Cue Energy Resources Limited

A.B.N. 45 066 383 971

1 October 2012 — PAGES (including this page): 96

Company Announcements Office
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Sydney NSW 2000

Annual Report for 2011/ 2012

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

Yours faithfully

Andrew M Knox
Public Officer

CUE ENERGY OVERVIEW

Cue is an Australian based oil & gas company with projects in Australia, New Zealand, Indonesia and PNG.

THE COMPANY HAS:

- Long life production
- A strong balance sheet
- An active exploration program

CUE ENERGY DIRECTORS

- Richard Tweedie (Chairman)
- Timothy Dibb
- Geoffrey King
- Steve Koroknay
- Paul Moore
- Leon Musca
- Andrew Young

CUE ENERGY MANAGEMENT

- Mark Paton (CEO)
- Andrew Knox (CFO)
- David Whittam (Exp Man)

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POMSOX:	CUE
ADR/OTCQX:	CUEYY

Cue Energy Resources

Annual Report 2011/12

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CONTENTS

CORPORATE DIRECTORY

Directors
R.G. Tweedie LL.B – Chairman
T.E. Dibb Bachelor of Science
G.J. King LL.B
S.J. Koroknay BE(Hons)
P.D. Moore Bachelor of Science
L. Musca LL.B

Chief Executive Officer
M.J. Paton B.SC (Hons), MIChemE

Chief Financial Officer/Company Secretary
A.M. Knox B.Com

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NEW ZEALAND
New Zealand Exchange Limited
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HIGHLIGHTS FOR 2012

Corporate Results

Revenue of $44.27 million

Net profit after tax of $5.7 million

Cash on hand $33.7 million

Company now debt free

Papua New Guinea

SE Gobe gas sale negotiations near completion

Indonesia

Two wells drilled in Mahakam Hilir PSC, onshore Kalimantan

Appraisal drilling planned commencing Q1 2013

Infill well drilled in Oyong field increasing oil production by over 40%

Wortel production commences Q1 2012

New Zealand

3D Seismic acquired over Maari /Manaia and Whio prospect in PEP51313

3D Matariki seismic completed and Te Whatu 2D Seismic interpretation completed in PEP51313

Australia

Free carried exploration well drilled on Banambu Deep Prospect inWA-389-P

Foxhound 3D Seismic survey acquired over WA-360-P

Cash received from sale of 20% interest in AC/RL7 to PTTEP of US$8 million

Chairman's Overview

In 2010 and 2011 the company realised significant improvements in cash flow, earnings and profits through increased production from our Maari asset. However, in 2012 Cue's results have been impacted by a reduction in production volumes. Total production volumes fell from 990,000 barrels of oil equivalent in 2011 to 760,000 barrels of oil equivalent in 2012. Gas production volumes were 2.9 bcf which were similar to last year but oil production volumes fell substantially from 500,923 barrels in 2011 to 279,107 barrels in 2012. The reduction in oil volume was partly caused by the natural decline of the Maari reservoir, the underperformance of the water flood in the Maari- Moki reservoir and problems with the electrical submersible pumps. It was also partly caused by an increase in the Indonesian government's share of profit oil from Oyong production. All of the Oyong project costs have now been recovered and under the terms of the production sharing contract the Indonesian government starts to take its share of profit oil.

We have been working closely with the operator of our Maari asset, OMV, to determine how we can improve asset performance. I am pleased to report that these efforts seem to be working and that we are gradually seeing a reduction in the rate of production decline and substantially higher equipment uptime. Plans are being put in place to further appraise the greater Maari area which should confirm reserves additions in 2013 and result in additional production from 2014 onwards.

We also arrested our declining production to some extent by bringing the Wortel gas field into production. The project was completed largely on schedule and budget and commenced production on 31st January 2012 at a stabilised rate of 47 mmscfd from the two platform wells. With a full year of production Wortel will contribute substantially to Cue's cash flow in 2013.

As a consequence of reduced production volumes our gross profit was down to $27.4 million compared with the 2011 result of $43.4 million. This reduction was despite the average realised oil prices being about 105 US dollars per barrel and approximately 10 per cent higher than in 2011. Net profit after tax for the year was $5.7 million down from $19.1 million for 2011.

The company's balance sheet remains strong. At the end of the financial year the company had cash reserves of $33.7 million and no debt. The project finance facility taken out to fund Cue's share of the Maari project was completely repaid. Our cashflow forecast indicates that the company has sufficient financial resources to deliver the business plan based on current oil prices, over the next five years.

Conventional energy companies are continuously depleting their reserves which need to be replaced to maintain production and cash flow. In 2012 we increased our exploration activities significantly, deploying some of our cash resources into moderate impact but low risk exploration activities in an attempt to replenish our depleting reserves base. The company participated in three exploration wells, two within the Mahakam Hilir permit in the Kutei Basin in Indonesia called Naga Utara-1 and Naga Selatan-1 and one on the North West Shelf of Australia called Banambu Deep-1. Naga Utara-1 appears to be a high pressure gas discovery but it is too early to be certain regarding a commercial development or reserves volumes. However, with further appraisal there is potential for Cue to book substantial additional reserves in 2013. Naga Selatan and Banambu Deep-1 both failed to encounter producible hydrocarbons although in the case of Naga Selatan there were good oil and gas shows which caused us to deepen the well to 8,300 feet. There is an up-dip potential in Naga Selatan which may be appraised in the future.

In 2013, Cue will continue to explore for conventional oil and gas resources onshore Indonesia in the Mahakam Hilir permit. The Naga Utara high pressure gas discovery will be appraised via a well to be called Naga Merah-1. The well, which is to be drilled in the first quarter of 2013, will confirm the lateral extent of the high pressure gas sands encountered in Naga Utara -1, will explore for deeper sands within the existing Naga Utara structure and confirm via production testing the sustainable flowrate from the well. Once this well has been drilled and tested we are hopeful of being able to book substantial gas reserves and firm up further exploration drilling within the permit.

In PEP51313, Cue and its partners funded the extension of the Maari 3D seismic survey to cover the Whio (formerly Pike) prospect and the spill chain to the south including the Paua and Matariki stratigraphic leads. The 3D survey is currently being processed and will be interpreted later in 2012. We hope that the interpretation will confirm a robust, low risk prospect at Whio and the leads to the south and crystallise our plans to drill these prospects. In the same permit the 2D seismic data over the Pukeko and Te Whatu leads obtained in 2011 have confirmed the existence of robust four way dip closures in both leads which could potentially lead to drilling one of these prospects in 2013 or 2014. The Joint Venture is currently in discussion with OMV, the operator of the Maari field, regarding access to Maari infrastructure for the tie in of any discovery in PEP 51313.

In Australia, in June 2012, we had a disappointment in WA389-P where the Banambu Deep-1 exploration well was a dry hole. The well was operated by Woodside Petroleum and would have been transformational for Cue had it discovered gas. BHP Billiton Petroleum farmed in to the permit for a 40% interest in return for funding the Banambu Deep-1 well to a capped amount and contributing to Woodside's back costs. The Movida 3D survey acquired by Woodside in 2011 confirmed the existence of a number of prospects within the permit including the Caterina prospect which could contain up to 8 TCF of recoverable gas reserves. Cue still has 35% equity in the permit and is hopeful that BHP and Woodside see additional prospectivity within the permit and will participate in further drilling. Cue has equity in five contiguous permits on the North West Shelf which are adjacent to the Rankin and Goodwyn fields. We are of the view that there is still strong potential for a significant discovery within our permits and we are working hard to identify and drill viable prospects within these permits.

In Papua New Guinea the PNG LNG facilities are being constructed with commissioning expected in June 2014. The SE Gobe gas cap will be depleted and sold to the PNG LNG joint venture. This will monetise a static gas resource and also extend the economic life of the oilfield. Gas sales from SE Gobe will commence at the rate of 35 mmscfd from mid 2014. The PNG LNG project will ultimately permit a number of static gas resources to be produced and to that end the PRL-9 joint venture continues to seek early commercialisation for the Barikewa gas discovery.

As Chairman of the board I can assure shareholders that the Board and Management of Cue continue to work hard to build your company and we believe that in 2013 we will deliver increased production and with a little good fortune increased reserves. The company is actively seeking new opportunities some of which we hope to be able to announce in the near future. The company has a very solid balance sheet and so will be able to take full advantage of these new opportunities as they arise.

Finally, Terry White, our Exploration Manager since 2006, retired and was replaced by David Whittam. David comes to Cue with over 30 years of experience having worked previously with BHP Petroleum and Woodside and more recently Karoon Gas. The Board thanks Terry for his service to Cue and wish him well in retirement.

Richard G. Tweedie
Chairman
28th September 2012

JOINT VENTURES INTERESTS

PAPUA NEW GUINEA	
PDL 3	
*Santos	15.921718%
SHP	40.149650%
Oil Search	36.35974%
Cue	**5.568892%**
(SE Gobe Unit	3.285651%)
PRG	2.0%
PRL14	
Oil Search	62.556%
Murray	26.497%
Cue	**10.947%**
PRL9	
Santos	40%
*Oil Search	45.106%
Cue	**14.894%**

NEW ZEALAND	
Maari Oil Field	
PMP 38160	
*OMV	69%
Todd	16%
Horizon	10%
Cue	**5%**
PEP 51149	
*Todd	80%
Cue	**20%**
PEP51313	
*Todd	50%
Horizon	30%
Cue	**20%**

INDONESIA	
Sampang PSC	
*Santos	45%
SPC	40%
Cue[(i)]	**15%**
Mahakam Hilir PSC	
*SPC	60%
Cue	40%

AUSTRALIA	
Carnarvon Basin Permits	
WA-389-P	
*Woodside	25%
Cue	**35%**
BHP Billiton Petroleum	40%
WA-359-P	
*Apache	40%
Cue	**30%**
Exoil	30%
WA-360-P	
*MEO **	62.5%
Cue	**37.5%**
WA-409-P	
*Apache	40%
Cue	**30%**
Rankin Trend Pty Ltd	30%
WA-361-P	
*MEO**	50%
Mineralogy	35%
Cue	**15%**

(i) 8.181878% in the Jeruk field.

***Operator**
****Title held by North West Shelf Exploration Pty Ltd**

Chief Executive Officer's Review- Mark Paton

The 2011/12 financial year has certainly had its ups and downs. In October 2011 we obtained Indonesian government approval to farm-in for 40% of the highly prospective Mahakam Hilir pemit in the Kutei Basin in Indonesia. The Kutei basin is the most prolific oil and gas province in Indonesia. The block is operated by SPC Mahakam Hilir Pte Ltd (SPC) which is a subsidiary of Petrochina. SPC is also a major shareholder of Cue. Two exploration wells were drilled in the permit during the year called Naga Utara-1 and Naga Selatan-1. In February and March we announced a discovery of high pressure gas bearing sands in the Naga Utara-1 well, unfortunately due to the very high pressures encountered, which were largely unexpected, and poor hole conditions, difficulties were encountered in obtaining the well logs and test data which are required to be certain about the commercial significance of the discovery. We did manage to obtain a sample of the gas which is sweet and has a carbon dioxide content of less than 0.5%. Cue is of the view that the sands encountered are likely to be able to sustain commercial flowrates as evidenced by the gas kick and well flow encountered during drilling and is working with SPC to plan and execute an appraisal of the discovery via a well to be called Naga Merah -1, to be drilled in early 2013. The Naga Merah-1 well will also explore deeper potential within the Naga Utara structure with the possibility that further gas bearing sands will be encountered. Naga Merah-1 will certainly be an exciting well for Cue.

In June we completed the drilling of Naga Selatan-1, this was a 20 million barrel oil prospect which we rated as about a one in three chance of commercial success. Unfortunately, whilst we encountered oil and gas shows throughout the well, and as a consequence deepened the well from the planned 6500 feet to 8300 feet, wireline logs indicated that the oil and gas shows were residual hydrocarbons and that we had drilled the well down dip from the crest of the structure. Further drilling may be justified at Naga Selatan after further seismic data processing and possibly further acquisition.

Also in June, Cue participated in the drilling of Banambu Deep-1 in WA-389-P offshore on the North West Shelf. Woodside originally farmed into the 100% Cue owned permit to acquire a 65% working interest and operatorship. Woodside paid for Cue's back costs, the Movida 3D seismic survey and the drilling of the Banambu Deep-1 well in return for their equity and operatorship in the permit. Two weeks before the well spudded, BHP Billiton acquired 40% of Woodside's interest in return for funding the Banambu Deep-1 well. Cue saw this as confirmation by a major operator of the prospectivity of the permit. Banambu Deep-1 was identified on 3D Seismic as a high amplitude channel sand within the Triassic Mungaroo formation. Unfortunately the channel sand intersected was water bearing. The joint venture is yet to decide whether there will be further exploration drilling in the permit, however, Cue still sees the Caterina prospect as a valid exploration target.

Nevertheless, despite the ambiguous result in Indonesia and the negative result on the North West Shelf, Cue did achieve what it set out to do at the beginning of the year and that was to participate in more exploration wells than in previous years, thereby giving us a better chance of growing the company to the next level. It is still my view that Cue needs to participate in around 3-5 exploration wells per year at affordable equity levels to give us a reasonable chance of transformational growth.

In WA-360-P, where Cue has a 37.5% working interest, Cue and Operator, MEO Australia have acquired on permit and some off permit data from the Foxhound 3D Survey. This data is being evaluated to firm up the Maxwell lead with a view to potentially farming out our interest and drilling a well on Maxwell in 2013 or 2014. Maxwell is potentially an extension of the Pluto and Wheatstone trend and is currently mapped as a structure which is capable of holding over 1 TCF of recoverable gas.

Next year, in addition to the Naga Merah-1 well, we expect to commence the further appraisal and infill drilling in the producing Maari and Manaia fields where Cue has a 5% working interest. A rig is planned to be mobilised to New Zealand in the middle of 2013 which will drill appraisal wells on Manaia and Maari South and also drill Maari Mangehewa and Manaia Managhewa development wells from the existing platform. There is the potential to identify up to 90 million barrels of additional reserves via this appraisal drilling, which may add material value to the company. The development wells will also result in increased production from the field in 2014.

The PEP 51313 Joint Venture where Cue has a 20% working interest, is also working hard to assess the risks of drilling of the Whio (formerly known as Pike) Pukeko and Te Whatu prospects. These prospects have mean prospective resource in place estimates of 42, 111 and 187 million barrels of oil respectively. Whio is the most likely to be drilled because of its low risk and proximity to the Maari Field infrastructure for a low cost tie back.

In addition to increasing exploration and appraisal activities through the year, Cue has evaluated acquiring a number of proven undeveloped resources and producing assets where we can see incremental value to be added through doing so. The aim is to accelerate the building of substantial cash flows which may be reinvested in increased exploration activities or further asset acquisitions. We hope to be able to announce the successful acquisition of some of these assets in the next financial year. We will continue to 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.

In FY 2012 oil production sales were down substantially from 500,923 barrels in 2011 to 279,107 barrels in 2012. This was in part due to the natural decline of the Maari, SE Gobe and Oyong reservoirs. Maari production was particularly impacted due to the apparent lack of pressure support provided to the Moki cycle 1 producers through water injection into the Moki cycle 2 formation. Well performance and reservoir studies have confirmed that the intra Moki shale provides a barrier to pressure support between the cycle 2 injectors and the cycle 1 producers. The water injection wells were therefore reperforated where possible in the Moki cycle 1 formation in the first quarter of 2012 and since this time we have observed a gradual improvement in the performance of the production wells.

Also in Maari we experienced continued unreliability of the electrical submersible pumps (ESP) A number of workovers to replace ESP's with a modified design were successfully executed during the year and from April 27th we have had all wells available for the first time in the field's history.

Significant production downtime was also experienced in the Oyong Field due to the tie in of the new Wortel facilities and the drilling of the Oyong-11 infill well. Additionally, as Cue has now recovered all of the capital costs from the Oyong development the Indonesian government takes a much larger share of the produced oil and gas in accordance with the terms of the production sharing contract.

At the end of the financial year all oil producing assets were producing reliably and the gradual improvement in the performance of the Maari production wells has continued which bodes well for higher oil production volumes in 2013.

PAPUA NEW GUINEA

Production

Cue's share of oil sales from the SE Gobe field for the financial year was 28,897 barrels (2011: 30,998 barrels). The lower volume reflects the expected decline rate for the field. Workovers were successfully completed on SEG-8 and SEG-1ST1 during the year which is supporting production. Further workovers to remove sand build up in the wellbores SEG-5ST1 and SEG-11 are planned which will reduce the rate of field decline in the next financial year.

Oil Search, the operator, has estimated field oil reserves at 31 December 2011 to be;

Million Barrels of Oil (Gross)

	Ultimate Recovery	**Cumulative Production to 31 Dec 2011**	**Remaining to be produced (Cue Share)**
Proved (1P)	44.181	42.215	1.966 (0.065)
Proved + Probable (2P)	44.891	42.215	2.676 (0.088)
Proved, Probable & Possible (3P)	45.829	42.215	3.614 (0.119)

These reserves are consistent with SPE guidelines and definitions.

The Gas Sales Agreement for the sale of the SE Gobe gas cap gas has been negotiated and is expected to be signed imminently. The Gobe and SE Gobe gas cap is to be blown down to the PNG LNG pipeline thus commercialising this static resource. Gas is expected to be produced at a rate of 35 mmscfd gross from mid 2014. Oil Search are currently completing 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 to be produced to the PNG LNG plant is expected to be around 130 BCF over 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	268.2	268.2	211.2	211.2 (5.504)

Note: (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

Appraisal

The gross recoverable contingent gas resource volume in the Barikewa discovery is 611 billion cubic feet (2C). Cue's share of this resource is 91 billion cubic feet. At this stage the PNG LNG operator ExxonMobil has stated that in the short term there is currently no surplus LNG processing capacity in Port Moresby. Cue and its partners continue to seek a commercial development path for this resource. The PNG government has agreed to defer the drilling of the commitment well in the permit, which was scheduled to be drilled in the fourth quarter of 2012, into the next permit term. Appraisal drilling will be completed once there is more certainty regarding a commercialisation path.

INDONESIA

Production

Cue's share of oil sales from the Oyong field for the financial year was 44,225 barrels (2011: 197,720 barrels). Whilst field production volumes continue to exceed that forecast due to better than expected reservoir performance and very high facility uptime, the volume of oil sold by Cue reduced significantly as cost recovery was completed during the financial year and the Indonesian government commenced taking its share of profit oil. Oyong oil was also shut down completely during September 2011 to permit tie in of the Wortel project and further shutdowns were required to permit drilling of the Oyong-11 infill oil production well.

Drilling of the Oyong-11 was completed in February 2012 and production from the well has been brought on-stream. The new production from Oyong-11 has increased current oil production from the field to over 2,800 bopd with a stabilised oil rate from the well of almost 1000bopd.

The development of the Wortel gas field was completed during the year with gas production commencing on 31st January 2012. The project was completed within the originally anticipated budget and within a few weeks of the original schedule. During February the production rate from Wortel was gradually increased up to a stable rate of approximately 47MMscf/d. The balance of the gas production is from the Oyong Field, with the PSC reliably producing the daily contract quantity of approximately 85 MMscf/d (90 Billion BTU per day) to the power station at Grati.

Cue's share of gas sales from the Oyong and Wortel fields was 2.90 billion cubic feet (2011: 2.93 billion cubic feet). This was made up from 1.96 bcf from Oyong and 0.93 bcf from Wortel. The gas is being sold under a long term contract to the PT Indonesia Power electricity generating station at Grati.

Estimated gross oil and gas reserves as at 31 December 2011 were;

Oyong

		Oil (million bbl)			Gas (BCF) [1]		
		1P	2P	3P	1P	2P	3P
In Place Volumes		43.6	55.4	59.7	100	117	136
Ultimate Recovery		8.04	8.33	8.69	70	95	103
Cumulative Production to 31 Dec 11		6.8	6.8	6.8	42.9	42.9	42.9
Remaining Reserves as at 31 Dec 11							
Oil	Remaining oil Cue Share	1.24 0.066	1.53 0.082	1.89 0.101	-	-	-
Gas	Remaining gas Cue Share	-	-	-	27.1 2.54	52.1 4.88	60.1 5.63

(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.

Wortel

	Non associated gas in place (BCF)	Ultimate gas recovery (BCF) (Cue share)	Condensate recovery (Million barrels) (Cue share)
Proved (1P)	95	77.2 (10.73)	0.23 (0.02)
Proved + Probable (2P)	134	113.6 (15.79)	0.34(0.03)
Proved, Probable & Possible (3P)	166	132.4(18.40)	0.39(0.04)

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

Jeruk

Further work was carried out on the Jeruk field during 2012. The Sampang PSC joint venture continues to investigate the potential for development of the Jeruk oilfield. The development of the Jeruk fractured carbonate reservoir is technically challenging and the economics of development marginal in the P90 reserves case. Cue estimates that the proven plus probable plus possible reserves (3C) are as much as 50 million barrels which would deliver significant value to Cue. The main technical issue to be resolved is the connectivity of the fracture network and therefore the quantity of oil which may be recovered by each well. Work is currently being carried out to investigate the potential for a single well development based on completing the existing and suspended well Jeruk-3. An extended period of production from Jeruk-3 would go a long way to understanding the connectivity of the fracture network.

Mahakam Hilir PSC

Cue farmed-in to the Mahakam Hilir PSC for a 40% interest in October 2011. SPC Mahakam Hilir PTE Limited, a subsidiary of Petrochina is the Operator. Two wells were drilled in the permit called Naga Utara and Naga Selatan. The Naga Utara well discovered high pressure gas bearing intervals which are to be further appraised by drilling another well in the structure called Naga Merah -1 around 1st quarter 2013. The Naga Selatan well encountered good oil and gas shows but wireline logging indicated that the hydrocarbon bearing intervals did not contain producible hydrocarbons. The logs indicated that the Naga Selatan -1 well was down dip on the structure. Further seismic may be acquired in the future to more fully understand the up dip potential of Naga Selatan.

NEW ZEALAND

Maari Oil Field

Cue's share of oil production from the Maari field for the financial year was 269,680 barrels (2011: 360,750 barrels). This was below Cue's forecast of 300,000 barrels and was a disappointing result. Much of the lost production was attributable to failures of electrical submersible pumps (ESP). A total of five workovers were performed during the year to replace failed pumps. A smaller pump was installed in each well with no coupling between the two electric motors which drive the pump. Since the end of April 2012 there have been no further ESP failures indicating that the reliability of the pumps is improving as we make improvements to the well completion and the pump configuration.

During the year we also discovered that the waterflood was not working as designed. The original development plan of the Maari- Moki formation was that production was from horizontal wells in the upper cycle sandstone and that water injection was via vertical injectors in the lower cycle sandstone. The assumption was that the thin intra-moki shale would permit pressure communication between the injectors and producers. The production history and reservoir modelling have indicated that pressure support was inadequate. The pressure support of the producers has been improved recently by adding perforations to the water injection wells in the upper cycle sandstone and this appears to be significantly improving the pressure support to the production wells to the extent that modest increases in production have been reported from the Maari-Moki wells.

Manaia

The Manaia -1 extended reach well commenced production in October 2011 at a rate of around 3800bopd. Performance of this well has been better than predicted with the well still producing over 2000bopd. This is attributed to natural aquifer water influx supporting production.

Maari Asset 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 Maui 4. There is also potential oil in the deeper F sands at Maari and Manaia. The development of these additional reserves is being studied and further appraisal is planned in 2013 to assess the recoverable reserves in the non-producing horizons in the Manaia and Maari South structures. After the appraisal wells have been drilled a number of development wells will be drilled from the platform to enhance production from Maari commencing in late 2013. A dual lateral well in the Maari- Mangahewa formation, an additional well in the Manaia-Mangahewa formation and a Maari Moki cycle 2 producer are planned. A new water injection well for the Maari – Moki sandstone is also planned as part of a project to improve the waterflood performance. The appraisal and development wells have the potential to add significant developed reserves and production in 2014. Cue's estimate of the incremental reserves which will be proven through the appraisal and development programme is in the range of 20 to 90 million barrels recoverable.

Cue has estimated field reserves at 31 December 2011 to be:

Million Barrels of Oil (Gross)				
Reservoir	Ultimate recovery Proved (1P)	Ultimate recovery Proved + Probable (2P)	Cumulative Production to 31 Dec 2011	Remaining to be produced (2P) (Cue share)
Maari Moki	39.6(28.5 developed)	57.5	15.4	42.1 (2.105)
Maari M2A*	1.4	3.0	0.7	2.3 (0.115)
Manaia Mangahewa*	1.57	6.27	0.8	5.47 (0.274)

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

These reserves are consistent with SPE guidelines and definitions.

Oil production between 31 December 2011 and 30 June 2012 was 2.00 million barrels.

Remaining to be produced at 30 June 2012 was 47.8 million barrels (2P) with Cue’s share being 2.39 million barrels.

Taranaki Basin Exploration

Cue farmed into the offshore PEP 51313 permit in the Taranaki Basin in October, 2009. PEP 51313 is adjacent to the Maari and Manaia fields. The permit contains several large prospects. In March 2012 a 3D Seismic survey, acquired over the Maari field, was extended to cover the Whio (formerly Pike) Paua and Matariki stratigraphic prospects and leads in PEP 51313. This data is being processed at present in order to mature the Whio prospect for drilling in 2013. Discussions are underway with OMV with a view to tying in any discovery at Whio into the Maari FPSO. Additionally, the 2D seismic data acquired in 2011 over the Te Whatu and Pukeko prospects has identified robust structures which are being analysed with a view to drilling them in the next one to two years.

In PEP 51149 permit the 2D seismic survey over the Pungarehu prospect has been processed and interpreted. A near term decision either drill or relinquish this portion of the permit is imminent.

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 earned a 65% interest in the permit by paying US$5 million in past costs, funding the reprocessing of the existing 3D seismic data, the acquisition of the 1440 square kilometre Movida 3D seismic data and the drilling of the Banambu Deep-1 exploration well. Woodside subsequently farmed out 40% of its interest in the permit to BHP Billiton Petroleum in return for BHP funding the Banambu Deep-1 well to a capped amount. Woodside retained operatorship of the permit and Cue retained a 35% free carried interest through the drilling of the Banambu Deep-1 well. Unfortunately, the Intra-Mungaroo Triassic channel sand observed on the Movida 3D seismic data was found to be water bearing.

WA-389-P contains several additional prospects which have been identified on the 3D data set including the large Caterina prospect which has potential to contain up to 8 trillion cubic feet of recoverable gas.

In WA-360-P permit, Cue (37.5%) and our partner MEO Australia, have acquired part of the Foxhound 3D dataset to try and de-risk the Maxwell lead for possible drilling in 2013.

In WA-359-P and WA-409-P, where Cue holds 30% equity in the permit, the operator, Apache Northwest Pty Ltd have made an application to extend the licenses and continue to try to identify drillable prospects within the acreage using the newly acquired Zeebries 3D seismic data.

Mark John Paton
Chief Executive Officer
28th September 2012

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 Company endorses the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (with 2010 amendments) ("ASX Principles").

Unless otherwise disclosed, the Company has in place corporate governance practices which comply with the ASX Principles.

The following statement outlines the practices adopted by the Company.

Principle 1: Laying Solid Foundations for Management and Oversight.

Recommendation 1.1: Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions.

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 the Company's business objectives and subsequently monitors performance and achievement of those Company's objectives;
- Oversees the reporting on matters of compliance with corporate policies and laws, takes responsibility for risk management processes, 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 has delegated authority for the running of the day to day business to the CEO.

Recommendation 1.2: Companies should disclose the process for evaluating the performance of senior Management.

The performance of the senior executives is reviewed annually as part of the duties performed by the Remuneration and Nomination Committee. Performance measures and targets for the Company and individual personnel are established annually. Company and individual performance in achieving these targets are assessed by the Board and line management.

Principle 2: Structure the Board to add value

Recommendation 2.1: A majority of the board should be independent directors.

Recommendation 2.2: The Chair should be an independent director

Recommendation 2.3: The role of the Chairman and the CEO should not be exercised by the same individual.

The current board is made up of 7 non-executive directors, including 5 independent directors. The chairman is non-executive and independent:

- Richard G. Tweedie (Chairman)
- Timothy E. Dibb
- Geoffrey J. King
- Steven J. Koroknay
- Paul D. Moore
- Leon Musca
- Andrew A. Young

The board comprises a broad base of industry, business, technical, administrative, corporate skills and experience considered necessary to represent the shareholders and fulfil the business objectives of the Company. The details of background, experience and professional skills of each Director are set out in the Company website.

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

Recommendation 2.4: The board should establish a nomination committee.

The board has established a Remuneration and Nomination Committee and committee charter. The charter outlines the responsibilities of the committee, and is available on the Company website.

The committee is comprised of:

- Geoffrey J. King (Chairman)
- Paul D. Moore
- Andrew A. Young

The Board at least annually reviews its composition to determine if additional core strengths are required to be added in light of the nature of the Company businesses and its objectives.

One third of the Directors retires annually and is free to seek re-election by shareholders.

Recommendation 2.5: Companies should disclose the process for evaluating the performance of the board, its committees and individual directors.

The Remuneration and Nomination Committee have delegated responsibility to the Chairman of the Board to undertake annual performance evaluations. The performance evaluations are designed to review the board performance and effectiveness of achieving their set objectives and targets. The Chairman also discusses with each Director their requirements, performance and aspects of involvement in the Company. The Remuneration and Nomination Committee is also responsible for the performance evaluations of the senior executives, individually and together. This is reviewed against the discussed and agreed objectives of the Company and the effectiveness in carrying out those objectives.

Principle 3: Promotion of Ethical and Responsible Decision Making

Recommendation 3.1: Companies should establish a code of conduct and disclose the code or a summary of the code as to the practices necessary to maintain confidence in the Company's integrity, the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders and the responsibility and accountability of the individuals for reporting and investigating reports of unethical practices.

The Company has established a code of conduct which recognises the Company's commitment to business and corporate ethics and recognition of the interests of shareholders. Directors, senior management, employees and where relevant and to the extent possible, contractors of the Company are required to comply with the code of conduct.

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 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 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 the ASX.

Recommendation 3.2: Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the Board to establish measureable objectives for achieving gender diversity for the board to assess annually both the objectives in achieving them.

The Company established a formal policy on diversity in June 2012. This policy supports the existing equal opportunity policy and non discrimination policy as well as states a commitment to improving gender diversity within the Company. The Remuneration Committee has adopted the policy and set annual objectives for achieving gender diversity.

Recommendation 3.3: Companies should disclose in each annual report the measureable objectives for achieving gender diversity set by the Board in accordance with the diversity policy and progress towards achieving them.

The measurable objectives set by the Board for achieving gender diversity in 2012 include:

- Adopting a Company wide Diversity policy
- Disclosing the policy in the corporate governance section on the website
- Tracking and reporting on the percentages of women employed by the Company as a whole, in senior management positions and on the board.

Recommendation 3.4: Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior management and women on the board.

As at 30th June 2012 the proportion of women in the whole organisation is 3 out of 11 (27%), the proportion of women in senior executive positions is 0 of 4(0%) and proportion of women on the Board is 0 of 7 (0%).

Principle 4: Safeguarding Integrity in Financial Reporting

Recommendation 4.1: The board should establish an audit committee

Recommendation 4.2: The audit committee should be structured so that it consists only of non-executive directors, a majority of independent directors, is chaired by an independent chair who is not the chair of the board, and has at least three members.

Recommendation 4.3: The audit committee should have a formal charter.

An Audit and Risk Committee and charter have been established. The charter is available on the Company website.

The Committee consists of:

- Steven J. Koroknay (Chairman)
- Leon Musca
- Timothy E. Dibb

The primary role of the Audit and Risk Committee is to assist the Board to fulfil its corporate governance responsibilities relating to financial accounting practises, external financial reporting, financial risk management and internal control, the internal and external audit function, compliance with laws and regulations relating to these areas of responsibility and identification and development of strategies and actions to manage business risk.

All three members of the Audit and Risk Committee are non-executive directors. It is chaired by an independent chair who is not the chairman of the board.

Principle 5: Make timely and balanced disclosure

Recommendation 5.1: Companies should establish written policies designed to ensure compliance with ASX listing rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.

The Company has in place an ASX Compliance procedure which outlines the requirements to comply with the ASX listing rule disclosure requirements and to ensure accountability at senior executive level for that compliance.

The Public Officer, Company Secretary and Chief Financial Officer A.M Knox have been nominated as the person responsible for communications with the ASX. This role includes responsibility for ensuring compliance with the ASX listing rules and overseeing and co-ordinating information disclosure to the ASX, analysts, brokers, shareholders, secondary exchanges, the media and the public.

Principle 6: Respect the rights of shareholders

Recommendation 6.1: Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.

The Company has established a Communications Policy for promoting effective communication with shareholders and encouraging their participation at general meetings.

The Company maintains a website which is kept up to date with all relevant announcements to the market and related information after release to the ASX. The web address is www.cuenrg.com.au.

A copy of the communications policy is available on the Company website.

Principle 7: Recognising and Managing Risk

Recommendation 7.1 Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.

Risk recognition and management are viewed by the Company as integral to the Company's objectives of creating and maintaining shareholder value, and to the successful execution of the Company's strategies. The board is responsible for the overall risk management framework and has delegated to the Audit and Risk Committee the responsibility for:

- reviewing the adequacy and effectiveness of the CUE's risk management framework;
- Assisting the Board with regards to oversight of the CUE's risk management by gaining assurance that all major identified risks are being adequately managed and that mitigation practices are appropriate.

Recommendation 7.2: The Board should require management to design and implement the risk management and internal control system to manage the Company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the Company's management of its material business risks.

Management is responsible for designing, implementing and reporting on the adequacy of the Company's risk management and internal control system and has to report to the Audit and Risk Committee on

- The risk management and internal control system during the year; and
- The Company's management of its material business risks.

Management of the Company annually perform an assessment of Company risks and identify measures to mitigate these risks to as low as reasonably practicable. A risk register for the Company is maintained to document the risks identified. The risk register is reviewed as part of the Board meetings. A risk assessment procedure is used to assess all risks when the Company is contemplating a new business venture. Should the risk profile of the Company change the risk register will be updated to reflect this accordingly and any further controls required will be implemented.

Recommendation 7.3: The Board should disclose whether it has received assurance from the chief executive officer and the chief financial officer that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

The CEO and CFO state in writing to the board every financial year that the statements made by them regarding the integrity of the financial statements are founded on a sound system of risk management, internal compliance and control, which in all material respects implements the policy as adopted by the Board and that the risk management and internal compliance control to the extent that they relate to financial reporting are operating effectively and efficiently in all material respects.

Principle 8: Remunerate Fairly and Responsibly

Recommendation 8.1: The board should establish a remuneration committee

Recommendation 8.2: The remuneration committee should be structured so that it: consists of a majority of independent directors, is chaired by an independent chair and has at least 3 members.

The board has established a Remuneration and Nomination Committee. It consists of three non-executive members. The chair is not the chairman of the overall board.

The committee consists of:

- Geoffrey J. King (Chairman)
- Paul D. Moore
- Andrew A. Young

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

Remuneration and other terms and conditions of employment are reviewed annually by the committee having regard to the performance and relevant comparative data. As well as a base salary, remuneration packages include superannuation, termination entitlements, fringe benefits, annual cash bonuses linked to short term performance and shares and options linked to long term Company performance.

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.

Recommendation 8.3: Companies should clearly distinguish the structure of non-executive director's remuneration from that of executive directors and senior executives.

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.

The Remuneration and Nomination committee charter is available on the website.

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 2012.

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
Timothy E. Dibb (appointed 24/11/2011)
Geoffrey J. King (appointed 24/11/2011
Steven J. Koroknay
Paul D. Moore (appointed 24/11/2011)
Leon Musca
Andrew A. Young (appointed 13/12/2011)

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 (2011: 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.

2011/2012 Results

Consolidated entity revenue for the year ended 30 June 2012 was $41.496M (2011: $52.818M).

Consolidated entity expenses totalled $30.649M (2011: $33.909M) including production and amortisation expenses and impairment write downs.

The operating profit before income tax expense for the year was $13.621 (2011: $25.761M). Consolidated entity tax expense for the year was $7.958M. (2011: $6.654M). Consolidated entity profit after income tax expense was $5.663 (2011: $19.107M).

The Net Tangible Assets of the company on 30 June 2012 were 16.6 cents per share (2011: 17.3 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 2012 was $125.178M (2011: $118.833M). At balance date Cue had issued share capital of $152.416M (2011: $151.768M). No further shares have been issued up to the date of this report.

The total number of shares on issue at 30 June 2012 was 698,119,720 (2011: 694,819,718).

Options and Other Rights of Conversion

During the year 3,300,002 options were exercised for a total consideration of 0.648M. As at 30 June 2012 there were no options and 3,200,000 performance share rights outstanding of which 800,000 lapsed post balance date. On 1 July 2012 a further 3,200,000 performance share rights were granted.

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 the joint venture operations there have been a number of incidents that have been reported and investigated by all the relevant parties. The increased reporting is showing a growth in the reporting culture and an openness to share learnings in order to reduce risk not only within Cue Energy Resources but within the industry. Cue Energy Resources continues to monitor the progress and close out of these incidents and work with the JV partners and operators to improve overall health and safety and minimise any impact on the environment.

There have been a number of steps taken in order to improve HSE and to implement 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.

Throughout this year, internally the HSE Management system is also in effect and beginning to grow a proactive safety culture with the business in line with industry best practice. While Cue is still a relatively small business it has in place a Management System that is fit for purpose regardless of the size of the company. The System will now be able to grow with the business.

Through ongoing commitment by both Senior Management and staff alike, this system will move Cue Energy Resources forward and will continually improve overall Health, Safety and Environmental risk to the company. This will demonstrate that Cue Energy Resources is a leader in all its current and projected fields of expertise and will give Cue Energy Resources the ability to remain competitive, whilst managing its risks to as low as reasonably practicable.

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 and Risk Committee		Remuneration and Nomination Committee	
	Held	**Attended**	**Held**	**Attended**	**Held**	**Attended**
Timothy E. Dibb	6	6	2	2		
Geoffrey J. King	6	6			1	1
Steven J. Koroknay	11	11	2	2		
Paul D. Moore	6	6			1	1
Leon Musca	11	11	2	2		
Richard G. Tweedie	11	11				
Andrew A. Young	5	5			1	1

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

Directors:	Qualifications and Experience	Special Responsibilities	Particulars of Directors' Interests in shares of Cue Energy Resources Limited at the date of this report	
			Direct	Indirect
R.G. Tweedie	LL.B Director of Todd Petroleum Mining(ii) Company Limited Appointed 04/09/1987 Retired 31/12/2010 Director of Cue Energy Resources Limited(i) Appointed 16/07/2001	Chairman of Board of Directors	568,784	3,363,477
T.E. Dibb(iv)	Bachelor of Science and Doctor of Philosophy Degrees and a Diploma in Management Director of Cue Energy Resources Limited(i) Appointed 24/11/2011	Non-Executive Director Member of the Audit and Risk Committee	Nil Shares	
G.J. King	LL.B Director of Cue Energy Resources Limited(i) Appointed 24/11/2011	Non-Executive Director Chairman of the Remuneration and Nomination Committee	Nil	2,500
S.J. Koroknay	BE(Hons)- Civil Eng (Sydney), FAICD, FIEA Non-Executive Director Innamincka Petroleum Limited (i) Appointed 15/05/08 – resigned 24/06/11 Non-Executive Chairman Galilee Energy Limited (i) Appointed 20/01/09 Non-Executive Director Cue Energy Resources Limited (i) Appointed 09/10/09 Non-Executive Director Metgasco Limited (i) Appointed 20/01/10	Non-Executive Director Chairman of Audit and Risk Committee	Nil	100,000
P. D. Moore(iv)	Masters in Business Administration and a Bachelor of Science in Civil Engineering. Director of Otto Energy Limited (i) Appointed 01/07/2009 Resigned 01/07/2011 Director of Cue Energy Resources Limited(i) Appointed 24/11/2011	Non- Executive Director Member of Remuneration and Nomination Committee	Nil Shares	
L. Musca	LL.B Barrister and Solicitor Director of Cue Energy Resources Limited(i) Appointed 17/11/1999	Independent Non-Executive Director Member of Audit and Risk Committee	Nil	12,771,227
A.A.Young	BE (Chemical Engineering), Master's Degree in Business Administration. Director of National Safety Council of Australia Limited(ii) Appointed March 2009 Director of Cliq Energy Berhad(ii) - Appointed May 2012 Director of Real Energy Corporation Limited(ii) – Appointed 01/07/2012 Director of New Guinea Energy Limited(i) Appointed 20/10/2010 Director of Cue Energy Resources Limited(i) Appointed 13/12/2011	Non-Executive Director Member of Remuneration and Nomination Committee	Nil Shares	

Executives:				
M.J Paton	B.SC (Hons), MIChemE	Chief Executive Officer Appointed 08/02/2011	Nil	1,492,881
A.M. Knox	B.Com, CA, CPA, FAICD Director of Cue Energy Resources Limited(i), appointed 16/09/2009 and resigned 09/10/09 Director of Rimfire Pacific Mining NL(i)Appointed 08/07/2005(i) Retired 31/03/11 Director of Axis Mining NL(ii) Appointed 08/07/2005 Retired 31/03/11	Chief Financial Officer Company Secretary Public Officer	2,737,245	1,500,000
D.B. Whittam(iii)	BSc, MSc	Exploration Manager Appointed 18/06/2012	-	-

(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.
(iii) D.B. Whittam appointed 18/06/2012.
(iv) T.E. Dibb and P.D. Moore are employees of the Todd Group of Companies which hold 189,023,314 shares in Cue Energy Resources Limited.

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. No options are held in the company by Directors or Executives. Performance Rights held by Executives are detailed in the Remuneration Report.

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 2012, in accordance with the Corporations Act 2001 and its regulations.

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) <u>Director and Executive Details</u>

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

R.G. Tweedie (Chairman)

T.E. Dibb (Non Executive Director – appointed 24/11/2011)

G.J. King (Non Executive Director – appointed 24/11/2011)

S.J. Koroknay (Non Executive Director)

P.D. Moore (Non Executive Director – appointed 24/11/2011)

L. Musca (Non Executive Director)

A.A. Young (Non Executive Director – appointed 13/12/2011)

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

M.J. Paton (Chief Executive Officer)

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

D.B. Whittam (Exploration Manager – appointed 18/06/12)

A.B. Parks (Chief Commercial Officer – resigned 30/08/12)

T. White (Exploration Manager – retired 17/05/12)

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 share options or performance rights. 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 under heading D Equity Based Remuneration.

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 $700,000, which was approved at the Annual General Meeting held on 24 November 2011. 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.

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 2012, 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. No short term incentives were granted during the 30 June 2012 financial year.

Long term incentives

The Board implemented 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.

During the year ended 30 June 2012, 4 million Performance Rights were granted to executives (for services provided from 1 July 2011):

	Vesting Date	Vesting Target	M.J. Paton	A.M. Knox	A.B. Parks(i)	T. White(ii)
2011 Performance Rights Issue	Expire 30 June 2013 if not vested	ASX 0.53 cents	1,600,000	800,000	800,000	800,000

(i) A.B. Parks resigned on the 30/08/2012.
(ii) T. White retired 17/05/2012.

The Performance Rights granted will vest as ordinary shares on 30 June 2013 if the volume weighted average share price in Cue Energy Resources Limited quoted on ASX increases, for thirty consecutive days, to 53 cents per share from 1 July 2012 to 30 June 2013. If the price target is not met the Performance Rights lapse. Employees receiving Performance Rights must also be employees on the vesting date or rights will lapse. A.B. Parks resigned on 30 August 2012 and T. White retired on 17 May 2012 so their Performance Rights have lapsed.

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:

Employment contracts

Remuneration and other terms of employment for M.J. Paton and D.B. Whittam is formalised in a service agreement. Details of these agreements are as follows:

M.J. Paton	
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.
D.B. Whittam	
Title:	Exploration Manager
Agreement commenced:	16 June 2012
Details:	Base salary of $420,000 including superannuation to be reviewed annually by the Remuneration and Nomination Committee. 3 months termination notice by either party, short term incentive up to 40% 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.

Compensation of Key Management Personnel – 2012:

2012		Short-Term		Post Employment					
Name	Cash salary and fees	Annual Incentive Plan Bonus (iii)	Non monetary benefits (ii)	Super-annuation	Retirement benefits	Share Purchases (i)	Performance Rights (vii)	Total	Total Performance Based (viii)
	$	$	$	$	$	$		$	%
Non Executive Directors									
R.G. Tweedie	-	-	-	-	-	100,000	-	100,000	-
T.E. Dibb	60,326	-	-	-	-	-	-	60,326	-
G. King	60,326	-	-	-	-	-	-	60,326	-
S.J. Koroknay	68,807	-	-	31,193	-	-	-	100,000	-
P.D. Moore	60,326	-	-	-	-	-	-	60,326	-
L. Musca	100,000	-	-	-	-	-	-	100,000	-
A.A. Young	55,163	-	-	-	-	-	-	55,163	-
Total	404,948	-	-	31,193	-	100,000	-	536,141	
Other Key Management Personnel									
M.J. Paton	368,121	-	-	50,000	-	-	22,400	440,521	5
A.M. Knox	281,940	-	42,918	50,000	-	-	11,200	386,058	3
A.B. Parks (v)	409,224	-	-	15,204	-	-	-	424,428	-
T. White (iv)	200,970	-	-	45,837	-	-	-	246,807	-
D.B. Whittam (vi)	15,547	-	-	607	-	-	-	16,154	-
Total	1,275,802	-	42,918	161,648	-	-	33,600	1,513,968	
Total remuneration of Executives and Directors	1,680,750	-	42,918	192,841	-	100,000	33,600	2,050,109	

(i) Shares purchased on market (refer Directors Saving Plan below).
(ii) Non performance based salary sacrifice benefits, including motor vehicle expenses.
(iii) No bonuses were granted in the current period.
(iv) T White retired on the 17/05/12
(v) A.B. Parks resigned on the 30/08/12.
(vi) D.B. Whittam appointed 18/06/12.
(vii) Performance Share Rights granted in the current period.
(viii) Performance Based Compensation is considered to be Annual Incentive Bonus and Performance Rights.

Compensation of Key Management Personnel – 2011:

2011		Short-Term		Post Employment				
Name	Cash salary and fees	Annual Incentive Plan Bonus (iii)	Non monetary benefits (ii)	Super-annuation	Retirement benefits	Share Purchases (i)	Total	Total Performance 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	-
Other Key Management Personal								
R.J. Coppin (iv)	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 cash bonuses granted in the 2011 financial year by the Board of Directors
(iv) R.J. Coppin retired on 07/02/11. The retirement payment of $505,835 to Mr R.J. Coppin on 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.

All remuneration paid to M.J. Paton and A.M. Knox is incurred by the parent entity.

A.M. Knox is a Director of all the subsidiaries in the Group and an Executive of the parent company.
M.J. Paton is a Director of Cue Energy Malaysia Sdn Bhd and an Executive of the parent company.

(D) Equity Based Remuneration

Overview of Share Options and Performance Rights

For services provided from 1 July 2011, the Company has granted 4 million Performance Rights to certain Key Management Personnel as detailed above. These Performance Rights were granted under a Performance Rights Plan which was approved by shareholders at the Company's Annual General meeting on 24 November 2011, which was the grant date for the 4 million Performance Rights. The Performance Rights Plan is a mechanism for providing a share based performance incentive for Key Management Personnel and to achieve alignment between Key Management and Shareholder objectives. Options were previously 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 2012 (2011: Nil).

Exercise of Share Options Granted as Compensation

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:-

	Grant Date	Opening Balance (Fully Vested)	Exercise Price	Granted in Year	Value of options Exercised in Year $ (i)	Exercise Date
A.M. Knox	23/04/2007	333,334	0.20	2007	$26,667	19/04/2012
	23/04/2007	333,333	0.225	2007	$18,333	19/04/2012
	23/04/2007	333,333	0.25	2007	$10,000	19/04/2012
	12/02/2009	500,000	0.15	2009	$65,000	19/04/2012
		1,500,000			$120,000	

(i) 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 and Performance Rights Granted as Compensation

Options Granted as Compensation

No share options were granted to Directors or other Key Management Personnel in the financial year to 30 June 2012 (2011: Nil).

No options were granted as remuneration to each Key Management personnel in prior financial years which were recorded as an expense in the 30 June 2012 financial year.

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.

Performance Rights Granted as Compensation

Performance rights over shares in Cue Energy Resources Limited granted during the 30 June 2012 financial year were granted under the Cue Energy Resources Ltd Performance Rights Plan ("Plan") for services provided from 1 July 2011 as approved by the Board on 22nd June 2011. The performance rights were granted under the Company's Performance Rights Plan which was approved by shareholders at the Annual General Meeting on 24th November 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 or the 2012/13 Plan.

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.

Performance Rights – 30 June 2012 Financial Year

Performance rights granted to Executives during the 30 June 2012 financial year for services provided from 1 July 2011 were:

	Grant Date	Expiry Date	Vesting Date	M.J. Paton	A.M. Knox	A.B. Parks	T. White
2011 Performance Rights Issue	24/11/2011	Expire 30 June 2013 if not vested	Target ASX 53 cents(i)	1,600,000	800,000	800,000	800,000

(i) The performance rights granted vest as ordinary shares on 30 June 2013 if a 30 day volume weighted average share price in Cue Energy Ltd quoted on the ASX increases to 53 cents per share for the period 1 July 2012 to 30 June 2013. On 30 June 2011 the share price for Cue Energy Limited ordinary shares on the ASX were 26.5cents per share. If the ASX Price Target is not met the Performance Rights lapse. Executives receiving performance rights must also be employees on the vesting date or the rights will lapse.

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 granted to key management personnel of the Company lapsed during the year as a result of a failure to meet a vesting condition:

Participant	Trance	Number of Performance Rights Lapsed	Value at lapse date *
T. White	2011/2012 Plan	800,000	$184,000

* The value at lapse date of the performance rights that were granted as part of remuneration and that lapsed during the year because a vesting condition was not satisfied. The value is determined at the date of lapsing using the closing share price on the date of lapse multiplied by the number of Performance Rights assuming the condition was satisfied. The performance rights lapsed due to the resignation of an employee.

Subsequent to 30 June 2012, a further 800,000 performance rights lapsed following the resignation of A.B. Parks on 30 August 2012.

The performance hurdles for the grant of performance rights under the Plan to participants, as described above, are classified as market-based hurdles. In determining the value of the performance rights granted to participants, a risk based statistical analysis was used that took into account, as at the grant date, the following variables and assumptions:

- Expected life of the instrument – the performance rights will expire on 30 June 2013 should they not be exercised.
- Share price of the underlying share on grant date of 22.5 cents
- Expected volatility – the price volatility of the shares was approximately 45 percent
- Expected dividends – there was no dividends presently expected to be paid in respect of the underlying shares
- The risk free interest rate for the expected life of the instrument – the average risk free interest rate at grant date was 3.3 percent

On the basis the implied value of the 2011/2012 performance rights was 2.58 cents per right. The implied value of the performance rights that could vest are:

	Grant Date	Expiry Date	Vesting Date	M.J. Paton	A.M. Knox	A.B. Parks	T. White
2011 Performance Rights Issue	24/11/2011	Expire 30 June 2013 if not vested	Target ASX 53 cents	1,600,000	800,000	800,000	800,000
	30 June 2012 financial year			$22,400	$11,200	(i)	(ii)
	30 June 2013 financial year			$22,400	$11,200	(i)	(ii)
	Total			$44,800	$22,400	(i)	(ii)

(i) Lapsed on 30 August 2012 on resignation of employee
(ii) Lapsed on 17 May 2012 on retirement of employee

Future Performance Rights – 30 June 2013 Financial Year

The participants in the 2012/13 plan are:

- M.J. Paton
- A.M. Knox
- D.B. Whittam (appointed 18/06/12)

For employee services provided from 1 July 2012 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 18 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 60 cents during the period 1st July 2013 to 30th June 2014. In the event that the share price target is not met within this period then the performance rights lapse.

The following performance rights were granted to Key Management Personnel on 1 July 2012.

	Vesting Date	Vesting Target	M.J. Paton	A.M. Knox	D.B. Whittam
2012 Performance Rights Issue	Expire if not vested by 30 June 2014	ASX CUE 60 Cents	1,600,000	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	Before 30 June 2014	Total
M.J. Paton	1,600,000	1,600,000	3,200,000
A.M. Knox	800,000	800,000	1,600,000
D.B. Whittam(i)	-	800,000	800,000
Total	2,400,000	3,200,000	5,600,000

(i) D.B. Whittam (Appointed 18/06/2012)

The ASX close price 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:

Directors	No of shares purchased		Value of shares purchased (i)	
	2012	2011	2012	2011
R.G. Tweedie	291,243	277,541	100,000	83,332

(i) Value of shares purchased based on ASX market price on date of share purchases.

(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 2012.

Profit Performance	30 June 2012 $000's	30 June 2011 $000's	30 June 2010 $000's	30 June 2009 $000's	30 June 2008 $000's
Revenue	44,270	59,670	64,488	32,543	38,845
Net profit/(loss) before tax	13,621	25,761	39,351	(20,905)	15,544
Net profit/(loss) after tax	5,663	19,107	27,510	(24,958)	11,719
Key Management Personnel Remuneration	2,050	2,237	963	970	966

Share Performance	30 June 2012	30 June 2011	30 June 2010	30 June 2009	30 June 2008
Share price at start of year (cents)	26.5	25.0	14.5	22.5	17.5
Share price at end of year (cents)	18.0	26.5	25.0	14.5	22.5
Dividends (cents)	-	-	-	-	-
Basic earnings/ (loss share (cents)	0.81	2.7	4.0	(4.0)	1.9
Diluted earnings/(loss) share (cents)	0.81	2.7	4.0	(4.0)	1.9

The company's remuneration policy seeks to reward staff members for their contribution to adding shareholder value so there is a direct link between remuneration and company share price or financial performance.

This concludes the Remuneration Report which has been audited.

Auditor

In accordance with the provisions of the Corporations Act 2001 the Company's auditor, BDO East Coast Partnership (formerly 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	65,000
Non-Audit Services	
Tax compliance services including review of tax accounting, tax returns and tax advice regarding tax losses	39,250
Total	104,250

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 38.

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

As a result of an economic project arrangement in the Jeruk field within the Sampang PSC, Indonesia, Cue may in certain circumstances have an obligation to reimburse certain monies spent by the incoming party from future profit oil within the Sampang PSC. There is a dispute between Cue and the incoming party as to the quantum of monies that they may be entitled to claim by way of such reimbursement and when any such reimbursement would be payable. The Company is of the view that any amount which might eventually become payable would not be likely to exceed the amount of USD5.3M which has been provided for in the accounts. The Company has taken legal advice and is in discussions to resolve the matter with the incoming party, which has given Notice of Arbitration.

Apart from the above, 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.

On behalf of the Board

Richard G. Tweedie
Chairman
28th September 2012

CUE ENERGY RESOURCES LIMITED
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 22 to 36, 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 2012 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 2012.

Signed in accordance with a resolution of the Directors.

Dated in Melbourne 28th day of September 2012

Richard G. Tweedie
Chairman

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Australia

DECLARATION OF INDEPENDENCE BY DAVID GARVEY TO THE DIRECTORS OF CUE ENERGY RESOURCES LIMITED

As lead auditor of Cue Energy Resources Limited for the year ended 30 June 2012, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Cue Energy Resources Limited and the entities it controlled during the period.

David Garvey

Partner

BDO East Coast Partnership

Melbourne, 28 September 2012

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012

		CONSOLIDATED	
		2012	2011
	NOTE	$000's	$000's
Production income	3	41,222	52,506
Production costs	4	(13,778)	(9,113)
Gross profit from production		27,444	43,393
Other income	3	274	7,164
Amortisation costs	4	(10,500)	(9,644)
Impairment expenses	4	-	(2,838)
Finance costs			
• Interest expense	4	(84)	(173)
• Net realised gain/(loss) on oil hedge derivatives	4,3	158	(1,209)
• Change in fair value of derivatives	11	-	(935)
• Net foreign currency exchange gain/(loss)	4,3	2,616	(5,328)
Other expenses	4	(6,287)	(4,669)
Profit before income tax		13,621	25,761
Income tax expense	6	(7,958)	(6,654)
Net profit for the year		5,663	19,107
Other comprehensive income for the year net of tax		-	-
Total comprehensive income for the year		5,663	19,107
Net Profit is attributable to:			
owners of Cue Energy Resources Limited		5,663	19,107
Total comprehensive income for the year is attributable to:			
owners of Cue Energy Resources Limited		5,663	19,107
Basic earnings per share (cents)	22	0.81	2.70
Diluted earnings per share (cents)	22	0.81	2.70

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 2012

		CONSOLIDATED	
	NOTE	2012 $000's	2011 $000's
Current Assets			
Cash and cash equivalents	26(b)	33,733	52,811
Trade and other receivables	8	11,746	17,286
Inventory	10	1,500	-
Total Current Assets		46,979	70,097
Non Current Assets			
Property, plant and equipment	9	84	72
Deferred tax assets	6	322	321
Exploration and evaluation expenditure	13	31,765	13,166
Production properties	15	84,886	68,786
Total Non Current Assets		117,057	82,345
Total Assets		164,036	152,442
Current Liabilities			
Trade and other payables	16	8,631	5,547
Other financial liabilities	11	-	935
Financial liability-secured	17	-	5,086
Tax liabilities	6	1,293	5,280
Provisions	18	381	379
Total Current Liabilities		10,305	17,227
Non Current Liabilities			
Deferred tax liabilities	6	23,098	15,436
Provisions	18	5,455	946
Total Non Current Liabilities		28,553	16,382
Total Liabilities		38,858	33,609
Net Assets		125,178	118,833
Equity			
Issued capital	7	152,416	151,768
Reserves	7	425	391
Accumulated losses		(27,663)	(33,326)
Total Equity		125,178	118,833

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 FINANCIAL YEAR ENDED 30 JUNE 2012

Consolidated	Issued Capital $'000	Accumulated Losses $'000	Share-based Payments Reserve $'000	Total $'000
Balance at 1 July 2011	**151,768**	**(33,326)**	**391**	**118,833**
Profit for the period	-	5,663	-	**5,663**
Other comprehensive income	-	-	-	**-**
Total comprehensive income for the period	-	5,663	-	**5,663**
Transactions with the owners in their capacity as owners:				
Share based payments	-	-	34	**34**
Issue of shares, net of costs	648	-	-	**648**
Balance at 30 June 2012	**152,416**	**(27,663)**	**425**	**125,178**

Consolidated	Issued Capital $'000	Accumulated Losses $'000	Share-based Payments Reserve $'000	Total $'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:				
Issue of shares, net of costs	300	-	-	**300**
Balance at 30 June 2011	**151,768**	**(33,326)**	**391**	**118,833**

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

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012

	NOTE	CONSOLIDATED 2012 $000's	2011 $000's
Cash Flows From Operating Activities			
Receipts from customers		41,548	49,026
Interest received		266	349
Payments to employees and other suppliers		(20,585)	(3,459)
Income tax paid		(8,257)	(173)
Royalties paid		(1,191)	(2,901)
Interest paid		(52)	(1,607)
Net Cash Provided by Operating activities	**26(a)**	11,729	41,235
Cash Flows From Investing Activities			
Payments for exploration expenditure		(13,156)	(2,185)
Payments for production property		(22,190)	(6,575)
Proceeds on refund of exploration expenditures		-	5,050
Proceeds on sale of exploration tenements		7,407	-
Payment for office equipment		(55)	(24)
Net Cash Used In Investing Activities		(27,994)	(3,734)
Cash Flows From Financing Activities			
Proceeds from issue of shares		648	300
Repayment of borrowings		(5,086)	(9,036)
Net Cash Used In Financing Activities		(4,438)	(8,736)
Net Increase/(Decrease) in Cash and Cash Equivalents		(20,703)	28,765
Cash and cash equivalents at the beginning of the period		52,811	29,373
Effect of exchange rate change on foreign currency balances held at the beginning of the year		1,625	(5,327)
Cash and Cash Equivalents at the end of the Period	**26(b)**	33,733	52,811

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cue Energy Resources Limited is a for-profit Public Company listed on the Australian Securities Exchange 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 as appropriate for-profit oriented entities. 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) Restatement of comparative

The prior year balances of deferred tax assets and deferred tax liabilities in the statement of financial position had been restated to reflect the balances after offsetting the amounts consistent with the current year presentation. In offsetting the amounts there has been no change in prior year income tax balances or net assets. Extracts (being only those line items affected) are disclosed below:

Consolidated Statement of Financial Position

	CONSOLIDATED		
	2011 $000's Reported	**2011 $000's Adjustment**	**2011 $000's Restated**
Non Current Assets			
Deferred tax assets	11,612	(11,291)	321
Total Non Current Assets	93,636	(11,291)	82,345
Total Assets	163,733	(11,291)	152,442
Non Current Liabilities			
Deferred tax liabilities	26,727	(11,291)	15,436
Total Non Current Liabilities	27,673	(11,291)	16,382
Total Liabilities	44,900	(11,291)	33,609
Net Assets	118,833	-	118,833

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(e) 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 for options by using the Black Scholes Option Valuation Model and for Performance Rights a risked statistical analysis technique is used. 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.

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 (n) “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')

(f) New, revised or amending Accounting Standards and Interpretations adopted

The consolidated entity has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

The following Australian Accounting Standards and Interpretations most applicable to the Group that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 30 June 2012:

- AASB 9 Financial Instruments includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the project to replace AASB 139 Financial Instruments: Recognition and Measurement, which becomes mandatory for the Group's 30 June 2016 financial statements.
- AASB 10 Consolidated Financial Statements introduces a new definition of control in regards to consolidation, which becomes mandatory for the Group's 30 June 2014 financial statements.
- AASB 11 Joint Arrangements addresses joint operations and joint ventures, which becomes mandatory for the Group's 30 June 2014 financial statements.
- AASB 12 Disclosure of Interests in Other Entities addresses the disclosure requirements for all forms of interests in other entities, which becomes mandatory for the Group's 30 June 2014 financial statements.
- AASB 13 Fair Value Measurement consolidates the measurement and disclosure requirements in respect of fair values into one standard, which becomes mandatory for the Group's 30 June 2014 financial statements.
- Interpretation 20 Stripping Costs provides guidance on stripping costs during the production phase of a surface mine, which becomes mandatory for the Group's 30 June 2014 financial statements.

The Group has not yet determined the eventual effect of the above standards, amendments to standards and interpretations, however at this stage it is not thought to be material.

(g) 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 2012 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(y) for the details.

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group (refer Note 1 (x)).

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.

(h) <u>Revenue recognition</u>

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.

(i) <u>Exploration and evaluation project expenditure</u>

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.

(j) 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.

(k) 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 asset belongs.

(l) 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.

(m) 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.

(n) 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.

(o) 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.

(p) 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.

(q) 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.

(r) Inventories

Inventories consist of hydrocarbon stocks. Inventories are valued at the lower of cost and net realisable value. Cost is determined on a weighted average basis and includes direct costs and an appropriate portion of fixed production overheads where applicable.

(s) Payables

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

(t) 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.

(u) Employee benefits

The following liabilities arising in respect of employee 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.

(v) 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 19.

(w) 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. 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.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont')

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.

(x) <u>Foreign currency</u>

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.

(y) <u>Business combinations</u>

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.

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.

(z) 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 and for Performance Rights a risked statistical analysis pricing technique is used.

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 not vested on the date of cancellation, and any expense not yet recognised for the award is not recognised. 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 and Performance Rights is reflected as additional share dilution in the computation of earnings per share (see Note 22).

(aa) 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
Financial assets at fair value through profit or loss are either: i) held for trading, where they are acquired for the purpose of selling in the short-term with an intention of making a profit; or ii) designated as such upon initial recognition, where they are managed on a fair value basis or to eliminate or significantly reduce an accounting mis-match. Except for effective hedging instruments, derivatives are also categorised as fair value through profit or loss. Fair value movements are recognised in profit or loss

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.

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 principal 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.

(ab) 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.

(ac) 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.

(ad) 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.

(ae) 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:

Consolidated	**CARRYING AMOUNT**		**NET FAIR VALUE**	
	2012 $'000	**2011 $'000**	**2012 $'000**	**2011 $'000**
Financial assets				
Cash and cash equivalents	33,733	52,811	33,733	52,811
Trade and other receivables	11,746	17,286	11,746	17,286
Non-traded financial assets	45,479	70,097	45,479	70,097
Financial liabilities				
Trade and other payables	8,631	5,547	8,631	5,547
Other financial liabilities-derivatives	-	935	-	935
Current liability - tax	1,293	5,280	1,293	5,280
Financial liabilities-secured	-	5,086	-	5,086
Non-traded financial liabilities	9,924	16,848	9,924	16,848

2 FINANCIAL INSTRUMENTS (cont')

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.

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. Fair value is determined by reference to active market pricing at balance date. No derivatives were outstanding 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)

	Level 1	Level 2	Level 3
30 June 2012			
Financial liabilities held at fair value through profit & loss			
Forward Sale (Swap) instrument	-	-	-
Total	**-**	**-**	**-**

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

2 FINANCIAL INSTRUMENTS (cont')

(b) Interest Rate Risk

The Group's exposure to market interest rate is related primarily to the Group's cash deposits (Note 26b) and borrowings (Note 17).

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	
	2012 **$'000**	**2011** **$'000**
Financial Assets		
Cash & cash equivalents	33,733	52,811
Financial Liabilities		
Other financial liabilities	-	(935)
Financial liabilities-secured	-	(5,086)
Net exposure	33,733	46,790

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.

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	
	2012 $000's	2011 $000's
Impact on post-tax profit		
Interest rates +1%	510	519
Interest rates –1%	(510)	(519)
Impact on equity		
Interest rates +1%	510	519
Interest rates –1%	(510)	(519)

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 2012			30 June 2011		
Consolidated	**USD $'000**	**NZD $'000**	**PNG KINA $'000**	**USD $'000**	**NZD $'000**	**PNG KINA $'000**
Financial assets:						
Cash and cash equivalents	32,385	1,152	7	49,571	1,229	7
Receivables	9,268	171	-	9,557	216	-
Financial liabilities:						
Current payables	1,621	731	-	2,889	1,205	-
Financial liabilities-secured	-	-	-	5,086	-	-

2 FINANCIAL INSTRUMENTS (cont')

For the year ended as at 30 June, if the currencies set out in the table above, 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	
	2012 **$000's**	**2011** **$000's**
Impact on post-tax profit		
AUD/USD +10%	(3,303)	(2,195)
AUD/USD -10%	3,303	2,195
Impact on equity		
AUD/USD +10%	(3,303)	(2,195)
AUD/USD -10%	3,303	2,195

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.

(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 2012 the Group had no open oil price swap contracts (2011: 60,000 bbls at Dated Brent USD98 per bbl). Sensitivity of the oil swap contract to changes of +/- 20% would impact on post tax profit and equity as follows:

	Consolidated	
	2012 **$000's**	**2011** **$000's**
Impact on post-tax profit		
US dollar oil price +20%	-	429
US dollar oil price –20%	-	(429)
Impact on equity		
US dollar oil price +20%	-	429
US dollar oil price –20%	-	(429)

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	
	2012 **$000's**	**2011** **$000's**
Impact on post-tax profit		
US dollar oil price +20%	3,683	4,674
US dollar oil price –20%	(3,683)	(4,674)
Impact on equity		
US dollar oil price +20%	3,683	4,674
US dollar oil price –20%	(3,683)	(4,674)

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.

(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. The 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. At 30 June 2012, all borrowings have been repaid.

During the year the Company received equity of $0.65 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.

2 FINANCIAL INSTRUMENTS (cont')

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 2012.

	12 months or less $000's	1 to 2 years $000's	2 to 5 years $000's	More than 5 years $000's
Consolidated				
2012				
Non-derivative financial liabilities				
Trade and other payables[(i)]	8,631	-	-	-
Current liability-tax	1,293	-	-	-
	9,924	-	-	-
2011				
Non-derivative financial liabilities				
Trade and other payables[(i)]	5,547	-	-	-
Current tax liability	5,280	-	-	-
Financial liability secured	5,086	-	-	-
	15,913	-	-	-
Derivative financial liabilities				
Other financial liabilities-derivatives	935	-	-	-
	935	-	-	-

(i) Repayment within 3 months, except for the Medco liability of AUD5.2M which is expected to be repaid in 12 months.

2 FINANCIAL INSTRUMENTS (cont')

(f) Credit Risk

Credit risk arises from the financial assets of the group, which comprise cash and cash equivalents, trade and other receivables and 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	
	2012 $000's	2011 $000's
Operating Revenue:		
Production income	41,222	52,506
Interest from cash and cash equivalents	274	312
Other Income		
Management fees	-	73
Profit on sale of exploration assets	-	6,779
	-	6,852
Oil Hedge Recognition (at fair value) Income:		
- realised	158	-
Net foreign currency gain	2,616	-
	2,774	-
Total Revenue	44,270	59,670

4 EXPENSES

	CONSOLIDATED	
	2012 $000's	2011 $000's
Operating Expenses		
Production costs	13,778	9,113
Amortisation production properties	10,500	9,644
Interest expense	84	173
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 13)	-	2,838
Other Expenses		
Depreciation	44	24
Employee expense (net of superannuation)	3,141	2,791
Superannuation contribution expense	182	191
Administrative expenses	693	886
Operating lease expense	203	150
Business development expenses	2,024	627
Other expense	6,287	4,669
Total Operating Expenses	30,649	33,909

5 AUDITORS REMUNERATION

	CONSOLIDATED	
	2012	2011
Amounts paid or due and payable to the auditor – BDO [1] for:		
Audit or review of the financial reports	65,000	71,000
Other Services:		
Tax compliance services	39,250	42,682
	104,250	113,682

[1] BDO East Coast Partnership previously traded as PKF East Coast Practice.

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

6 TAXATION

	CONSOLIDATED ENTITY	
	2012	**2011**
	$'000	**$'000**
INCOME TAX EXPENSE		
Current tax	1,967	3,632
Adjustment to prior periods	(1,670)	-
Deferred tax	7,661	3,022
	7,958	**6,654**
Income tax expense/(benefit) is attributable to:		
Profit from continuing operations	**7,958**	**6,654**
Aggregate income tax expense		
Deferred Income tax (revenue)/expenses included in income tax comprises:		
Decrease/(increase) in deferred tax assets	1,782	3,512
(Decrease)/increase in deferred tax liabilities	5,879	(490)
	7,661	**3,022**
Numerical reconciliation of income tax expense to prima facie tax on accounting profit/(loss)		
Profit/(loss) from continuing operations before income tax expense	13,621	25,761
Tax expense/(benefit) at Australian tax rate of 30% (2011: 30%)	4,086	7,742
Unrealised timing differences	4,688	3,501
Difference in overseas tax rates	1,701	(767)
Non-Allowable/(Allowable) mining deductions	(629)	(2,337)
Tax losses carried forward	-	870
Adjustments to current tax from prior periods	(1,670)	87
Previously unrecognised tax losses now recognised to reduce tax expense	(218)	(2,442)
Income tax expense/(benefit)	**7,958**	**6,654**
Tax losses		
Unused tax losses for which no deferred tax asset has been recognised	19,988	14,257
Potential tax benefit at 30%	**5,996**	**4,277**
Current tax liabilities		
Income tax payable attributable to:		
Other wholly owned subsidiaries	1,293	5,280
	1,293	**5,280**

6 TAXATION (cont')

		Tax Losses $000's	Total $000's
Non-current assets – deferred tax assets			
Movements - Consolidated			
Opening balance		11,612	15,124
(Debit)/credit to the income statement		(1,782)	(3,512)
Closing balance	(i)	**9,830**	**11,612**
Non-current liabilities – deferred tax liabilities			
Movements - Consolidated			
Opening balance		(26,727)	(27,217)
(Debit)/credit to the income statement		(5,879)	490
	(i)	**(32,606)**	**(26,727)**
Net	**(i)**	**(22,776)**	**(15,115)**
(i) Presentation in the consolidated statement of financial position as follows:			
Deferred tax asset		322	321
Deferred tax liability		(23,098)	(15,436)
Net		**(22,776)**	**(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

	CONSOLIDATED			
	2012 $000's	2011 $000's	2012	2011
(a) Share Capital				
Issued and paid up 698,119,720				
(2011: 694,819,718) ordinary fully paid shares				
Balance at 1 July	151,768	151,468	694,819,718	693,319,718
3,300,002 options exercised	648	-	3,300,002	-
1,500,000 options exercised		300	-	1,500,000
Closing balance	**152,416**	**151,768**	**698,119,720**	**694,819,718**

Movements in contributed capital since 1 July 2011 were as follows:

	Ordinary Shares	Issue price	$'000
01/07/11 balance at beginning period	694,819,718		151,768
30/08/2011 shares issue	166,668	20 cents	33
30/08/2011 shares issue	166,667	15 cents	25
19/04/2012 shares issue	1,033,333	15 cents	155
19/04/2012 shares issue	533,334	20 cents	107
19/04/2012 shares issue	866,667	22.5 cents	195
19/04/2012 shares issue	533,333	25 cents	133
30/06/12 balance at end period	698,119,720		152,416

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.

	CONSOLIDATED	
	2012 $000's	2011 $000's
(b) Share Based Payment Reserve		
Balance at 1 July	391	391
Performance share rights payment expense	34	-
Closing balance	**425**	**391**

7 CAPITAL AND RESERVES (cont')

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 24 and the remuneration section of the Director's Report for details.

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

	2012 Number of Share Rights	**2012** Number of Options
Balance at beginning of the Year	-	4,300,000
Granted during the Year	4,000,000	-
Forfeited during the Year	(800,000)	-
Exercised during the Year	-	(3,300,002)
Expired during the Year	-	(999,998)
Issued Shares during the Year	-	-
Balance at end of the Year	3,200,000	-

(c) 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.

During 2012 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 2012 and 30 June 2011 are as follows:

	Consolidated Group	
	2012 $000's	**2011 $000's**
Financial liabilities-secured	-	(5,086)
Other current liabilities (excluding provisions)	(9,924)	(11,762)
Total	(9,924)	(16,848)
Less cash and cash equivalents	33,733	52,811
Surplus cash	23,809	35,963
Total equity	125,178	118,833
Total capital	152,416	151,768
Gearing ratio	-%	-%

8 TRADE AND OTHER RECEIVABLES

	Consolidated Group	
	2012 $000's	2011 $000's
Current receivables		
Trade receivables	11,180	8,782
Non-trade receivables and prepayments	566	8,504
	11,746	17,286
The ageing of trade receivables at the reporting date was as follows:		
Less than one month	11,180	8,782
	11,180	8,782

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.

Impaired receivables
At 30 June 2012 there were no current trade receivables that were impaired (2011: $Nil).

The balance of the allowance for impairment in respect of trade receivables at 30 June 2012 was $Nil (2011: $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	
	2012 $000's	2011 $000's
Office and computer equipment		
Cost	338	312
Accumulated depreciation	(254)	(240)
	84	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	
	2012 $000's	2011 $000's
Balance at beginning of year	72	72
Additions	55	24
Depreciation expense	(43)	(24)
Balance at end of year	84	72

10 INVENTORY

	CONSOLIDATED	
	2012 $000's	2011 $000's
Current Assets		
Inventory	1,500	-

11 OTHER FINANCIAL LIABILITIES

	CONSOLIDATED	
	2012 $000's	2011 $000's
Current Liability		
Recognition of oil swap based on market price at balance date	-	935

12 SHARES IN SUBSIDIARIES AT BALANCE DATE

Shares held by the parent entity at balance date:

	PARENT				
Subsidiary Companies	**2012 $**	**2011 $**	**Interest Held**	**Country of Incorporation**	**Principal Activity**
Cue PNG Oil Company Pty Ltd	1	1	100%	Australia	Petroleum production and exploration
Cue Energy Holdings Ltd	1	1	100%	Australia	Administration
Cue Mahakam Hilir Pty Ltd	1	1	100%	Australia	Petroleum production and 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 Energy Malaysia Sdn Bhd	2	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	585,279			

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

13 EXPLORATION AND EVALUATION EXPENDITURE

	CONSOLIDATED	
	2012 $000's	2011 $000's
Costs carried forward in respect of areas of interest in exploration and evaluation phase	13,166	24,817
Expenditure incurred during the year	18,599	1,791
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)
Closing balance	31,765	13,166
Accumulated costs incurred on current areas of interest net of amounts written off -		
- Sampang PSC	8,709	3,023
- Mahakam Hilir PSC	9,572	26
- PNG PRL 9	2,080	1,977
- PNG PRL14	326	220
- PNG PDL 3 (non unitized)	209	209
- WA-359-P	133	120
- WA-360-P	1,894	470
- WA-361-P	382	143
- WA-389-P	2,667	1,677
- WA-409-P	148	135
- PEP 51313	4,233	3,768
- PEP 51149	1,412	1,398
Net accumulated exploration and evaluation expenditure	31,765	13,166

14 IMPAIRMENT OF PRODUCTION PROPERTY ASSETS

At 30 June 2012 the Group reassessed the carrying amount of its oil and gas assets, Production Properties (refer Note 15 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 14.3% (2011: 14.3%) equivalent to post-tax discount rates of 10% (2011: 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.

15 PRODUCTION PROPERTIES

	CONSOLIDATED	
	2012 $000's	2011 $000's
Balance at beginning of year	68,786	66,714
Expenditure incurred during the year	26,600	6,607
Expenditure transferred from exploration expenditure	-	5,109
Amortisation and restoration expense	(10,500)	(9,644)
Balance at end of year	84,886	68,786
Net accumulated costs incurred on areas of interest		
- PNG PDL 3 (unitized)	500	488
- Oyong – Sampang PSC	34,978	21,093
- Maari – PMP 38160	49,408	47,205
Total	84,886	68,786

16 TRADE AND OTHER PAYABLES

	CONSOLIDATED	
	2012	**2011**
	$000's	**$000's**
Current		
Trade creditors and accruals	8,606	5,472
Directors and Director related entities	25	75
	8,631	5,547

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.

17 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	
	2012	**2011**
	$000's	**$000's**
Interest bearing liabilities		
Bank loans – secured - current	-	5,086

18 PROVISIONS

	CONSOLIDATED	
	2012 $000's	2011 $000's
Current		
Employee benefits	381	379
Non-Current		
Employee benefits	44	106
Restoration	5,411	840
	5,455	946

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 2011	840
Provisions made during the year	4,571
Provisions used during the year	-
Balance at 30 June 2012	5,411

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.

19 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	648	365	31/07/2012
WA-360-P	Cue Energy Resources Limited	37.50	648	243	05/03/2017
WA-361-P	Cue Energy Resources Limited	15	649	97	30/01/2016
WA-389-P	Cue Energy Resources Limited	35	3,825	1,339	29/07/2013
WA-409-P	Cue Energy Resources Limited	30	569	171	29/04/2014
New Zealand					
PEP 51149	Todd Exploration Limited	20	435	87	22/09/2013
PEP 51313	Todd Exploration Limited	20	2,593	519	29/07/2014
Indonesia					
Mahakam Hilir PSC	Singapore Petroleum	40	275	110	12/11/2014
Papua New Guinea					
PRL 9	Oil Search Ltd	14.894	598	89	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)	534	80	04/12/2027
Papua New Guinea					
PDL 3	Barracuda Pty Ltd	5.568892	85	4.7	23/12/2021

* The WA-359-P Joint Venture has submitted an application to renew the permit with a reduced surface area. This application is being considered by NOPTA.

19 INTERESTS IN JOINT VENTURES (cont')

	CONSOLIDATED	
	2012 $000's	**2011 $000's**
The share of assets and liabilities of the joint ventures and other financial liabilities attributed to Joint Ventures have been included under the relevant headings:		
Current Assets:		
Receivables	11,180	8,782
Non Current Assets:		
Exploration and Evaluation Expenditure (Note 13)	31,765	13,166
Production Properties (Note 15)	84,886	68,786
Total Assets	127,831	90,734
Current Liabilities:		
Payables	8,347	5,140
Other financial liabilities	-	935
Financial liabilities-secured	-	5,086
Total Liabilities	8,347	11,161
Net Assets	119,484	79,573
Income and expenses of the consolidated entity attributable to joint ventures:		
Income	41,222	52,506
Expenses	13,778	9,113

No contingent liabilities exist. Commitments are disclosed in Note 20.

20 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	
	2012 $000's	**2011 $000's**
Not later than one year	4,891	21,015
Later than one year but not later than 2 years	494	921
Later than 2 years but not later than 5 years	-	26
Later than 5 years	-	-
	5,385	21,962

If the economic entity decides to relinquish certain tenements and/or does not meet these obligations, assets recognised in the Statement of Financial Position 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.

20 COMMITMENTS FOR EXPENDITURE (cont')

b) Development Expenditure

	CONSOLIDATED	
	2012 $000's	2011 $000's
Not later than one year	412	9,964
Later than one year but not later than 2 years	-	-
Later than 2 years but not later than 5 years	-	-
Later than 5 years	-	-
	412	9,964

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

c) Operating Lease Commitments

	CONSOLIDATED	
	2012 $000's	2011 $000's
Non-cancellable operating lease relating to rental of premises are payable as follows:		
Not later than one year	123	123
Later than one year but not later than five years	62	185
	185	308

During the year ended 30 June 2012 the Group recognised $0.20M (2011:$0.15M) as an expense in the income statement in respect of operating leases relating to the lease over the company's business premises.

21 EVENTS SUBSEQUENT TO BALANCE DATE

As a result of an economic project arrangement in the Jeruk field within the Sampang PSC, Indonesia, Cue may in certain circumstances have an obligation to reimburse certain monies spent by the incoming party from future profit oil within the Sampang PSC. There is a dispute between Cue and the incoming party as to the quantum of monies that they may be entitled to claim by way of such reimbursement and when any such reimbursement would be payable. The Company is of the view that any amount which might eventually become payable would not be likely to exceed the amount of USD5.3m which has been provided for in the accounts. The Company has taken legal advice and is in discussions to resolve the matter with the incoming party, which has given Notice of Arbitration.

Apart from the above, 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.

22 EARNINGS PER SHARE

	CONSOLIDATED	
	2012	2011
Basic earnings per share	$0.0081	$0.027
Diluted earnings per share	$0.0081	$0.027
Net profit after tax ($'000)	$5,663	$19,107
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	698,119,720	698,112,869

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	
	2012	2011
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	5,663	19,107
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:	698,119,720	698,112,869
Share options on issue (i)	-	4,300,000
Performance Rights on issue(ii)	3,200,000	-
Diluted earnings per share	$0.0081	$0.027

(i) Options 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.

(ii) Performance Rights issued under the Cue Energy Resources Limited Share Performance Rights Plan issued to eligible executives have been classified as potential ordinary shares and included in the valuation of diluted earnings per share in 2012.

22 EARNINGS PER SHARE (cont')

During the year, 3.3 million (2011:Nil) options and no Performance Rights were converted to ordinary shares. The diluted earnings per share calculation includes that portion of these options and Performance Rights assumed to be issued for nil consideration weighted with reference to the date of conversion. The weighted average number to be included in 2012 is 870,960 (2011: 493,151) options and 3,200,000 (2011: Nil) Performance Rights respectively. No options were on issue as at 30 June 2012.

Information Concerning the Classification of Securities

All outstanding Options and Performance Rights 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.

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23 FINANCIAL REPORTING BY SEGMENTS

Segment Information

The Group has adopted AASB 8 Operating Segments with effect from 1 July 2009. AASB 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly 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 accounting policies adopted for internal reporting to the CODM are consistent with those adopted in the financial statements.

The principal business of the group is the production and exploration for hydrocarbons in Australia, New Zealand, Indonesia and PNG. The board considers the business from both a product and geographic perspective and has identified four reportable segments. Information regarding the Group's reportable segments is presented below:

2012	Australia	NZ	Indonesia	PNG	All Other Segments	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Production Revenue	-	21,874	16,106	3,242	-	41,222
Production Expenses	-	(6,085)	(6,769)	(924)	-	(13,778)
Gross Profit	-	15,789	9,337	2,318	-	27,444
Other revenue	3,048	-	-	-	-	3,048
Earnings before interest, tax, depreciation and amortisation	(3,195)	15,789	9,337	2,318	-	24,249
2011	Australia	NZ	Indonesia	PNG	All Other Segments	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Production Revenue	-	23,969	25,584	2,953	-	52,506
Production Expenses	-	(5,047)	(3,202)	(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
Total segment assets						
30 June 2012	38,216	60,554	61,336	3,930	-	164,036
30 June 2011	63,682	55,631	29,704	3,425	-	152,442
Total segment liabilities						
30 June 2012	1,116	11,851	24,322	1,569	-	38,858
30 June 2011	2,737	14,710	14,903	1,259	-	33,609

NOTE 23 FINANCIAL REPORT BY SEGMENT (cont')

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

	2012 $'000	2011 $'000
EBITDA	24,249	38,440
Interest expense	(84)	(173)
Depreciation	(44)	(24)
Amortisation	(10,500)	(9,644)
Impairment writedowns	-	(2,838)
Net Profit before Income Tax	13,621	25,761

The Board assesses the performance of the operating segments based upon a measure of earnings before interest, tax, depreciation and amortisation.

The Company operated predominantly in one industry, exploration and production of hydrocarbons.

24 SHARE BASED PAYMENTS

Directors and Employee Benefits – Share Based Payment Plans

Performance rights over shares in Cue Energy Resources Limited were granted under the Cue Energy Resources Limited Performance Rights Plan (Plan) which was approved by shareholders at the general meeting held on 24th November 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.

Ownership based compensation payments for employees and executives of the group are made at the discretion of the Board. The current participants in the Plan are M.J. Paton, A.M. Knox and D.B. Whittam.

Under the Plan participants were granted performance rights which only vest if certain performance standards (as disclosed in the Remuneration Report) are met and the executive remains employed by the Company to the end of the vesting period. The selection of suitable performance benchmarks was considered critical to securing the objectives of this Plan, and benchmark price levels for vesting were set at significantly higher levels than those prevailing at the time of structuring the Plan.

Options and performance rights are not listed and carry no dividend or voting rights. Upon exercise, each option or performance right is convertible into one ordinary share to rank pari passu in all respects with the Company's existing fully paid ordinary shares.

Share-based payments

Performance rights can only be exercised if they have vested and only in such form and manner as prescribed by the Board. 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 reconciles the outstanding options and share rights granted as remuneration in the current and prior financial years at the beginning and end of the year.

	2012 **Number of Share Rights**	**2012** **Number of Options**
Balance at beginning of the Year	-	4,300,000
Granted during the Year	4,000,000	-
Forfeited during the Year	(800,000)	-
Exercised during the Year	-	(3,300,002)
Expired during the Year	-	(999,998)
Issued Shares during the Year	-	-
Balance at end of the Year	3,200,000	-

Subsequent to the year end a further 800,000 performance rights were forfeited following resignation of A.B. Parks.

Also subsequent to year end a further 3.2 million performance rights were granted on 1 July 2012 as disclosed in the Director's Report.

None of the performance rights have vested at 30 June 2012.

The fair value of performance rights granted was calculated using a risked statistical analysis. This expense has been apportioned pro-rata to reporting periods where vesting periods apply.

24 SHARE BASED PAYMENTS (cont')

Weighted average remaining contractual life of share rights is one year (2011:nil) and the remaining weighted average contracted life of options is nil (2011: nil). Range of exercise prices for options and performance rights are disclosed in the Remuneration Report.

	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

24 SHARE BASED PAYMENTS (cont')

Performance rights (continued)
Key inputs to the model used in the calculation were as follows (see also Directors' Report):

Grant date:	**2011/2012 Participation Rights 24 November 2011**
Expected price volatility (i)	45%
Exercise price	Nil
Expiry date	30 June 2013
Share price at grant date	A$0.0225
Risk free interest rate (ii)	3.3%

(i) Expected price volatility was 45% (based on the historical volatility adjusted for any expected changes to future volatility due to publicly available information).
(ii) Risk free rates of securities with comparable terms to maturity.

Performance rights can only be exercised if they have vested and can be exercised at any time until their expiry. The exercise of any vested performance right may only be effected in such form and manner as the Board prescribed.

Participants will not be required to make any payment for the grant of the performance rights on the exercise of a vested performance right. The maximum number of performance rights that could vest in future periods and hence be exercised by the Participants are as follows:

Earliest exercise date:	**30 June 2012 Financial Year**
M.J. Paton	1,600,000
A.M. Knox	800,000

For the full entitlement of these performance rights to vest, the top range of the Performance Hurdle would need to be met of a volume weighted average price of 53 cents for thirty consecutive days between 1 July 2012 and 30 June 2013.

On this basis the weighted average fair value of each of the performance rights at the date of grant is as follows:

Vesting date:	**2011/2012 Performance Rights**
Weighting average fair value	A$0.028

Grant Date	Expiry Date	Balance at start of the period/ year Number	Granted during the period / year Number	Exercised during the period /year Number	Net other Changes (1)	Balance at end of the period/year Number	Vested and exercisable at end of the period / Year Number
2011/2012 Performance Rights 24/11/2011	30/06/13	-	4,000,000	-	800,000	3,200,000	-

(1) Included as net other changes are 800,000 performance rights that lapsed as a result of failure to meet the employment vesting condition. No performance rights expired during the year. 800,000 performance rights lapsed after year end due to failure to meet employment vesting conditions.

25 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
T.E. Dibb (appointed 24/11/2011)
G.J. King (appointed 24/11/2011)
S.J. Koroknay
P.D. Moore (appointed 24/11/2011)
L. Musca
A.A. Young (appointed 13/12/2011)

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

Name	**Position**
M.J. Paton	Chief Executive Officer
A.M. Knox	Company Secretary and Chief Financial Officer
D. Whittman (appointed 18/06/12)	Exploration Manager
A.B. Parks (resigned 30/08/12)	Chief Commercial Officer
T. White (retired 17/05/12)	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, including non monetary benefits
- Post employment benefits – superannuation
- Share based payments
- 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	
	2012	**2011**
	$	**$**
Short term employment benefits	1,784,709	1,494,009
Post employment benefits	131,800	154,181
Retirement benefits	-	505,835
Share purchase	100,000	83,332
Share based payments	33,600	-
	2,050,109	2,237,357

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

25 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 Executives including their personally related entities are set out below:

2012	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	-	-	-	-	-	-
T.E. Dibb	-	-	-	-	-	-
G.J. King	-	-	-	-	-	-
S.J. Koroknay	-	-	-	-	-	-
L. Musca	-	-	-	-	-	-
P.D. Moore	-	-	-	-	-	-
A.A. Young	-	-	-	-	-	-
Executives						
M.J. Paton	-	-	-	-	-	-
A.M. Knox	1,500,000	-	1,500,000	-	-	-

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						
M.J. Paton	-	-	-	-	-	-
A.M. Knox	1,500,000	-	-	-	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.

Performance Rights holdings

Grant Date	Expiry Date	Balance at start of the period/ year Number	Granted during the period / year Number	Exercised during the period /year Number	Net other Changes [1]	Balance at end of the period/year Number	Vested and exercisable at end of the period / Year Number
2011/2012 Performance Rights	30/06/13	-	4,000,000	-	(800,000)	3,200,000	-
M.J. Paton	30/06/13	-	1,600,000	-	-	1,600,000	-
A.M. Knox	30/06/13	-	800,000	-	-	800,000	-
A.B. Parks[ii]	30/06/13	-	800,000	-	-	800,000	-
T. White[i]	30/06/13	-	800,000	-	(800,000)	-	-
D.B. Whittam[iii]	30/06/13	-	-	-	-	-	-

(i) T. White retired 17/05/12
(ii) A.B. Parks resigned 30/08/12
(iii) D.B. Whittam appointed 18/06/12

25 KEY MANAGEMENT PERSONNEL AND RELATED PARTY DISCLOSURES (cont’)

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 2012						
R.G. Tweedie	3,641,018	-	-	291,423	-	3,932,441
T.E. Dibb	-	-	-	-	-	-
G.J. King	2,500	-	-	-	-	2,500
S.J. Koroknay	100,000	-	-	-	-	100,000
P.D. Moore	-	-	-	-	-	-
L. Musca	12,771,227	-	-	-	-	12,771,227
A.A. Young	-	-	-	-	-	-
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
Key Management Personnel 2012						
M.J. Paton	1,492,881	-	-	-	-	1,492,881
A.M. Knox	2,337,245	1,500,000	400,000	-	-	4,237,245
A.B. Parks[ii]	139,421		-			139,421
T. White[i]	24,000	-	-	-	-	24,000
D.B. Whittam [iii]	-	-	-	-	-	-
Key Management Personnel 2011						
M.J. Paton	-	-	1,492,881	-	-	1,492,881
A.M. Knox	2,337,245	-	-	-	-	2,337,245
A.B. Parks[ii]	106,378		33,043			139,421
T. White[i]	24,000	-	-	-	-	24,000

(iv) T. White retired 17/05/12
(v) A.B. Parks resigned 30/08/12
(vi) D.B. Whittam appointed 18/06/12

* Share purchases made on behalf of Directors as part of their remuneration for the year ended 30 June 2012.

Related party transactions and balances.

Members of the Board of Directors

The Directors in office during the year were R.G. Tweedie, L. Musca, S.J. Koroknay, A.A. Young, T.E. Dibb, P.D. Moore and G.J. King. During the year Directors' fees were paid by the parent company of $536,104 (2011: $249,998). Included in this amount are cash payments of $100,000 to Leon Nominees Pty Ltd of which one Director is associated, $68,807 to S.J. Koroknay and $31,193 to SJK Superannuation Funds of which one Director is associated, $55,163 to Andrew A.Young & Associates of which one Director is associated, $120,652 to Heriot Nominees Limited of which two Directors are associated and $60,326 to G.J. King.

Consolidated Entities

Details of controlled entity companies are shown in Note 12.

Advances to/(from) controlled entities net of provisions at balance date by Cue Energy Resources Limited are as follows:

	2012 $	2011 $
Cue Exploration Pty Ltd	4,745,227	2,042,812
Cue PNG Oil Pty Ltd	1,166,146	1,678,343
Cue (Ashmore Cartier) Pty Ltd	(6,778,780)	534,304
Cue Mahakam Hilir Pty Ltd	9,555,953	25,768
Cue Sampang Pty Ltd	$16,293,891	-
Cue Taranaki Pty Ltd	16,028,376	19,090,157
Cue Energy Holdings Ltd	(573,720)	(573,720)
Cue Energy Malaysia Sdn Bhd	747,171	-
	41,184,264	22,797,664

Repayment of amounts owing to the Company at 30 June 2012 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 (2011: $480,000) and interest of $385,561 (2011: $367,544) was charged respectively by the parent company to Cue PNG Oil Company Pty Ltd. Management fees of $1,406,289 (2011: $2,423,115) and interest of $Nil (2011: $373,832) was charged respectively by the parent company to Cue Taranaki Pty Ltd.

26 NOTES TO THE STATEMENT OF CASH FLOWS

Notes to Cash Flow Statement
For the Financial Year Ended 30 June 2012

	CONSOLIDATED	
	2012 $000's	**2011 $000's**
(a) Reconciliation of operating profit / (loss) to net cash flows from operating activities:		
Reported profit / (loss) after tax	5,663	19,107
Impact of changes in working capital items		
Decrease/(increase) in assets	(4,967)	13,336
Increase/(decrease) in liabilities	2,139	(9,144)
Items not involving cash flows		
Depreciation	44	24
Amortisation	10,500	9,644
Share based payments	34	-
Employee benefits	(59)	103
Net loss/(gain) on foreign currency conversion	(1,625)	5,327
Write down/(up) value of exploration expenditure	-	2,838
Net cash flows from operating activities	11,729	41,235
(b) Cash comprises cash balances held in Australia and foreign currencies, principally US dollars, within Australia and overseas:		
Australia	32,573	52,804
New Zealand	1,152	-
Papua New Guinea	8	7
Cash and bank balances	33,733	52,811
Cash Flow Statement cash balance	**33,733**	**52,811**

	PARENT ENTITY	
	2012	**2011**
	$'000	**$'000**
PARENT ENTITY INFORMATION		
Information relating to Cue Energy Resources Limited:		
Financial position		
Current assets	33,977	52,846
Non-current assets	39,967	23,455
Total assets	73,944	76,301
Current liabilities	(664)	(1,721)
Non-current liabilities	(44)	(105)
Total liabilities	(708)	(1,826)
Net assets	73,236	74,475
Contributed equity	152,416	151,768
Reserves	425	391
Accumulated losses	(79,605)	(77,684)
Net assets	73,236	74,475
Financial performance		
Total revenue	5,162	4,029
Profit/(loss) for the period	(1,921)	(6,225)
Comprehensive income/(loss) for the period	(1,921)	(6,225)

Repayment of amounts owing to the Company at 30 June 2012 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 are 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.

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INDEPENDENT AUDITOR'S REPORT

To the members of Cue Energy Resources Limited

Report on the Financial Report

We have audited the accompanying financial report of Cue Energy Resources Limited which comprises the consolidated statement of financial position as at 30 June 2012, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and 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 gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 1(b), 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 company's preparation of the financial report that gives a true and fair view 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 company'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. We confirm that the independence declaration required by the Corporations Act 2001, which has been given to the directors of Cue Energy Resources Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

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 2012 and of its performance for the year ended on that date; and

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

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

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 26 to 34 of the directors' report for the year ended 30 June 2012. 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 2012 complies with section 300A of the *Corporations Act 2001*.

BDO East Coast Partnership

BDO

David Garvey

Partner

Melbourne, 28 September 2012