

Share Price:	\$0.080
12mth Price Target:	\$0.14

## CUE ENERGY RESOURCES LTD (CUE)

### Potting the 8 ball...

We initiate coverage on CUE Energy Resources Limited (CUE) with a Buy recommendation and a target price of 14cps. We think FY15 will be a transformational year for CUE, as management attempt to reverse a declining production profile. We expect CUE to offload marginal assets and deploy capital towards existing production assets and new exploration opportunities (onshore focus). We believe that this strategy has the potential to realise the significant value in what has been an under-performing stock. Based on recent M&A transaction (NDO, OEL, ROC) multiples CUE currently trades at a significant discount to fair value. Underpinning our recommendation is a cash balance of A\$40m (June FY14).

### Who is CUE Energy?

CUE is an onshore and offshore conventional oil and gas producer/explorer with projects in Papua New Guinea (PNG), Indonesia, Australia and New Zealand. CUE's key production assets include the Maari Field (PMP38160) in New Zealand and the Oyong Field (Sampang PSC) in Indonesia. CUE has 2P reserves of 4.6MMboe and produced 820,000boe in FY14 (A\$34m).

### Restructuring of the asset portfolio

Management has indicated a willingness to restructure the current portfolio of assets. This is expected to involve both the sale of current assets but also identifying new exploration assets to enable CUE to stem a declining production profile. Below we highlight three recent transactions:

- CUE has signed a conditional agreement on the PNG portfolio which will relieve the Company of a \$10m well obligation at PRL9 in addition to providing "up-front value". The Company will release further details of the transactions once it becomes unconditional.
- They increased their holding at Mahahkam Hilir PSC (onshore Indonesia) to 100% by acquiring the interest of Singapore Petroleum (SPC).
- Cue has acquired a 12.5% interest in the Mahato PSC onshore Central Sumatra basin. The Mahato PSC (~5,600km<sup>2</sup>) contains multiple appraisal and exploration targets with two wells scheduled for 2015. Cue is currently negotiating entry into other exploration opportunities in Indonesia.

### Valuation and target price

We initiate coverage of CUE with a Buy and our 12-month target price is 14cps. The recent spate of M&A activity within the small cap oil and gas sector provides a good guide to the value of CUE. Deals involving Roc Oil (ROC), Nido Petroleum (NDO) and RISCO suggest a growing appetite amongst Asian acquirers for assets and companies with Asian production assets. Based on 2P reserves of 4.95MMboe, CUE currently trades on an EV/2P of ~A\$5/bbl. Based on our target EV/2P of A\$15/bbl we believe CUE is worth closer to 16cps. We also note that CUE has A\$40m in cash (Q1FY15) and no debt. The key risks to our investment thesis include a further decline in the price of oil and a lack of exploration success.

#### Brief Business Description:

CUE is a conventional oil and gas explorer/developer with projects in PNG, Indonesia, Australia and New Zealand

#### Hartleys Brief Investment Conclusion

We think FY15 will be a transformational year for CUE as management attempts to reverse a declining production profile beyond CY16.

#### Chairman & CEO:

Mr Geoffrey King (Non Exec Chairman)  
Mr David Biggs (Chief Executive Officer)

#### Top Shareholders:

Todd Petroleum Mining Co	23%
UOB Kay Hian Private Limited	16%

#### Company Address:

Level 19, 357 Collins Street  
Melbourne, VIC, 3000

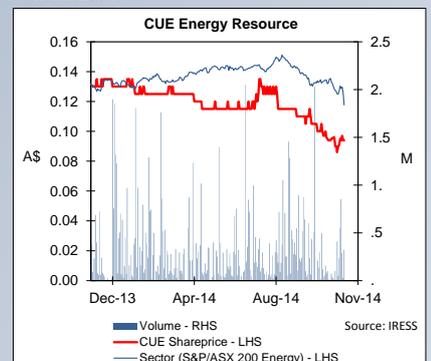
Issued Capital:	698m
- fully diluted	738m
Market Cap:	\$55.8m
- fully diluted	\$59.0m
Current Debt	\$0.0m
Current Cash	\$7.8m

2P Reserve (mmbbl)	4.70
EV / 2P Reserve	\$3.25

	FY14A	FY15F	FY16F
Prodn (boe)	677,278	808,991	808,060
Op Cash Flw	\$6m	\$16m	\$18m
Free Cash Flw	-\$19m	-\$2m	\$3m
NPAT* (A\$m)	-\$5m	\$8m	\$9m
EPS (\$, bas)*	-0.7x	1.0x	1.2x
P/E (basic)*	-10.8x	7.8x	6.8x
EV / EBIT	-4.6x	1.4x	1.2x
EV / EBITDA	2.5x	0.8x	0.7x
N.D. / equity	-15%	-12%	-13%
Interest Cover	na	na	na
Net Cash End	\$40.6m	\$38.1m	\$40.7m

Source: Hartleys Research

\*normalised



#### Authors:

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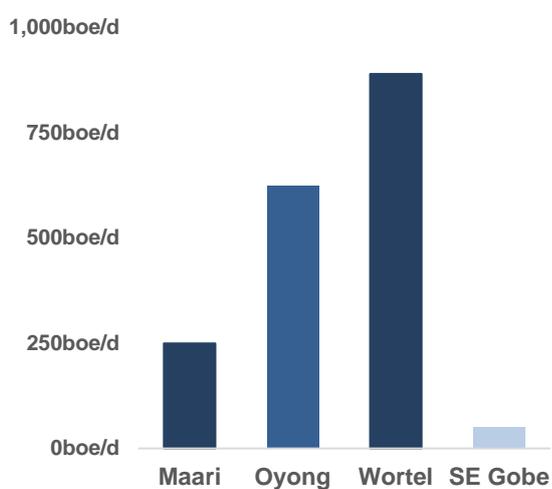
Alex Mazzega  
Research Analyst  
Ph: +61 8 9268 2837  
E: alex\_mazzega@hartleys.com.au

## SUMMARY MODEL

CUE Energy Resources Limited CUE		Share Price \$0.080				December 2014 Speculative Buy																																																																									
<b>Key Market Information</b>						<b>Directors</b>						<b>Company Information</b>																																																																			
<b>Share Price</b> Market Capitalisation \$56m 52 Week High-Low \$0.08 - \$0.135 Issued Capital 698.1m Issued Capital (fully diluted inc. ITM options) 737.6m Options 0.0m EV \$15m						Mr Geoffrey King (Non Exec Chairman) Mr Andrew Young (Non Exec Director) Mr Rowena Sylvester (Non Exec Director) Mr Stuart Brown (Non Exec Director) Mr David Biggs (Chief Executive Officer) Mr Andrew Knox (Chief Financial Officer)						Level 19, 357 Collins Street Melbourne, VIC, 3000 Tel: (03) 8610 4000 Fax: (03) 9614 2142 Web: www.cuenrg.com.au																																																																			
<b>Valuation</b> 12 Month Price Target 0.14						<b>Substantial Shareholders</b>						<table border="1"> <thead> <tr> <th></th> <th>m shares</th> <th>%</th> </tr> </thead> <tbody> <tr> <td>Todd Petroleum Mining Co</td> <td>163.1</td> <td>23.4</td> </tr> <tr> <td>UOB Kay Hian Private Limited</td> <td>113.3</td> <td>16.2</td> </tr> </tbody> </table>							m shares	%	Todd Petroleum Mining Co	163.1	23.4	UOB Kay Hian Private Limited	113.3	16.2																																																					
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Analyst : Simon Andrew Alex Mazzega Phone: +61 8 9268 3020 +61 8 9268 2837  Sources: IRESS, Company Information, Hartleys Research						Last updated December 3, 2014																																																																									

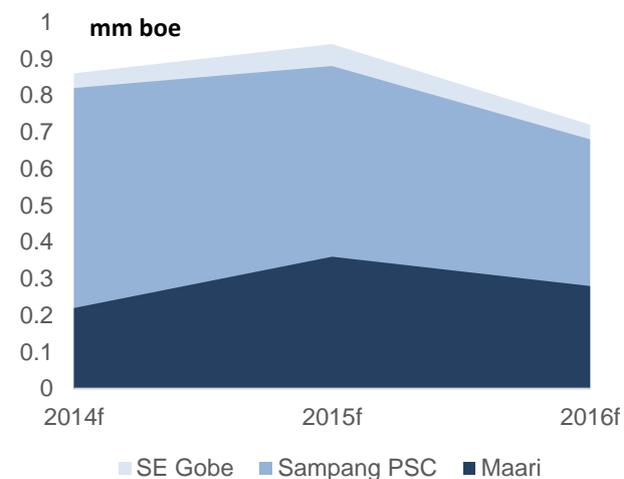
# CUE IN A PAGE

**Fig. 1: Net Daily Production**



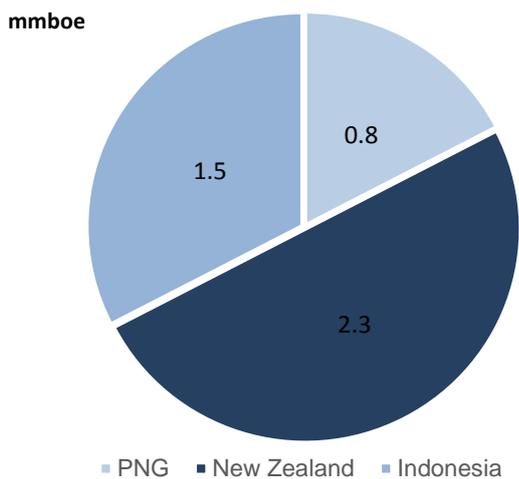
Source: Cue Energy Resources, Hartleys Research

**Fig. 2: Net Production Forecast**



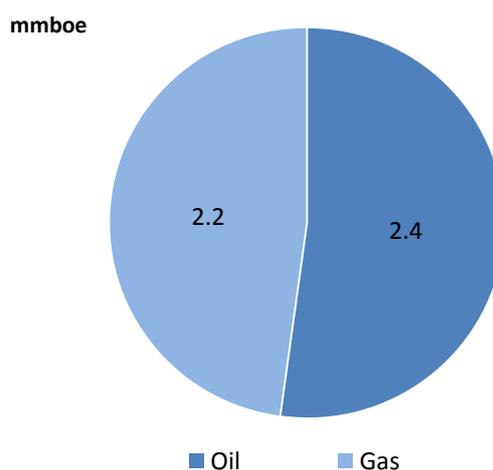
Source: Cue Energy Resources, Hartleys Research

**Fig. 3: 2P Reserves by Geography**



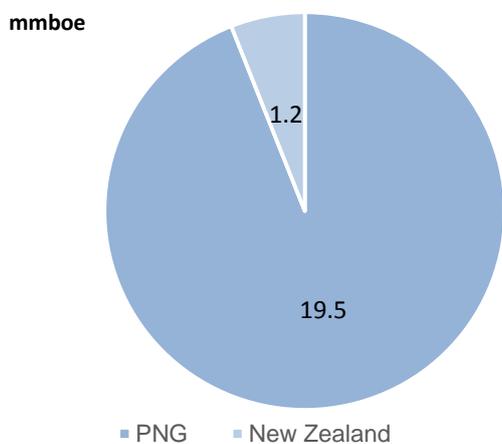
Source: Cue Energy Resources, Hartleys Research

**Fig. 4: 2P Reserves by Product**



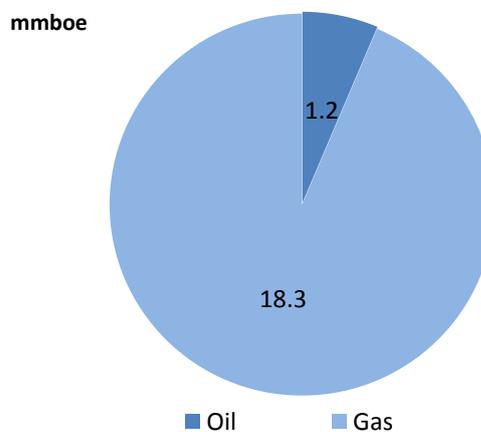
Source: Cue Energy Resources, Hartleys Research

**Fig. 5: 2C Resource by Geography**



Source: Cue Energy Resource, Hartleys Research

**Fig. 6: 2C Resource by Product**



Source: Cue Energy Resources, Hartleys Research

## INVESTMENT OVERVIEW

*FY15 will be a transformational year for CUE*

We initiate coverage on CUE Energy Resources Limited (CUE) with a Buy recommendation and a target price of 14cps. We think FY15 will be a transformational year for CUE as management attempts to reverse a declining production profile beyond CY16. CUE has already begun to offload marginal assets and deploy capital towards existing production assets and new exploration opportunities (onshore focus). We believe that this strategy has the potential to realise the significant value in what has been an under-performing stock.

*Production is set to decline in FY16*

Put simply we think CUE's underlying production assets are undervalued based on recent transaction multiples. Over the next 12-months CUE should deliver production growth from a work-over of the Maari Field in New Zealand and will also drill three wells on its exploration acreage in Indonesia plus one well onshore New Zealand. We think this work program has the potential to drive the stock price towards our target price of 14cps.

We expect production to increase by 23% YoY in FY15 to approximately 800k, largely driven by the completion of the work over at the Maari Field. At the end of the September quarter CUE had A\$39m in cash and no debt. At the end of FY15 we expect CUE to have a similar cash balance even after capex of A\$18m. Our base case cash flow assumptions are highlighted on page 18.

Fig. 7: Reserves and Resources as at 31 December 2013

PRODUCTION		PROVED (1P)			PROVED & PROBABLE (2P)		
FIELD (LICENCE)	CUE INTEREST	LIQUIDS (mmbbl)	GAS (BSCF)	OIL EQUIVALENT (mmboe)	LIQUIDS (mmbbl)	GAS (BSCF)	OIL EQUIVALENT (mmboe)
<b>Reserves</b>							
<b>INDONESIA</b>							
Oyong (Sampang PSC)		0.006	0.673	0.119	0.034	2.825	0.504
Wortel (Sampang PSC)	15%	0.007	4.490	0.755	0.010	5.940	1.000
<b>NEW ZEALAND</b>							
Maari (PMP 38160)	5%	1.009		1.009	2.344		2.344
<b>PAPUA NEW GUINEA</b>							
SE Gobe(PDL 3)	3.286%	0.029	3.760	0.656	0.045	4.584	0.809
<b>Total Reserves</b>		<b>1.051</b>	<b>8.924</b>	<b>2.539</b>	<b>2.431</b>	<b>13.349</b>	<b>4.656</b>
<b>EXPLORATION</b>		<b>BEST ESTIMATE (2C)</b>					
FIELD (LICENCE)					LIQUIDS (mmbbl)	GAS (BSCF)	OIL EQUIVALENT (mmboe)
<b>Contingent Resources</b>							
<b>INDONESIA</b>							
Jeruk (Indonesia)	8.182%				1.244		1.244
<b>PAPUA NEW GUINEA</b>							
Barikewa (PRL 9)	14.894%					44.533	7.422
Cobra (PRL 14)	10.947%					33.826	5.638
Iehi (PRL 14)	10.947%					27.368	4.561
Bilip (PRL 14)	10.947%					3.941	0.657
<b>Total Contingent Resources</b>					<b>1.244</b>	<b>109.688</b>	<b>19.522</b>
<b>Total Reserves and Resources</b>		<b>1.051</b>	<b>8.924</b>	<b>2.539</b>	<b>3.675</b>	<b>123.016</b>	<b>24.178</b>

Source: CUE Energy Resources

*CUE management has already begun to restructure the portfolio of assets*

Three recent transactions demonstrate that management have already begun to restructure the portfolio of assets and identify new opportunities.

CUE has signed a conditional agreement to sell the company’s PNG portfolio which will relieve CUE of a \$10m well obligation at PRL9 in addition to providing “up-front value”. The Company will release further details of the transaction once it becomes unconditional.

*Mahakam Hilir PSC – CUE now has 100% and a drill ready prospect*

CUE increased their holding at Mahakam Hilir PSC (onshore Indonesia) to 100% by acquiring the 60% interest held by the local entity of Singapore Petroleum (SPC). CUE has identified a drill-ready oil prospect within the prospect inventory which lies along trend from the South Pelarang oil fields. CUE expects to drill the Naga Selatan-2 well in 1H FY16. The prospect size is estimated to be 29mm bbl of oil (mean recoverable prospective resource). With 100% of the PSC CUE also has the opportunity to farm down.

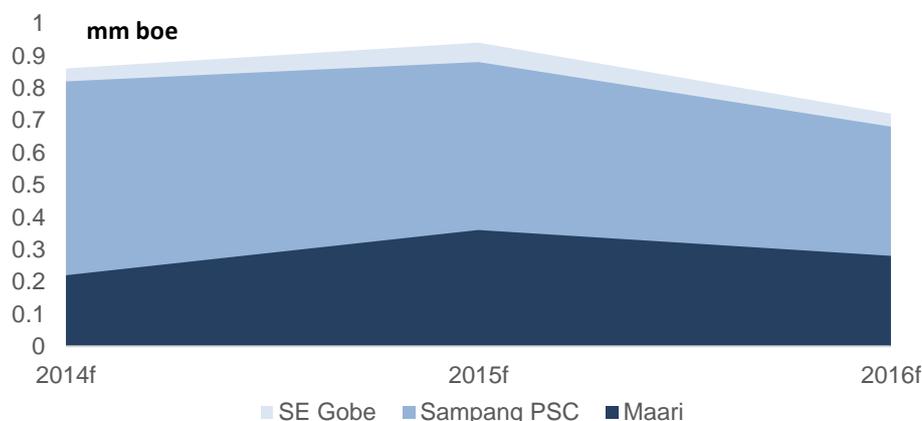
Cue has acquired a 12.5% interest in the Mahato PSC onshore Central Sumatra basin. The Mahato PSC (~5,600km<sup>2</sup>) contains multiple appraisal and exploration targets with two wells scheduled for FY16. Cue is currently negotiating entry into other exploration opportunities in Indonesia.

*Small cap Oil and Gas has recently been busy with M&A activity*

The recent spate of M&A activity within the small cap oil and gas sector provides a good guide to the value of CUE. Deals involving Roc Oil (ROC), Otto Energy (OEL) and Nido Petroleum (NDO) suggest a growing appetite amongst Asian acquirers for assets and companies with Asian based production assets. Based on 2P reserves of 4.95MMboe, CUE currently trades on an EV/2P of ~A\$5/bbl. Based on our target EV/2P of A\$15/bbl we think CUE is worth closer to 16cps. We also note that CUE has A\$39m in cash (Q1FY15) and no debt. Capex in FY15 is expected to be close to A\$18m mostly associated with the work over at Maari.

The key risks to our investment thesis include a decline in the price of oil and an inability to replenish reserves. We would also flag the addition risk the market attaches to stocks and projects operating in Indonesia.

**Fig. 8: CUE – Forward Production Profile**



Source: Cue Energy Resources, Hartleys Research

# BUSINESS OVERVIEW

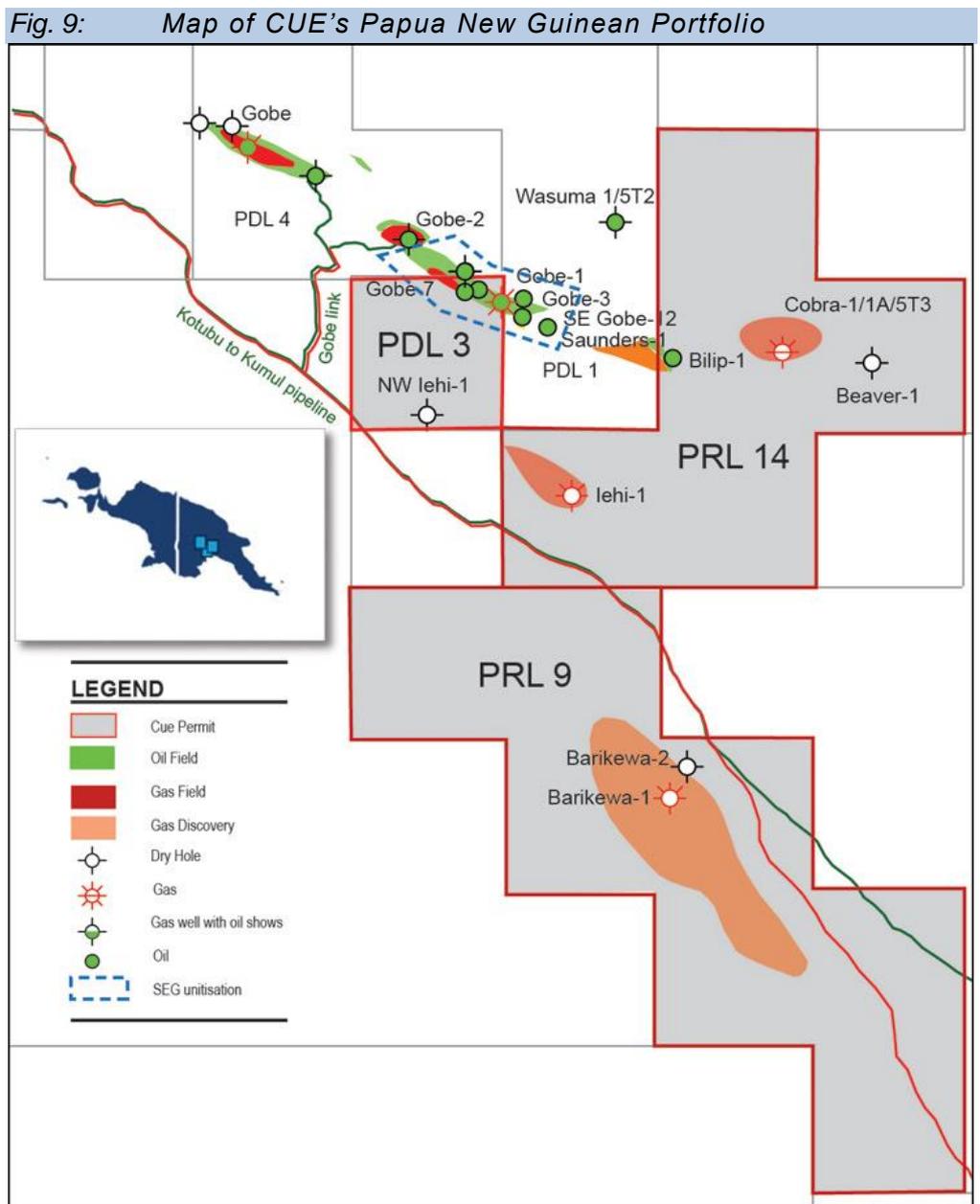
CUE is a conventional oil and gas explorer/developer with projects in Papua New Guinea (PNG), Indonesia, Australia and New Zealand. Key production assets include the Maari Field (PMP38160) in New Zealand and the Oyong Field (Sampang PSC) in Indonesia.

*CUE has a significant portfolio of assets in PNG, Indonesia, Australia and New Zealand.*

## PAPUA NEW GUINEA

CUE is currently in the process of divesting its portfolio in Papua New Guinea (PNG), which includes one production asset and two exploration/development permits. CUE has entered into a conditional agreement for the sale of the PNG assets which will relieve CUE of its \$10m well commitment at PRL9 and "capture up-front value". The full details of the transaction will be made available once the deal becomes unconditional.

*CUE has entered into a conditional agreement for the sale of the PNG assets*



*Conditional agreement will relieve CUE of a \$10m well commitment at PRL 9*

Source: Cue Energy Resources

## PDL3 - SOUTH EAST GOBE OIL & GAS FIELD

<b>Status</b>	Production
<b>Location</b>	Onshore PNG
<b>CUE's Working Interest</b>	5.5569% (3.286% SE Gobe Unit)
<b>Operator</b>	Oil Search Limited

*The SE Gobe has been a prolific producer for Joint Venture*

PDL 3 contains a portion of the SE Gobe oil and gas field which spans PDL 3 and PDL 4 with participants in PDL 3 and PDL 4 making up the South East Gobe Unit (SEG Unit).

First production from SE Gobe commenced in 1998 and has produced 44MMbbl up to Q1 CY14 from the Lagifu Sandstone. The field has recently transitioned into gas production and is expected to supply the Exxon operated PNG LNG project, with up to 35 MMscf/d. CUE has a 1.64% interest in Pipeline Licence No. 3 that links the processing facility to the Kutubu pipeline, with all other interest held by members of the SEG unit Joint Venture.

**Fig. 10: Net Reserves at SE Gobe Field as 31 December 2013**

Proven (1P)			Proven and Probable (2P)		
Oil	Gas	Oil Equivalent	Oil	Gas	Oil Equivalent
0.029MMbbl	3.760 BCF	0.656 MMboe	0.045MMbbl	4.584 BCF	4.656 MMboe

Source: Cue Energy Resources

## PRL 9 – BARIKEWA GAS DISCOVERY

<b>Status</b>	Exploration
<b>Location</b>	Onshore PNG
<b>CUE's Working Interest</b>	14.894%
<b>Operator</b>	Oil Search Limited

*The Toro- C and the Hedinia Sandstone are the gas bearing structures*

PRL 9 is located ~20kms south east of the SE Gobe field and contains the Barikewa Gas Discovery. The Barikewa-1 well was drilled in 1957 and proved separate gas accumulations in 15-20m thick sands in the Toro and Hedinia formations.

In 2009, 2D seismic was acquired and processed, which provided a more reliable structural interpretation of the gas bearing Toro-C Sandstone and Hedinia Sandstone. This significantly reduced the uncertainty in the reserves attributed to these reservoirs.

**Fig. 11: Gross Contingent Resource Estimate at Bariewka**

1C	2C	3C
71 BCF	299 BCF	832 BCF

Source: Cue Energy Resources

Oil Search (WI 45.11%) operates PRL 9 and has applied to the PNG Government for further extension on behalf of CUE and Santos (WI 40%). The application for extension includes the following work program at PRL 9:

*The JV has applied for further work extension at PRL 9*

- Barikewa-3 appraisal well (to evaluate the Toro and Hedinia reservoirs)
- Technical and G&G studies
- Contingent acquisition and processing of 60km 2D seismic

## PRL 14 – COBRA, IEHI & BILIP DISCOVERIES

<b>Status</b>	Exploration
<b>Location</b>	Onshore PNG
<b>CUE’s Working Interest</b>	10.947%
<b>Operator</b>	Oil Search Limited

*PRL 14 contains three gas discoveries.*

PRL 14 lies to the south east of SE Gobe field and contains three discoveries with an aggregate gross contingent resource (2C) of (see Figure 13):

<i>Fig. 12: Best Estimate 2C Resource at PRL 14</i>	
	<b>2C (Gas)</b>
<b>Cobra</b>	33.826 BCF
<b>Iehi</b>	27.368 BCF
<b>Bilip</b>	3.941 BCF

*Source: Cue Energy Resources*

Cobra-1A ST3 was drilled in 2008 and discovered gas and condensate. A 34m gas (on rock) column was intersected in the Upper Hedinia Sandstone.

*There are 65.14BCF of 2C Resource at PRL 14.*

Iehi-1 was drilled in 1960 and intersected a 35m gross gas column within the early Cretaceous aged Toro Sandstone. A production test at Iehi-1 was undertaken at a maximum rate of 32.6 MMscf/d.

Bilip-1 was drilled in 2002 to test a hanging wall anticline and intersected a gross gas column of 18.2m and underlying 15.8m oil column in the Lagifu Sandstone. The Bilip hydrocarbon accumulation spans over the PRL14 and PDL4 boundary, the gas cap is mostly in PDL4, but 30-50% of the oil volume (~1 MMbbls), is in PRL14. The overall structure has a potential recoverable oil volume of 2-3 MMbbls oil.

## INDONESIA

### SAMPSANG PSC – MADURA STRAIT

*Oyong and Wortel lie within the Sampsang PSC*

<b>Status</b>	Production
<b>Location</b>	Madura Strait, Indonesia
<b>CUE's Working Interest</b>	15%
<b>Operator</b>	Santos Sampsang Pte Ltd.

The Sampsang PSC hosts two fields, the Oyong Field (Oil, Gas and Condensate) and the Wortel Field (Gas and Condensate).

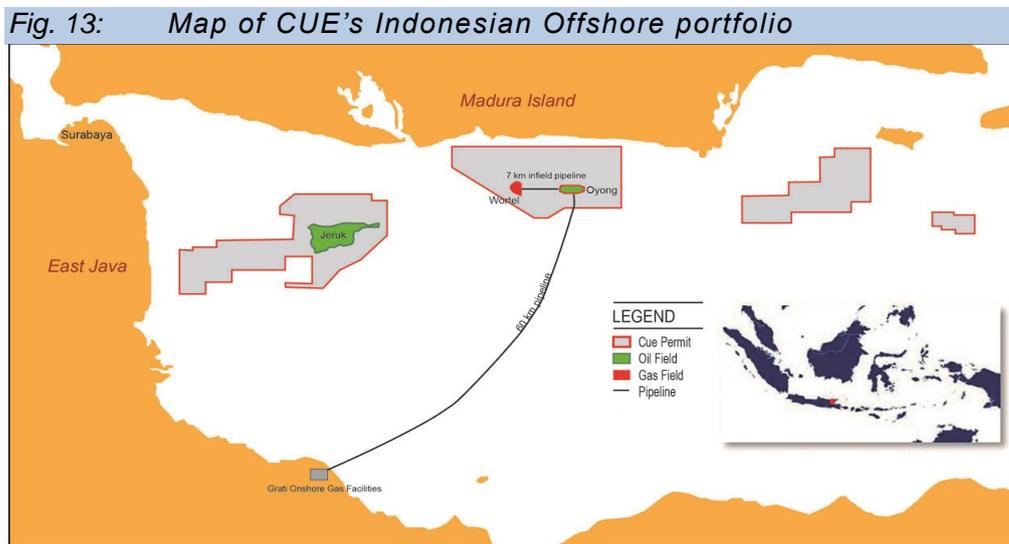
The Oyong and Wortel fields are located in 45 metres of water offshore East Java, Indonesia. Gas from Oyong and Wortel is transported via a 60km pipeline to the Grati Onshore Gas Facilities where it is sold for domestic power generation. Oil from the Oyong field is piped to the Surya Putra Jaya FSO for storage and export.

*An extension has been approved at the production facility and FSO until September 2015*

The Oyong began oil production in 2007, with first gas in 2009 and The Wortel field began gas production in 2012.

As a result of the improved production rates at Oyong the Joint Venture recently approved an extension of the production facility and FSO until September 2015. Well intervention and recompletion was also approved this year, which could improve Oyong production and potentially extend field life beyond 2015. The Joint Venture also approved work at the Grati gas plant in order to increase gas production from the Wortel project.

*The JV has approved work at the Grati gas plant in order that the Wortel project can continue to meet its GSA.*



Source: Cue Energy Resources

**Fig. 14: Net Reserves at Sampang PSC as at 31 December 2013**

	Proven (1P)			Proven and Probable (2P)		
	Oil	Gas	Oil Equivalent	Oil	Gas	Oil Equivalent
<b>Oyong</b>	0.006MMbbl	0.673 BCF	0.119 MMboe	0.034MMbbl	2.825 BCF	0.504 MMboe
<b>Wortel</b>	0.007MMbbl	4.490 BCF	0.755 MMboe	0.010 MMbbl	5.940 BCF	1.000 MMboe

Source: Cue Energy Resources

## MAHAKAM HILIR PSC

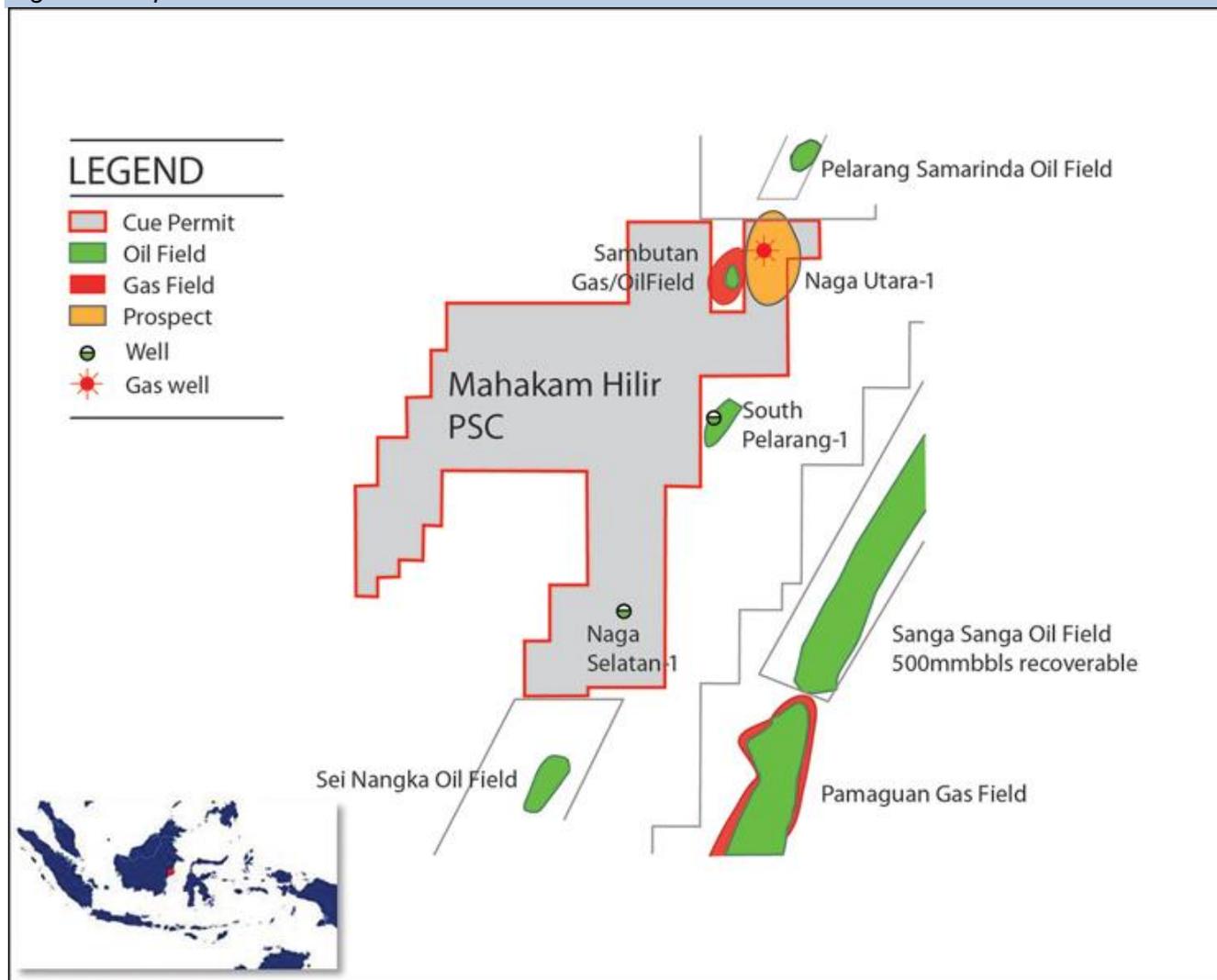
<b>Status</b>	Exploration
<b>Location</b>	Kutei Basin, Onshore Indonesia
<b>CUE's Working Interest</b>	<b>100%</b>
<b>Operator</b>	Cue Energy Resources Limited

*CUE recently increased its stake at Mahakam Hilir PSC to 100%*

CUE recently increased its stake in the Mahakam Hilir PSC by acquiring a 100% interest in SPC Mahakam Hilir Pte Ltd who holds the remaining 60% of the PSC. Under the terms of the deal CUE will take over operatorship and drill the remaining commitment well in the PSC.

CUE has already identified a drill-ready oil prospect that lies to the south of the Naga Utara-2 well drilled in 2013. The Naga Selatan (Southern Dragon) prospect contains multiple targets between 600-1800m true vertical depths.

Fig. 15: Map of the Mahakam Hilir PSC



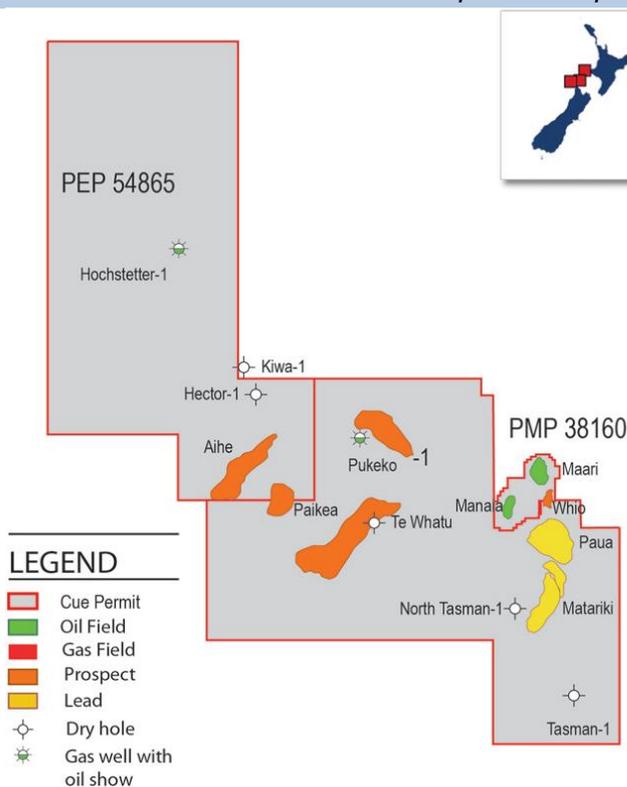
Source: Cue Energy Resources

## NEW ZEALAND

CUE's New Zealand portfolio consists of an offshore production permit, two offshore exploration permits and one onshore exploration permit. The key asset is a 5% stake in the producing Maari Field. The Maari field is currently undergoing a significant work-over involving the drilling of five development wells. The JV expect this program to add 12mm bbl in incremental reserves and increase production net to CUE by approximately 200k bbl in CY15. OMV are the operator of Maari.

*The current work over of the Maari field is expected to increase production (net to CUE) by 200k bbl in CY15*

**Fig. 16: CUE's offshore New Zealand exploration permits**



Source: Cue Energy Resources

### PMP 38160

<b>Status</b>	Production
<b>Location</b>	Western Taranaki Basin, Offshore New Zealand
<b>CUE's Working Interest</b>	5%
<b>Operator</b>	OMV New Zealand Limited

*2P Reserves at Maari are 2.34MMbbl*

PMP 38160 contains two producing oil fields, Maari and Manaia. The Growth Project has commenced with the drilling of a production well at Maari with another production well to follow at Manaia. Two additional production wells will spud and a water injection well will be installed at Maari. Production is set to fluctuate during the drilling of development wells, the Growth Project is expected to add ~11,000 gross bopd (Net to CUE: 550bopd) to production when completed in H1 CY15.

The Reserves at the Maari field net to CUE are as followed:

<b>Fig. 17: Net to CUE Maari Reserves as at 31 Dec 2013</b>	
<b>Proven (1P) Oil</b>	<b>Proven &amp; Probable (2P)</b>
1.009 MMbbl	2.344 MMbbl

Source: Cue Energy Resources

## PEP 54865

<b>Status</b>	Exploration
<b>Location</b>	Western Taranaki Basin, Offshore New Zealand
<b>CUE's Working Interest</b>	20%
<b>Operator</b>	Todd Exploration Limited

*CUE and JV Partners are to farm down interest at PEP 54865 for a seismic survey.*

285km<sup>2</sup> of 3D seismic is set to be shot before June 2015 to satisfy work program commitments at PEP 54865. CUE and the Operator Todd Exploration are seeking a farm in partner to fund the seismic program.

Upon completion of the seismic processing and interpretation, the Joint Venture may elect to drill a well which would test the Early Tertiary and Late Cretaceous reservoir objectives. Otherwise the permit will be surrendered.

## PEP 51313

<b>Status</b>	Exploration
<b>Location</b>	Western Taranaki Basin, Offshore New Zealand
<b>CUE's Working Interest</b>	14%
<b>Operator</b>	OMV New Zealand Limited

*Whio-1 was plugged and abandoned*

The Whio-1 exploration well was plugged and abandoned after all targeted reservoir contained water. Additional exploration potential has been identified on existing 3D seismic, the Matariki prospect lies along the Tasman Ridge to the South of Maari Field.

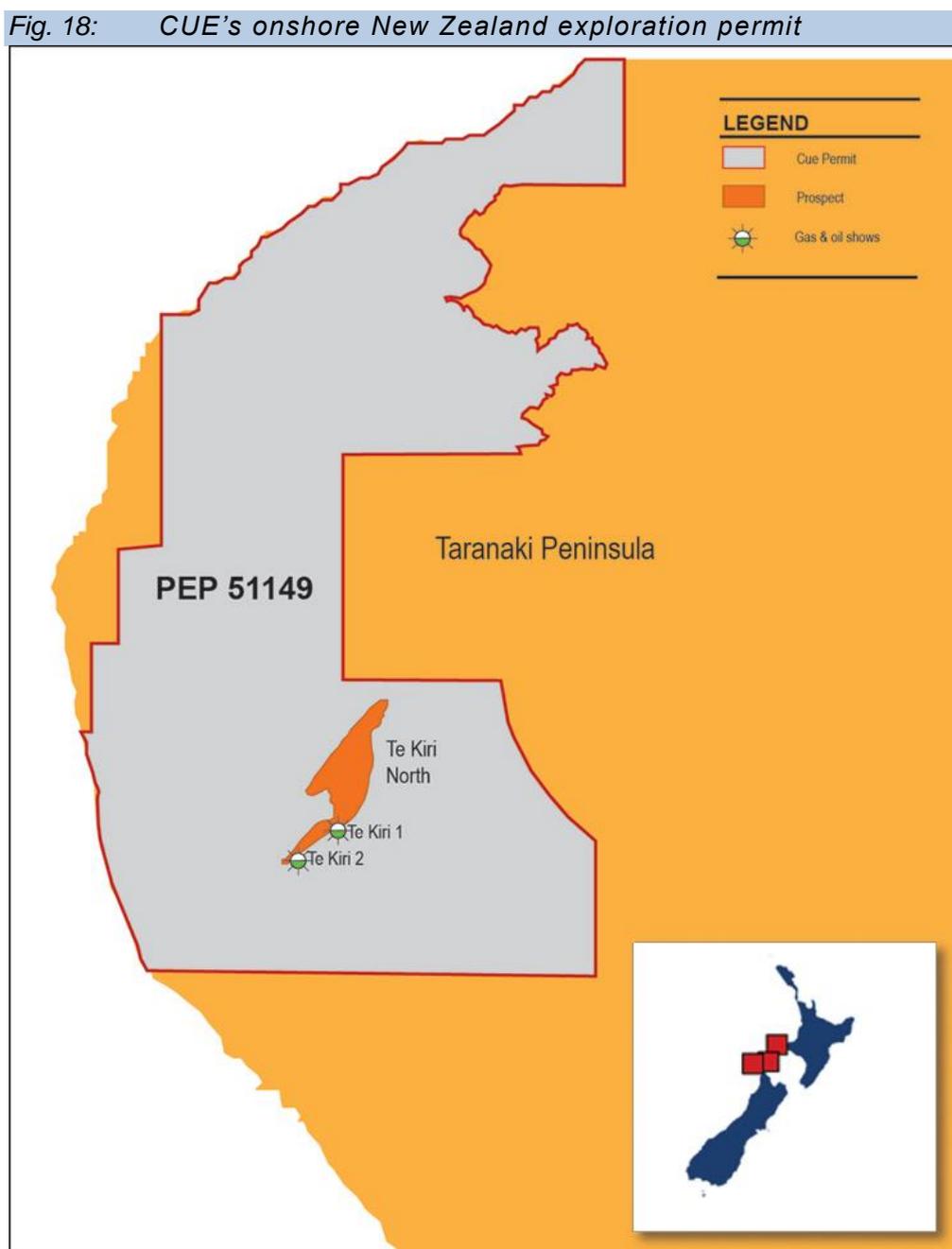
## PEP 51149

<b>Status</b>	Exploration
<b>Location</b>	Taranaki Basin, Onshore New Zealand
<b>CUE's Working Interest</b>	20%
<b>Operator</b>	Todd Exploration Limited

Te Kiri North-1 well planning has commenced and is expected to be drilled in CY15, the well will be drilled up dip from Te Kiri-1 which had hydrocarbon shows.

The Te Kiri North-1 well will be targeting the oil prone Mount Messenger formation in the Miocene and the deeper Eocene gas bearing objective. CUE's estimates a mean prospective resource of 2.0MMboe net recoverable at Te Kiri North-1. A potential discovery could be commercialised with relative ease given the proximity of existing infrastructure.

*We expect Te Kiri North-1 to be spudded in CY15*



*There is significant existing infrastructure near PEP 51149*

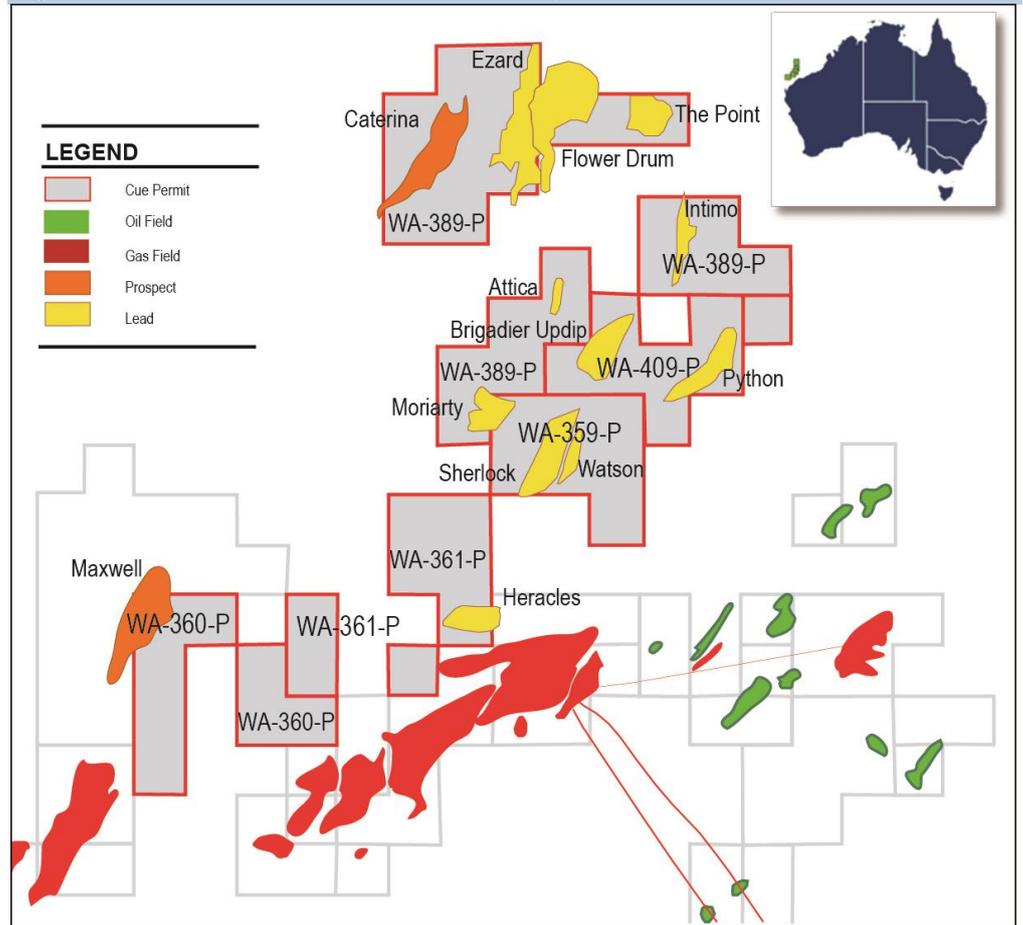
Source: Cue Energy Resources

## AUSTRALIA

CUE’s Australian portfolio consists of five offshore exploration permits on the North West Shelf of Western Australia. CUE will attempt to farm down its equity interest in these blocks either individually or as a package. We do not expect any significant work on these blocks in FY15 or FY16.

*CUE is looking farm down it’s WA portfolio*

**Fig. 19: CUE’s Carnarvon Basin Exploration Permits**



Source: Cue Energy Resources

*CUE has identified a drill ready prospect at WA 359-P.*

### WA 359-P

<b>Status</b>	Exploration
<b>Location</b>	Carnarvon Basin, Offshore Western Australia
<b>CUE’s Working Interest</b>	100%
<b>Operator</b>	CUE Energy Resources Limited

CUE is currently in the process of farming down its share of WA 359-P. With existing 3D seismic over the permit, structural traps in Triassic have been identified and mapped. The traps are prospective for gas, however the emergence of a new potential oil play based on the Victoria Syncline is the primary interest for the Company. CUE has identified a drill ready prospect Sherlock and is estimated to have 300mmbbls of Oil in Place.

## WA 389-P

<b>Status</b>	Exploration
<b>Location</b>	Carnarvon Basin, Offshore Western Australia
<b>CUE's Working Interest</b>	40%
<b>Operator</b>	BHP Billiton Ltd.

*Extension was granted at WA 389-P in October 2013.*

BHP Billiton Petroleum as Operator applied and was granted extension in October 2013 for five years. The Joint Venture primary work commitment includes reprocessing existing 2D and 3D seismic which should commence later this year.

CUE is able to exit the permit at the end of the third year (2016) prior to the well obligation in the fifth year of the permit extension (2018).

## WA 409-P

<b>Status</b>	Exploration
<b>Location</b>	Carnarvon Basin, Offshore Western Australia
<b>CUE's Working Interest</b>	30%
<b>Operator</b>	Apache Northwest Pty Ltd

As operator, Apache is currently reprocessing existing 3D seismic data. The Joint Venture will have until the end of this year to decide if they wish to renew the permit. We assume a decision will be made after the reprocessed seismic is interpreted.

*Seismic is currently being reprocessed on WA 409-P and WA 360-P.*

Under the farm out agreement with Apache, CUE is fully carried through work the programme at WA 409-P and any well the Joint Venture elects to drill.

## WA 360-P

<b>Status</b>	Exploration
<b>Location</b>	Carnarvon Basin, Offshore Western Australia
<b>CUE's Working Interest</b>	37.5%
<b>Operator</b>	MEO Australia Limited

MEO as operator have commenced reprocessing ~650km<sup>2</sup> of existing 3D seismic over the Maxwell prospect, which will improve imagery of the prospect. Upon completion of reprocessing, it is expected that CUE will further farm down its interest at WA 360-P, before the end of the primary term of the permit which ends in 2015. It is important to note that there is no well commitment.

## WA 361-P

<b>Status</b>	Exploration
<b>Location</b>	Carnarvon Basin, Offshore Western Australia
<b>CUE's Working Interest</b>	15%
<b>Operator</b>	MEO Australia Limited

*A work programme variation was granted at WA 361-P*

A work programme variation at WA 361-P has been approved, which will allow the completion of a geotechnical studies ahead of any decision to spud a well. The reduced work programme concludes at the end of January 2016.

# MANAGEMENT, DIRECTORS AND SHAREHOLDERS

Economic Exposure of Board and key management				Total Economic Exposure	rank
Position		Total Options	Shares	millions	
<b>Directors</b>					
Geoffrey King	Non-Executive Chairman	-	22,500	22,500	3
Stuart Brown	Non-Executive Director	-	-	0	5
Rowena Sylvester	Non-Executive Director	-	-	0	5
Andrew Young	Non-Executive Director	-	150,000	150,000	2
<b>Key Management</b>					
David Biggs	Chief Executive Officer	-	8,045	8,045	4
Andrew Knox	Chief Financial Officer and Company Secretary	-	4,458,251	4,458,251	1
Pauline Moffatt	Co Company Secretary	-	-	0	5

Source: Cue Energy Resource Annual Report 2014

Note: Biographies are sourced directly from the CUE website

**Mr. Geoffrey King (Chairman)** has 33 years of international, commercial and government legal experience, with much of that in the oil and gas industry including for Esso Australia, Ampolex Ltd, the Asian Development Bank, and since 1997 as an independent legal consultant providing commercial advice and legal services to public and private commercial entities primarily in the oil and gas industry worldwide. Geoff is a Non-Executive Director of Vermilion Oil and Gas Australia and Non-Executive Chairman of High Peak Royalties Limited and a past Director of Singapore Petroleum.

**Mr. David Biggs (Chief Executive Officer)** holds an LLB degree from Victoria University of Wellington and has over thirty years of international experience in the oil and gas industry. Commencing in the oil and gas industry with Petroleum Corporation of New Zealand and Natural Gas Corporation of New Zealand, he has spent the last eighteen years working in senior positions in BHP Billiton Petroleum's gas marketing, commercial and exploration functions in both Melbourne and Houston. David was appointed CEO of CUE Energy Resources in April 2013.

**Mr. Andrew Knox (Chief Financial Officer)** holds a BCom degree from the University of Western Australia. He has over 30 years of experience in resource companies, predominantly in oil and gas in Australia, North America and South-East Asia. Mr Knox joined Cue Energy in 1994 and is responsible for financial and corporate matters.

**Mr. Stuart Brown (Non-Executive Director)** has a BSc (First Class) Geology (Sydney) and has held senior positions with Woodside Energy from 2002 to 2012, Shell International Exploration & Production from 1998 to 2002, and Shell UK E&P from 1990 to 1998. Prior to that he held various positions with Shell in Australia, The Netherlands, Syria and Turkey. From September 2012 he has been a director of International Oil and Gas Strategies Pty Ltd and is currently a Non-Executive Director of Cossack Energy, Empire Oil & Gas and WHL Energy Ltd.

**Mrs. Rowena Sylvester (Non-Executive Director)** has over 22 years' experience in finance and risk management including Treasurer at Ampolex Ltd and Optus Vision Ltd and Director of Syndications at ANZ Investment Bank. She has subsequently been a Director of Essential Energy and Chairman of the Audit and Risk Committee, Australian Inland Energy Water Infrastructure, Emmlink Pty Ltd and Optus Superannuation Fund. Her current directorships include Yass Valley Council

(Mayor), Yass Valley Aged Care Ltd, Yass District Education Foundation and Bellevale Cattle Company Pty Ltd.

**Mr. Andrew Young (Non-Executive Director)** has a Bachelor's Degree in Chemical Engineering and Master's Degree in Business Administration. He has 35 years' experience in the oil and gas industry having held technical, leading management and Board positions in major and small Exploration and Production operating companies and contract service companies, including Esso Australia Ltd, Bridge Oil Ltd, New Zealand Natural Gas Corporation Ltd, Century Drilling (MD), Gaffney Cline and Associates, Anzon Australia Ltd/Anzon Energy Ltd (MD), and Digitalcore Pty Ltd (MD). He is presently a Non-Executive Director of New Guinea Energy Ltd and Cliq Energy Berhad. Andrew was International President of The Society for Petroleum Engineers (2003) and is a recipient of a number of International awards.

## MAJOR SHAREHOLDERS

*Fig. 20: Top 20 Shareholders as at 30 Sep 2014*

Rank	Shareholder	Units	% of Units
1	Todd Petroleum Mining Co	163,103,314	23.36%
2	UOB Kay Hian Private Limited	113,326,671	16.23%
3	HSBC Custody Nominees (Australia) Limited	62,748,846	8.99%
4	Todd Tasman Oil Pty Ltd	25,920,000	3.71%
5	Portfolio Securities Pty Ltd	10,000,000	1.43%
6	Custodial Services Limited	8,302,375	1.19%
7	Citicorp Nominees Pty Ltd	7,844,227	1.12%
8	Gascorp Australia Pty Ltd	7,609,742	1.09%
9	Reviresco Nominees Pty Ltd	5,150,000	0.74%
10	Finot Pty Ltd	5,000,000	0.72%
11	Douglas Financial Consultants Pty Ltd	4,400,000	0.63%
12	Grizzley Holdings Pty Limited	4,312,604	0.62%
13	Berne No 132 Nominees Pty Ltd	4,300,000	0.62%
14	Ultragas Pty Ltd	4,294,286	0.62%
15	Mr Ernest Geoffrey Albers	4,010,784	0.57%
16	Bass Strait Group Pty Ltd	4,000,168	0.57%
17	Great Missenden Holdings Pty Ltd	3,392,859	0.49%
18	Mr Richard Tweedie	3,363,477	0.48%
19	Mr Colin MacEwan & Ms Bronwyn Beder	3,250,000	0.47%
20	Mr Hugo McGreal	3,064,107	0.44%
		<b>447,393,460</b>	<b>64.09%</b>

Source: CUE Energy Resources

## FINANCIALS

### CASH FLOW

Fig. 21: Cash Flow Statement and Forecasts

	FY13A	FY14A	FY15F	FY16F
EBITDA	33.25	6.04	18.80	21.30
Interest Cost	0.00	0.00	0.00	0.00
Tax paid	-2.04	-2.24	-3.25	-3.70
Other	0.00	0.00	0.00	0.00
<b>Operating Cash Flow</b>	<b>32.73</b>	<b>5.62</b>	<b>15.54</b>	<b>17.59</b>
Capex - Exploration	-7.62	-10.25	-18.00	-15.00
Capex - Producing assets	-5.17	-14.02	0.00	0.00
Other	1.93	-0.16		
<b>Cash Flow from investing</b>	<b>-10.86</b>	<b>-24.42</b>	<b>-18.00</b>	<b>-15.00</b>
Borrowings	0.00	0.00	0.00	0.00
Dividends	0.00	0.00	0.00	0.00
<b>Cash Flow from Financing</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
Cash Beginning	33.73	58.83	40.03	37.57
Net change	21.87	-18.80	-2.46	2.59
Cash End	58.83	40.03	37.57	40.16

Source: Hartleys Research Estimates

### PRODUCTION

Fig. 22: Production Summary and Forecasts

	Units	2013A	2014A	2015F	2016F
FX	USD/AUD	0.97	0.92	0.88	0.85
Oil Production	bbl	264,319	138,745	275,000	275,000
Oil Price	\$US/bbl	109.01	107	80	85
Oil Revenue	US\$m	31.69	20.29	25.00	27.50
Gas Production	MCF	1,918	3,178	3,178	3,178
Gas Price	\$A/MCF	4.49	5.13	5.60	5.60
Gas Revenue	A\$m	14.96	15.44	17.80	17.80
<b>Total Production</b>	<b>boe</b>	<b>1,042,436</b>	<b>677,278</b>	<b>808,991</b>	<b>808,060</b>
<b>Total Revenue</b>	<b>A\$m</b>	<b>57.93</b>	<b>36.13</b>	<b>42.80</b>	<b>45.30</b>

Source: Hartleys Research Estimates

## VALUATION

*Our 12-month target price for CUE is 14cps*

Our 12-month target price for CUE is 14cps. Our valuation is based on a combination of cash flow based valuation multiples and reserves based valuation. Several recent transactions provide realistic data points with which to value CUE. We concede that several of these transactions were complete in a higher oil price environment and therefore we apply a discount when valuing CUE.

*Our 12-month target price for CUE is 14cps*

Based on FY15 EBITDA forecast of ~A\$19m CUE is currently trading on an EV / EBITDA multiple of 1.0x. At our target multiple of 3x EV/EBITDA CUE is worth closer to 12cps. CUE currently trades on an EV / 2P of ~A\$5/bbl. By comparison recent acquisition multiples have been closer to A\$30 EV/2P (but at higher oil prices). If we assume A\$15/bbl then CUE is worth closer to 16cps.

The recent spate of M&A activity within the small cap oil and gas sector provides a good guide to the value of CUE. The deals involving **Roc Oil (ROC)**, **Otto Energy (OEL)** and **Nido Petroleum (NDO)** suggest there is growing appetite amongst Asian acquirers for assets and companies with Asian assets. Others stocks with assets located in Asia include TAP Oil (TAP), Carnarvon (CVN) and Kris Energy (KRIS.SP). Below we discuss three specific deals and the valuation of the broader sector.

*Our 12-month target price for CUE is 14cps*

**Bangchak Petroleum acquisition of Nido Petroleum (NDO).** In August Bangchak Petroleum announced an off market, all cash, takeover bid for NDO. The initial price of 5.5cps values NDO at A\$120M. In addition to a stake in the Galoc producing asset (22%), NDO also has development assets in the Philippines and exploration assets in Indonesia. Based on 2P reserves of 5.9m bbls, the Bangchak offer puts NDO on an EV / 2P reserves of A\$20/bbl. We would highlight that NDO's 2P reserves contain 3.5m bbls of undeveloped reserves at West Linapacan A.

*Our 12-month target price for CUE is 14cps*

**Fosun acquisition of Roc Oil (ROC).** In August Fosun International announced an off market, all cash, takeover bid for ROC. Fosun offered A\$0.69 / share valuing ROC at A\$474m less A\$76m of debt. The Fosun proposal came during a proposed merger of ROC and Horizon Oil (HZN). ROC has production and exploration assets primarily in Asia and Australia. ROC's key production asset is the Zhao Dong field offshore China (Bohai Bay). The acquisition price values ROC at an EV / 2P reserves of A\$32 / bbl.

**RISCO purchase of Galoc production asset.** In September RISCO agreed to purchase a stake (33%) in the Galoc for US\$101.4m. RISCO has paid a deposit of US\$10.14m to secure the production rights and any associated liabilities. Based on the Galoc 2P reserves of 3.3m this would value this stake at an EV / 2P reserves of US\$30 / bbl.

**Fig. 23: Valuation Table**

CUE Price Target Methodology	Weighting	\$m	\$/share
EV/2P Reserves @ \$15/boe	40%	122	\$0.17
12mth fwd EV/EBITDA on 3x	40%	88	\$0.12
Sum of Parts	20%	111	\$0.15
<b>12 Months Price Target</b>			<b>\$0.14</b>
Shareprice - Last		\$0.081	
<b>12 mth total return (% to 12mth target + dividend)</b>		<b>78%</b>	

Source: Iress, Hartleys Research

Fig. 24: CUE – comparative valuation table

A\$ m	Asset Location	Mkt Cap	Debt (A\$m)	Cash (A\$m)	EV (A\$m)	Reserves		EV/1P	EV/ 2P	Production		EV / boed	R/P	
						1P (mmboe)	2P (mmboe)			A\$/bbl	A\$/bbl			boe/d SeptQ
<b>Large Cap Producers</b>						<i>As at 30 June 2014</i>								
WPL	Woodside Petroleum Limited	Australia	28,722	3,542	2,866	29,398	1,143.2	1,436.5	25.72	20.46	280,126	11%	104,944	14.7
STO	Santos Limited	Australia	9,027	6,429	476	14,980	620.0	1,368.0	24.16	10.95	155,556	17%	96,300	25.1
OSH	Oil Search Limited	PNG	11,725	4,393	481	15,637	61.6	94.3	253.84	165.82	74,111	23%	210,990	3.6
BPT	Beach Energy Limited	Australia	1,291	127	411	1,007	33.4	85.6	30.1	11.76	27,283	57%	36,902	9.0
<b>Emerging Developers / Producers</b>						<i>As at 30 Sept 2014</i>								
DLS	Drillsearch Energy Limited	Australia	383	470	153	699	11.9	28.3	58.7	24.69	8,329	89%	83,902	9.7
SXY	Senex Energy Limited	Australia	328	0	69	258	5.5	39.9	47.0	6.47	4,222	100%	61,165	27.0
BRU	Buru Energy Limited	Australia	158	0	62	96	12.2	12.2	7.9	7.88	853	100%	112,751	40.9
ROC	ROC Oil Company Limited	Asia	468	0	76	392	9.1	12.2	43.1	32.14	10,359	100%	37,849	3.4
OEL	Otto Energy Limited	Asia / Africa	106	0	31	75	2.3	3.3	32.7	22.79	2,625	100%	28,658	3.6
CTP	Central Petroleum Limited	Australia	44	24	10	58		10.1	NA	5.71	193	100%	298,893	149.5
TAP	Tap Oil Limited	Asia / Australia	107	49	17	140	3.6	6.1	38.8	22.88	2,200	100%	63,441	7.9
NDO	Nido Energy Limited	Asia	85	18	19	85	4.1	5.9	20.6	14.45	1,919	100%	44,413	8.8
COE	Cooper Energy Limited	Africa / Australia	99	4	71	32	0.9	2.0	37.5	15.86	1,416	100%	22,515	4.1
CUE	Cue Energy Resources Limited	Asia / Australia /NZ	61	0	39	22	2.5	4.7	8.8	4.82	1,769	25%	12,701	7.5
CVN	Carvarvon Petroleum Limited	Asia / Australia	153	0	49	105	1.5	5.8	70.6	17.99	4,140	100%	25,249	4.0
NZO	New Zealand Oil & Gas Limited	NZ / Asia / Africa	250	3	131	122		9.7	NA	12.59	940	100%	129,866	29.5
<b>US Unconventional - ASX listed</b>						<i>As at 30 Sept 2014</i>								
SEA	Sundance Energy Australia Limited	US	327	80	51	356	14.7	28.3	24.21	12.58	6,657	91%	53,459	12.1
LNR	Lonestar Resources Limited	US	124	237	14	348	25.6	36.0	13.58	9.65	4,669	81%	74,436	22.0
AZZ	Antares Energy Limited	US	74	59	6	127	14.6	51.6	8.69	2.46		0%	NA	NA
RFE	Red Fork Energy Limited	US	5	100	7	98	14.0	18.6	6.99	5.26	1,795	38%	54,535	29.6
SUR	Sun Resources NL	US	16	0	3	13	0.0	0.0	NA	NA	19	100%	670,926	0.0
NSE	New Standard Energy Limited	US / Australia	18	9	3	24	3.6	4.9	6.65	4.87	550	-	43,273	25.4
AKK	Austin Exploration Limited	US	19	0	2	17	1.9	3.6	9.09	4.78	2,289	-	7,414	4.4
<b>Explorers</b>						<i>As at 30 Sept 2014</i>								
KAR	Karoo Gas Australia Limited	Brazil / Australia	688	0	699	-11								
FAR	FAR Limited	Africa	272	0	83	189								
PVD	Pura Vida Energy NL	Africa	51	0	19	32								
MEO	MEO Australia Limited	Australia / Asia	15	0	12	3								
TPT	Tangiers Petroleum Limited	Africa	4	0	1	3								
ICN	Icon Energy Limited	Australia	62	0	21	40								
PCL	Pancontinental Oil & Gas NL	Africa	26	0	9	17								

Source: Iress, Hartleys Research

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## RISKS

The key risks for CUE (like most oil & gas exploration and development companies) is making an economic discovery and obtaining the funding for ongoing exploration. Other risks include delays, key person risk, country/sovereign risk, weather, JV partner obligations, cost inflation. Investing in explorers is very risky given the exploration value of the company in essence assumes that the market will recognise a portion of potential value before the results of an exploration program are known, conscious that the ultimate chance of success is low (typically 1%-20%) and that failure is much more likely, in most cases. Other risks are earnings disappointments given the industry is volatile and earnings can disappoint due to cost overruns, project delays, cost inflation, environmental regulations, resource estimate errors and management performance and contract negotiation skills. High financial leverage (if it exists at that time) would add to the problem.

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## SIMPLE S.W.O.T. TABLE

Strengths	<ul style="list-style-type: none"> <li>Large asset portfolio</li> <li>Experienced board and management.</li> <li>Close to infrastructure</li> <li>Existing producing assets/cash flow</li> <li>Strong balance sheet (cash and no debt)</li> </ul>
Weaknesses	<ul style="list-style-type: none"> <li>Uncertainty with exploration</li> <li>Sovereign risk in Indonesia and PNG.</li> </ul>
Opportunities	<ul style="list-style-type: none"> <li>Exploration upside</li> <li>Surplus cash providing acquisition and exploration potential.</li> </ul>
Threats	<ul style="list-style-type: none"> <li>Gas and Oil price decline.</li> <li>Operating costs increase unexpectedly</li> <li>Exploration wells do not achieve current expectations</li> </ul>

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*Source: Hartleys Research*

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Buy	Share price appreciation anticipated.
Accumulate	Share price appreciation anticipated but the risk/reward is not as attractive as a "Buy". Alternatively, for the share price to rise it may be contingent on the outcome of an uncertain or distant event. Analyst will often indicate a price level at which it may become a "Buy".
Neutral	Take no action. Upside & downside risk/reward is evenly balanced.
Reduce / Take profits	It is anticipated to be unlikely that there will be gains over the investment time horizon but there is a possibility of some price weakness over that period.
Sell	Significant price depreciation anticipated.
No Rating	No recommendation.
Speculative Buy	Share price could be volatile. While it is anticipated that, on a risk/reward basis, an investment is attractive, there is at least one identifiable risk that has a meaningful possibility of occurring, which, if it did occur, could lead to significant share price reduction. Consequently, the investment is considered high risk.

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