| Cue Energy Holdings Ltd | (573,720) | (573,720) |
| Cue Energy Malaysia Sdn Bhd | - | - |
| | 22,797,664 | 43,094,169 |

Repayment of amounts owing to the Company at 30 June 2011 and all future debts due to the Company, by the controlled entities are subordinated in favour of all other creditors. Cue Energy has agreed to provide sufficient financial assistance to the controlled entities as and when it is needed to enable the controlled entities to continue operations.

The parent company has provided a financial guarantee for Cue Taranaki's performance, as required by the Maari FPSO lease and contract.

The parent company provides management, administration and accounting services to the subsidiaries. A management fee of $480,000 (2010: $480,000) and interest of $367,544 (2010: $462,673) was charged respectively by the parent company to Cue PNG Oil Company Pty Ltd. Management fees of $2,423,115 (2010: $1,132,745) and interest of $373,832 (2010: $1,233,293) was charged respectively by the parent company to Cue Taranaki Pty Ltd.

## 25. NOTES TO THE STATEMENT OF CASH FLOWS

| | Consolidated | |
|---|---|---|
| | **2011 $000's** | **2010 $000's** |
| **(a) Reconciliation of operating profit to net cash flows from operating activities:** | | |
| *Reported profit after tax* | 19,107 | 27,510 |
| Impact of changes in working capital items | | |
| Decrease/(increase) in receivables | 2,045 | (11,483) |
| Increase/(decrease) in payables | 2,147 | 15,763 |
| Items not involving cash flows | | |
| Depreciation | 24 | 26 |
| Amortisation | 9,644 | 11,418 |
| Employee benefits | 103 | 72 |
| Net loss/(gain) on foreign currency conversion | 5,327 | (744) |
| Write down/(up) value of exploration expenditure | 2,838 | 75 |
| Reserve movement | - | (417) |
| Net cash flows from operating activities | 41,235 | 42,220 |
| | | |
| **(b) Cash comprises cash balances held within Australia and overseas:** | | |
| Australia | 52,804 | 29,364 |
| Papua New Guinea | 7 | 9 |
| Cash and bank balances | 52,811 | 29,373 |
| | | |
| **Statement of Cash Flows cash balance** | **52,811** | **29,373** |

## 26. NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

| | Parent Entity | |
|---|---|---|
| **PARENT ENTITY INFORMATION** | **2011 $000's** | **2010 $000's** |
| Information relating to Cue Energy Resources Limited: | | |
| **Financial position** | | |
| Current assets | 52,846 | 37,222 |
| Non-current assets | 23,455 | 43,751 |
| Total assets | 76,301 | 80,973 |
| | | |
| Current liabilities | (1,721) | (541) |
| Non-current liabilities | (105) | (32) |
| Total liabilities | (1,826) | (573) |
| Net assets | 74,475 | 80,400 |
| | | |
| Contributed equity | 151,768 | 151,468 |
| Reserves | 391 | 391 |
| Accumulated losses | (77,684) | (71,459) |
| | | |
| Net assets | 74,475 | 80,400 |
| | | |
| **Financial performance** | | |
| Total revenue | 4,028,745 | 140,025 |
| Profit/(loss) for the period | (6,225) | 11,697 |
| Comprehensive income/(loss) for the period | (6,225) | 11,697 |

Repayment of amounts owing to the Company at 30 June 2011 and all future debts due to the Company, by the controlled entity are subordinated in favour of all other creditors. Cue Energy has agreed to provide sufficient financial assistance to the controlled entities as and when it is needed to enable the controlled entities to continue operations.

### Capital commitments

There no commitments for the acquisition of plant and equipment contracted for at the reporting date.

### Finance leases

There are no commitments in relation to finance leases.

### Contingent liabilities

The parent entity is not subject to any liabilities that are considered contingent upon events known at balance date.

**INDEPENDENT AUDITOR'S REPORT**
**TO THE MEMBERS OF CUE ENERGY RESOURCES LIMITED**

PKF

Chartered Accountants
& Business Advisers

**Report on the Financial Report**

We have audited the accompanying financial report of Cue Energy Resources Limited (the company), which comprises the statement of financial position as at 30 June 2011, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies, other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

*Directors' Responsibility 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 is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

*Auditor's Responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

*Independence*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

*Opinion*

In our opinion:

(a) the financial report of Cue Energy Resources Limited is in accordance with the *Corporations Act 2001*, including:

   (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the year ended on that date; and

   (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

(b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

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PKF

Chartered Accountants
& Business Advisers

**INDEPENDENT AUDITOR'S REPORT (CONT'D)**
**TO THE MEMBERS OF CUE ENERGY RESOURCES LIMITED**

**Report on the Remuneration Report**

We have audited the Remuneration Report included in pages 25 to 31 of the directors' report for the year ended 30 June 2011. 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.

*Opinion*

In our opinion, the Remuneration Report of Cue Energy Resources Limited for the year ended 30 June 2011, complies with section 300A of the *Corporations Act 2001.*

**PKF**

**D J Garvey**
**Partner**

29 September 2011
Melbourne

# SHAREHOLDER INFORMATION

## 1) Spread of Shareholdings

Spread of Holdings of quoted shares of no par value in the Company as at 27th of September 2011.

| Number Held | Ordinary |
|---|---:|
| 1 – 1,000 | 238 |
| 1,001 – 5,000 | 1,029 |
| 5,001 – 10,000 | 959 |
| 10,001 – 100,000 | 2,545 |
| Over 100,000 | 468 |
| Total | 5,239 |

## 2) Unmarketable Parcels

The number of shareholders holding less than a marketable parcel as at 27th of September is 489.

## 3) Substantial Shareholders

The names and holdings of substantial shareholders in the Company as at 27th of September 2011:

| | Quoted Shares Fully Paid |
|---|---:|
| Todd Petroleum Mining Company Limited | 163,103,314 |
| UOB Kay Hian Private Limited | 115,081,671 |
| Octanex NL | 43,656,168 |

## 4) Voting Rights

At meeting of members or classes of members:

(a) each member entitled to vote may vote in person or by proxy, attorney or representative;

(b) on a show of hands, every person present who is a member or a proxy, attorney or representative of a member has one vote; and

(c) on a poll, every person present who is a member or a proxy, attorney or representative of a member has:

- (i) for each fully paid share held by person, or in respect of which he is appointed a proxy, attorney or representative, one vote for the share;
- (ii) for each partly paid share, only the fraction of one vote which the amount paid (not credited) on the share bears to the total amounts paid and payable on the share (excluding amounts credited),

Subject to any rights or restrictions attached to any shares or class or classes of shares.

## 5) Registered Top 20 Shareholders

The registered names and holdings of the 20 largest holdings of quoted ordinary shares in the Company as at 27th of September 2011.

| | Shareholder | Ordinary Shares | Percentage Held |
|---|---|---|---|
| 1 | Todd Petroleum Mining Company Limited | 163,103,314 | 23.46% |
| 2 | UOB Kay Hian Private Limited | 115,081,671 | 16.55% |
| 3 | Octanex NL | 43,656,168 | 6.28% |
| 4 | Todd Tasman Oil Ltd | 25,920,000 | 3.73% |
| 5 | Berne No 132 Nominees Pty Ltd | 11,954,397 | 1.72% |
| 6 | Portfolio Securities Pty Ltd | 10,737,130 | 1.54% |
| 7 | JP Morgan Nominees Australia Limited | 10,258,596 | 1.48% |
| 8 | Peter Neville Findlay + Richard Norman Martin | 7,000,000 | 1.01% |
| 9 | Citicorp Nominees Pty Ltd | 5,486,489 | 0.79% |
| 10 | Finot Pty Ltd | 5,000,000 | 0.72% |
| 11 | HSBC Custody Nominees (Australia) Limited | 4,547,572 | 0.65% |
| 12 | Grizzley Holdings Pty Limited | 4,312,604 | 0.62% |
| 13 | Ernest Geoffrey Albers | 4,010,784 | 0.58% |
| 14 | Mr Neil Clifford Abbott & Gellert Ivanson Trustee | 3,800,000 | 0.55% |
| 15 | SCFI Pty Ltd | 3,800,000 | 0.55% |
| 16 | Colin Robert MacEwan & Bronwyn Beder | 3,750,000 | 0.54% |
| 17 | The Albers Companies Incorporated Pty Ltd | 3,700,621 | 0.53% |
| 18 | Richard Tweedie | 3,363,477 | 0.48% |
| 19 | Adziel Pty Ltd | 3,060,465 | 0.44% |
| 20 | Mr Nigel Roy Goldthorpe | 2,949,990 | 0.42% |
| | | 435,493,278 | 62.65% |

## 6) Holders

The number of holders of each class of equity securities as at 27th of September 2011 was:-

| Class of Security | Number |
|---|---|
| Ordinary Fully Paid Shares | 5,239 |
| Unlisted Options | 5 |

## 7) Vendor Securities

There are no restricted securities on issue as at 29th of September 2011.

## 8) Unquoted Securities

20 largest holders of Unlisted Options as at 29th of September 2011.

| Name | Number of Unlisted Options Held Expiring 19/04/12 | % Held of Total 19/04/12 Issued Unlisted Options | Total Number of Unlisted Options/Shares Held | % Held of Total Issued Unlisted Options/Shares |
|---|---|---|---|---|
| R.J. Coppin (i) | - | - | - | - |
| A.M. Knox | 1,500,000 | 38 | 1,500,000 | 38 |
| T. White | 1,333,333 | 34 | 1,333,333 | 34 |
| D. Leech | 333,332 | 8 | 333,332 | 8 |
| A. Iwaniw | 400,000 | 10 | 400,000 | 10 |
| P. Moffatt | 400,000 | 10 | 400,000 | 10 |
| | 3,966,665 | 100 | 3,966,665 | 100 |

(i) R.J. Coppin retired 7 February 2011

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