Independent Auditor's Report

To the shareholders of Cue Energy Resources Limited

Report on the audit of the Financial Report

Opinion

We have audited the ***Financial Report*** of Cue Energy Resources Limited (the ***Company***).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the ***Group's*** financial position as at 30 June 2020 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The ***Financial Report*** comprises:

- Consolidated statement of financial position as at 30 June 2020;
- Consolidated statement of profit or loss and other comprehensive income, Consolidated statement of changes in equity, and Consolidated statement of cash flows for the year then ended;
- Notes including a summary of significant accounting policies; and
- Directors' Declaration.

The ***Group*** consists of Cue Energy Resources Limited (the Company) and the entities it controlled at the year end or from time to time during the financial year.

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Group in accordance with *the Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (including Independence Standards) (the Code)* that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

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Key Audit Matters

The ***Key Audit Matters*** we identified are:

- Impairment of production properties; and
- Restoration provisions

Key Audit Matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Report of the current period.

These matters were addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment of production properties

Non-current assets – production properties: $18.7m (refer to Note 15)

Impairment of production properties: $2.7m (refer to Note 15)

The key audit matter	How the matter was addressed in our audit

We identified the assessment of possible indicators of impairment and where required impairment testing of CGUs as a key audit matter. This was due to the size of production properties and the complex auditor judgement and level of specialised skills needed to evaluate certain assumptions used in this process.
 	
As part of their assessment of indicators of impairment, the Group determines an estimate of future cash flows for each cash generating unit ('CGU'), considering different internal and external factors.
 	
The Group determined there was an impairment indicator for the Maari CGU and recognised an impairment expense of $2.7m.
 	
The process for identifying impairment indicators and the recoverable amount of the Maari CGU use forward looking assumptions which are inherently difficult to determine with precision and require judgement to be applied. These conditions require additional scrutiny by us, in particular to address the objectivity of the inputs, and their consistent application. Key inputs into these forward looking estimates that we focused on, include:
 	
• Future oil and gas prices. The Group's models are sensitive to small changes in price assumptions;
• Reserves, future production volumes and future capital expenditure and operating
	Our procedures included:
	
	• Testing key internal controls in the Group's impairment assessment process. This included the determination, review and approval by the Group of indicators of impairment and key impairment model inputs;
	• Assessing the appropriateness of the impairment testing methodology applied by the Group against the requirements of accounting standards;
	• Evaluating the Group's impairment indicator assessment utilising our knowledge of the Group and the Oil and Gas industry;
	• Assessing the integrity of the impairment model including the accuracy of the underlying calculation formulas;
	• Evaluating key inputs used in the Group's impairment model for the Maari CGU by:
	  – Working with our valuation specialists we evaluated future oil and gas prices by comparing to published forecast commodity prices and views of market commentators on future trends;
	  – Comparing future capital and operating expenditures and reserves to board approved asset plans and long term budgets. We assessed the Group's ability to budget accurately by comparing prior years' estimated cash flows to actual results;
	  – Evaluating the scope, competency, and

cash flows. These are determined by the Group based on historical performance adjusted for expected changes. This drives additional audit effort around the feasibility of forecasts; and • Discount rates. These are complicated in nature and vary according to the conditions and environment that the CGUs are subject to from time to time. We involved valuation specialists to supplement our senior audit team members in assessing this key audit matter.	objectivity of the Group's external experts who produced reserve estimates and future production volumes used in the impairment model. We assessed the methodology used by the Group's external experts against industry accepted practice. We also compared for consistency the assumptions used by the Group's external experts in the reserves estimate and future production volumes to publicly available information from joint venture partners and assumptions used by the Group in their impairment model; – Assessed the feasibility of future operating and capital expenditure and future production volumes by comparing to publically available information from joint venture partners, past performance and the Group's long term budgets; – Working with our valuation specialists we analysed the Group's discount rate against publicly available risk free rates and data of a group of comparable entities; and – Considering the sensitivity of the model by varying key assumptions, such as future oil and gas prices, production volumes, capital and operating expenditures, and discount rates, within a reasonably possible range. We did this to identify those assumptions at higher risk of bias or inconsistency in application and to focus our further procedures. • Re-calculating the impairment charge for the Maari CGU against the recorded amount disclosed; and • Assessing the appropriateness of the Group's disclosures in the financial report using our understanding obtained from our testing and against the requirements of accounting standards.

Restoration provisions	
Non-current liabilities – restoration: $16.9m (refer to Note 17)	
The key audit matter	**How the matter was addressed in our audit**
We identified restoration provisions as a key audit matter due to: • The Group's assets being long-life, which increases estimation uncertainty relating to forecast restoration cash flows which require auditor judgement and specialised skills to evaluate their appropriateness; • The significant size of the restoration provisions relative to the Group's financial position; and • Our audit focus being first year as auditor and the restatement due to the identification of errors in accounting of the restoration provision in the previously issued 30 June 2019 financial report. The Group incurs obligations to close, restore and rehabilitate its sites and associated facilities. We focussed on the following key estimates made by the Group in determining its restoration provision: • The useful life of asset including the economic reserves and production profiles; • The interpretation of legislative regulatory requirements governing its sites; • The cost and timing of future rehabilitation costs; and • Discount rates applied to the Group's net present value of forecast cash flows used to determine the restoration provision.	Our procedures included: • Testing key controls in the Group's process to determine the restoration provision. This included the determination, review and approval by the Group of key inputs included in the calculation such as life of asset reserves and production profiles, discount rates, future restoration costs, and timing of future cash flows; • Assessing the nature and extent of the work performed by the Group's external expert in identifying future restoration activities and assessing the timing and likely cost of such activities. We compared the nature and extent of restoration work to the relevant regulatory requirements. We compared the timing of restoration activities to the Group's reserves and resources estimates, expected production profile and useful life; • Using our knowledge of the Group and our industry experience, and considering other publically available information from the joint venture partners, we assessed the feasibility of the future restoration costs and their timing; • Evaluating the scope, competency and objectivity of the Group's external expert; • Evaluating the discount rates applied to the Group's net present value of the restoration provision against publicly available data, including risk free rates; • Assessing the integrity of the provision calculation including the accuracy of the underlying calculation formulas; and • Assessing the appropriateness of the Group's disclosures in the financial report, including the restatement of the 30 June 2019 restoration provision, using our understanding obtained from our testing and against the requirements of accounting standards.

Other Information

Other Information is financial and non-financial information in Cue Energy Resources Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

The Other Information we obtained prior to the date of this Auditor's Report was the Directors' Report, CEO Report and Review of Operations and Finances and the Shareholder Information. The Chairman's Overview, Reserves and Resources Summary and Sustainability are expected to be made available to us after the date of the Auditor's Report.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not and will not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001;*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error; and
- assessing the Group and Company's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group and Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf

This description forms part of our Auditor's Report.

Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of Cue Energy Resources Limited for the year ended 30 June 2020, complies with *Section 300A of the Corporations Act 2001*.

Directors' responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with *Section 300A of the Corporations Act 2001*.

Our responsibilities

We have audited the Remuneration Report included in the Directors' report for the year ended 30 June 2020.

Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with *Australian Auditing Standards*.

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Vicky Carlson

Partner

Melbourne

20 August 2020