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Cue Energy Resources Limited

Oil and Gas, Exploration and Production

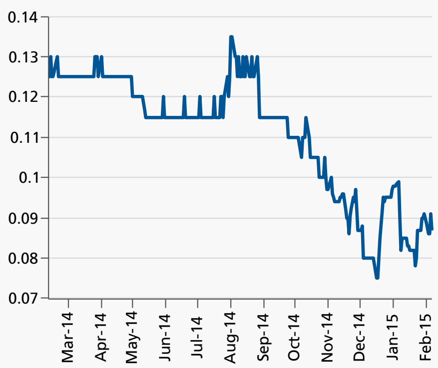
Australian Equity Research
8 February 2015

BUY

PRICE TARGET A$0.14
Price (6-Feb) A$0.09
Ticker CUE-ASX

52-Week Range (A$):	0.07 - 0.14
Shares Out. (M) :	698.1
Market Cap (A$M):	62.8
Dividend /Shr (AUc):	0.00
Dividend Yield (%) :	0.0
Net Debt (Cash) (AUcM):	(37.1)
Enterprise Value (A$M):	25.7

FYE Jun	2014A	2015E	2016E	2017E
EBITDA (A$M)	15.9	21.6	25.1	24.6
EV/EBITDA (x)	1.6	1.3	0.6	0.1
Total Production (boe/d)	2,435	2,604	2,521	2,332
EV/BOEPD (A$)	10,576	10,998	5,699	857
Gas (%)	49.4	42.3	40.6	40.9



CUE
Source: FactSet

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Initiation of Coverage

CUE out of the rack

Investment recommendation

Cue Energy Ltd (CUE: ASX) is a junior oil and gas company with production assets in New Zealand and Indonesia, generating consistent cash flows. Board and management changes over the last two years have generated a more pro-active strategy, which has led to some portfolio rationalisation, with more expected. It has also led to ownership changes, with NZ Oil & Gas recently replacing Todd Petroleum as the largest shareholder. On the back of steep oil price falls, 2015 is likely to be a year of M&A for the sector and CUE is an attractive target, in our view. We initiate research with a BUY recommendation and a TP of A$0.14/share.

Investment highlights

We expect CUE to generate EBITDA of US$22-25m pa over the next four years, with upside if oil prices rise faster than the futures strip that we use. A solid cash balance of A$37m means CUE has a low EV of A$27m, and an EV/EBITDA multiple of 1.5x in 2015 and 0.7x in 2016. Most of the cash is generated from CUE's 5% of the long life Maari oil field offshore NZ, supplemented by gas and oil production in Indonesia.

The company's cash position of A$37m is earmarked for operations and an acquisition, possibly boosted by some debt financing. We believe the current oil price weakness provides excellent opportunities for the company to get another production asset into the portfolio.

While trading liquidity has been thin, changes to the register suggest that the stock could be in play. NZ Oil & Gas (NZO: ASX, Not Rated) bought 19.99% in December 2014, and three other shareholders holding around 32% could deliver control of the company if NZO were to make an offer.

Positive Board and management changes have led to Board independence, cost reductions and a willingness to take on operatorships.

Valuation

We value CUE at $0.14/share, based on a risked DCF valuation using a 10% discount rate, and oil price assumptions in line with the Brent futures curve out to 2018, when we apply a long-term price of US$80/bbl. The sensitivity to oil prices is low due to gas assets and cash. A flat US$40 oil price would only reduce the valuation to $0.09/share.

Risks

Investment in upstream oil and gas companies carries significant risks, such as commodity price volatility, and operational risks at the exploration, development and production stages.

For important information, please see the Important Disclosures beginning on page 14 of this document.

Figure 1: Financial Summary

CUE ENERGY ASX: CUE

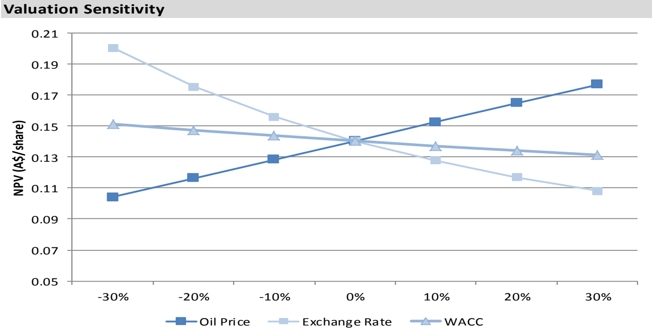
Date: 6/02/2015
Year End: June

Company Description
Cue Energy (CUE:ASX) is an oil and gas company with production assets in New Zealand and Indonesia. The company's cash flow and cash position enables CUE to consider acquisitions at a good time in the market cycle.

Market Information		
Share Price	$	$ 0.090
Market Capitalisation	$m	63
12 Month Hi-Lo	$	0.074 - 0.135
Issued Capital	m	698
Dilutable Options	m	5
Fully Diluted	m	704
Net Debt (31/12/14)	$m	- 37
Enterprise Value (31/12/14)	$m	26

Valuation	Unrisked ($m	Risk %	Risked ($m)	$/share
Maari oil field NZ	54	100%	54	0.10
Wortel Indonesia	19	100%	19	0.03
Oyong Indonesia	3	100%	3	0.01
NZ development potential	20	10%	2	0.00
Total Assets	**96**		**78**	**0.14**
Plus Net Cash	37		37	0.07
Less: Exploration	(8)		(8)	(0.01)
Less: Corporate	(30)		(30)	(0.05)
TOTAL NAV	**95**		**77**	**$ 0.14**
Price Target				**$ 0.14**

Valuation Sensitivity



Assumptions	2014a	2015e	2016e	2017e
Brent US$/bbl	99.1	59.6	67.5	71.7
AUD:USD	0.93	0.81	0.79	0.78

Prod. (mmboe)	2014a	2015e	2016e	2017e
Total Production	**0.89**	**0.95**	**0.92**	**0.85**
% Oil	51%	58%	59%	59%

Production (Boe/d)	2014a	2015e	2016e	2017e
Maari oil field NZ	432	766	814	744
Wortel Indonesia	1,114	1,077	1,034	993
Oyong Indonesia	889	761	672	595
Production (boe/Day)	**2,435**	**2,604**	**2,521**	**2,332**

Directors & Management	
Geoff King	Chairman
David Biggs	CEO
Jeff Schrull	GM Exploration and Production
Andrew Knox	CFO

Profit & Loss (US$m)	2014a	2015e	2016e	2017e	2018e
Net Revenue	33.6	33.8	36.6	35.2	35.0
Operating Costs	11.4	6.5	6.7	6.7	6.7
Corporate & Other	6.2	5.7	4.8	3.9	3.4
Op EBITDAX	**15.9**	**21.6**	**25.1**	**24.6**	**24.9**
Exploration, G&G Expense	0.0	0.0	0.0	0.0	0.0
Dep'n	7.5	6.7	6.7	6.2	5.7
EBIT	**8.4**	**14.9**	**18.4**	**18.4**	**19.3**
Net Interest Expense	-0.1	0.0	0.0	0.0	0.0
Other Income (Loss)	-2.3	0.0	0.0	0.0	0.0
Tax Expense	4.5	7.0	7.0	6.7	6.7
NPAT (reported)	**1.7**	**7.9**	**11.4**	**11.7**	**12.5**
Abnormals (net tax)	0.0	0.0	0.0	0.0	0.0
NPAT (adjusted)	**1.7**	**7.9**	**11.4**	**11.7**	**12.5**

Cash Flow (US$m)	2014a	2015e	2016e	2017e	2018e
PBT	34.8	33.8	36.6	35.2	35.0
Add: Depreciation	-16.6	-12.2	-11.5	-10.6	-10.1
Less: Tax Paid	-0.3	0.0	0.0	0.0	0.0
Other	-20.5	-5.7	-7.1	-6.7	-6.7
Operating Cash Flow	**-2.5**	**15.9**	**18.1**	**17.9**	**18.2**
Net PP&E	-12.4	-14.8	-1.8	-3.5	-0.5
Exploration & evaluation	-4.2	-4.0	-2.0	-2.0	-2.0
Other	8.5	0.0	0.0	0.0	0.0
Investing Cash Flow	**-8.1**	**-18.8**	**-3.8**	**-5.5**	**-2.5**
Share capital	0.0	0.0	0.0	0.0	0.0
Investments / Other	0.0	0.0	0.0	0.0	0.0
Dividends paid	0.0	0.0	0.0	0.0	0.0
Net Borrowings	0.0	0.0	0.0	0.0	0.0
Financing Cash Flow	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Increase / (Decrease)	-10.6	-2.9	14.3	12.4	15.7
Cash at end of period	37.1	34.2	48.5	60.8	76.5

Balance Sheet (US$m)	2014a	2015e	2016e	2017e	2018e
Cash + S/Term Deposits	37.1	34.2	48.5	60.8	76.5
Receivables	0.1	0.1	0.1	0.1	0.1
Current Assets	**38.1**	**35.2**	**49.5**	**61.8**	**77.5**
Oil & Gas Properties	128.9	141.0	138.1	137.4	134.2
Other Non-current Assets	0.1	0.1	0.1	0.1	0.1
Total Assets	**167.0**	**176.2**	**187.6**	**199.3**	**211.8**
Payables	6.8	8.2	8.1	8.1	8.1
Total Borrowings	0.0	0.0	0.0	0.0	0.0
Other Liabilities	28.1	28.1	28.1	28.1	28.1
Total Liabilities	**34.9**	**36.2**	**36.2**	**36.2**	**36.2**
Net Assets	**132.1**	**140.0**	**151.4**	**163.1**	**175.7**
Shareholders Funds	152.4	152.4	152.4	152.4	152.4
Retained Earnings	-20.3	-12.4	-1.0	10.7	23.3
Reserves	0.0	0.0	0.0	0.0	0.0
Total Equity	**132.1**	**140.0**	**151.4**	**163.1**	**175.7**

Ratios & Multiples	2014a	2015e	2016e	2017e	2018e
Average Realised Price	38	36	40	41	44
Unit Operating Cost	13	7	7	8	8
EBITDAX Margin	47%	64%	69%	70%	71%
EV/EBITDAX	1.6x	1.3x	0.6x	0.1x	-0.5x
Op. Cashflow/Share (A$)	$0.00	$0.02	$0.03	$0.03	$0.03
P/ Op CF (A$)	2.8x	4.0x	3.5x	3.5x	3.5x
EPS (A$)	$0.00	$0.01	$0.02	$0.02	$0.02
EPS Growth	246%	374%	45%	3%	7%
PER	39.9x	8.0x	5.5x	5.4x	5.0x
Dividend Yield	0.0%	0.0%	0.0%	0.0%	0.0%
ROE	1.3%	5.6%	7.5%	7.2%	7.1%
ROIC	1.7%	7.5%	11.1%	11.5%	12.7%
Net Debt/Total Capital	-39.1%	-32.3%	-47.1%	-59.5%	-77.2%
EBITDA / Interest	-203.9x	n.a.	n.a.	n.a.	n.a.
Price/Book Value	0.50x	0.45x	0.41x	0.39x	0.36x

Source: Canaccord Genuity Estimates, company reports

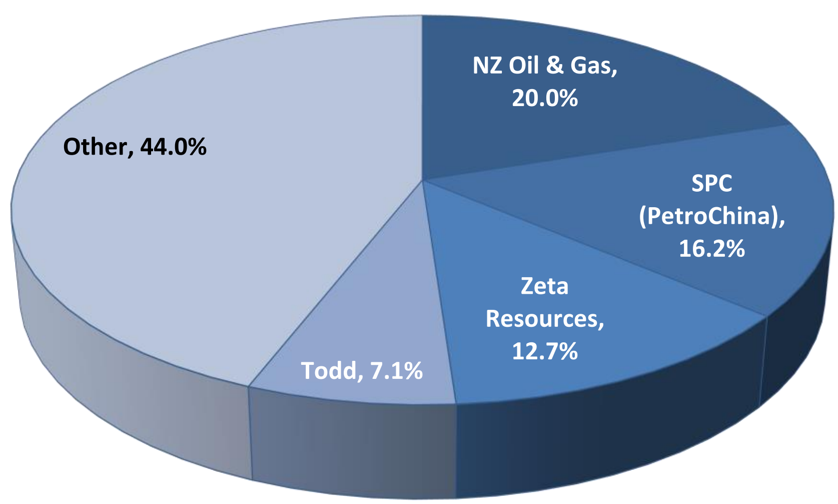
SOME SIGNS THAT CUE IS IN PLAY

Historical ties with Todd of New Zealand have been cut. CUE has long been seen as an undervalued oil and gas producer, but the presence of long-term shareholder Todd Mining Petroleum Ltd, has reduced both liquidity in the stock and its takeover attraction. As a private New Zealand company, Todd was content to maintain a substantial holding of 25-30% for many years, and its CEO Richard Tweedie was on the Board from 1997 and holding the Chairmanship until he retired in 2013.

NZO takes 20% from Todd in December 2014. While Mr Tweedie was replaced on the CUE Board by Todd's new CEO, Mr Paul Moore, he subsequently resigned as a Director in May 2014, and two new independent Directors were appointed, ending the representation by Todd on the Board of CUE. This was the first sign that changes were afoot, followed by the more significant step of selling 19.99% of its 27.4% holding in the company to New Zealand Oil and Gas (NZO: ASX), announced on 22 December 2014. The price was $0.10/share and cost NZO $14m. NZO only made a brief statement that "CUE has a 5% interest in the Maari field in PMP38160, which we view as a quality asset and exposure to it fits our portfolio well".

CUE is a good fit with NZO. NZO's key assets include a 15% interest in the offshore Kupe gas/condensate field and 27.5% of the Tui oil field, also in the offshore Taranaki Basin of New Zealand. The fit is clear enough, but in our opinion there is a low likelihood of NZO being satisfied to hold an indirect interest in the Maari field, through a minority holding in CUE. We note that NZO had NZ$115m cash at the end of December 2014, and even with a NZ$60m capital return in February 2015, NZO has a strong balance sheet that could be used for a full acquisition of CUE. The other reason we think there is a good fit between NZO and CUE is that NZO has expanded its activities into Indonesia in recent times, which is CUE's other main area of interest.

Figure 1: CUE's share ownership



Source: CUE

CUE should be worth more than $0.10/share. We think NZO's willingness to pay $0.10/share for 19.99% of CUE supports a valuation above this level. Our DCF-based valuation for CUE is $0.14/share and could be conservative, as it is based on the current futures curve for oil prices, which are at 5-year lows. If we use a long-term Brent oil price of US$90, our valuation would rise to $0.17/share.

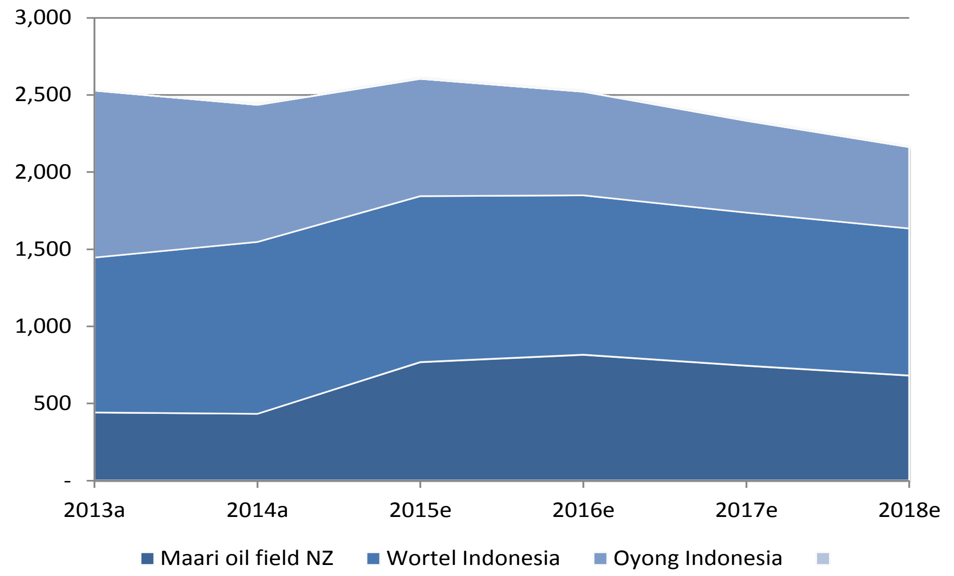
In the current market, CUE would find it difficult to defend any reasonable offer. The remaining large shareholders of CUE are likely sellers, in our view. Zeta Energy, which holds 12.7%, is a subsidiary of listed investment company Zeta Resources Ltd (ZER: ASX, Not Rated). Zeta has been accumulating stock in CUE over the last 12 months, and has a calculated average entry cost of $0.11/share for its 88.6m shares. While Zeta would obviously like to make a profit above $0.11/share, it will also have to acknowledge the new, lower oil price environment. It is also worth noting that Zeta is NZO's largest shareholder at 17.3%.

We believe the residual 7% owned by Todd is for sale, and we consider the 16% held by Singapore Petroleum (owned by PetroChina following a takeover in 2009) equally available for sale. We see no reason for PetroChina to hold an investment such as a 16% stake in a company like CUE. Consequently, if NZO were to make an offer in the $0.12-0.15 range, and get a recommendation from the CUE Board, we believe it is likely to be successful. This would allow Zeta to make a profit, and an exit for other shareholders, such as PetroChina and Todd.

Good upside potential from the current share price of $0.09/share. A $0.13/share takeover offer represents 55% upside to the current share price of $0.09, and a $0.15 offer is 67% upside.

OPERATIONAL AND FINANCIAL HIGHLIGHTS

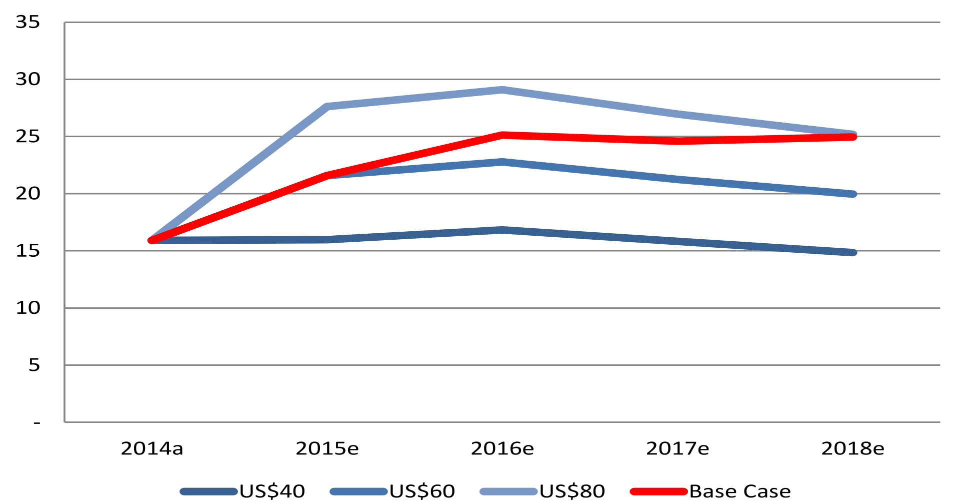
Figure 2: CUE net production profile (boepd)



Source: Canaccord Genuity Estimates

CUE will enjoy production growth in 2015, with the Maari oil field the key driver on higher production in the year ahead. The near doubling of New Zealand oil production will more than offset some decline in the Indonesian Sampang PSC projects, with the company expected to experience natural reservoir declines from 2016. We note that production levels are expected to be between 2,000 and 2,500boepd for the next four years, and that more than half the company's production is gas, from the Wortel and Oyong fields in Indonesia.

Figure 3: CUE EBITDAX using different oil price assumptions (US$m)



Source: Canaccord Genuity Estimates

CUE's EBITDAX is expected to grow under our base case oil price scenario, which is reflecting the futures curve for Brent. As shown in Fig. 3 above, different oil price scenarios will have a material impact, but EBITDAX would hold above US$15m even on a flat US$40 oil price scenario. This is partly due to the significant gas revenue component, which was over US$16m in FY14, and is at least expected to be maintained in FY15 as production enhancements in the form of compression and well work-overs have been undertaken in 2014. CUE's Indonesian gas price agreements are set in US$, and do not have any oil price linkage, which provides a solid base to the company's medium term cash flows.

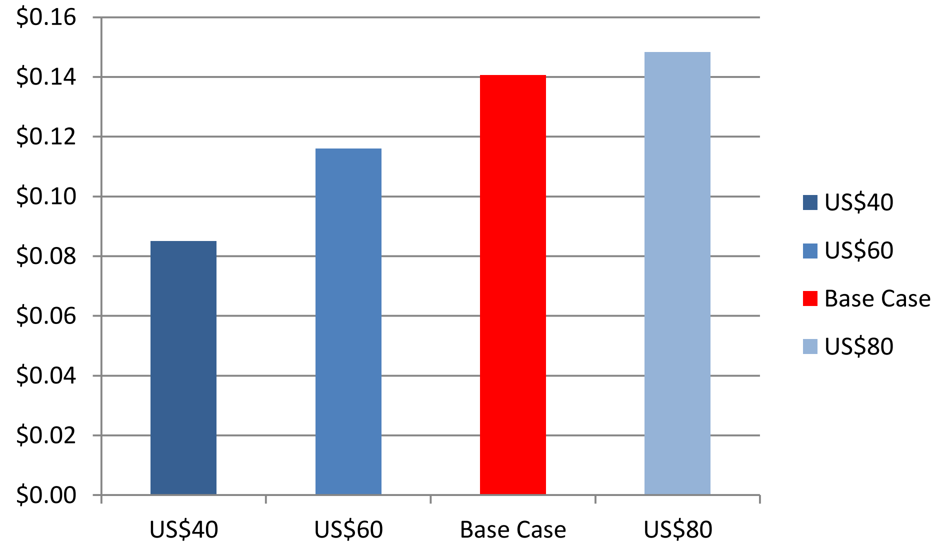
Base Case valuation is $0.14/share. The valuation and Target Price for CUE is based on Proved Developed Reserves (PDP) of its three operating fields ($0.14/sh), plus a low 10% risking for upside reserves at these fields, particularly at the Maari and Manaia fields in NZ. Cash of $37m more than offsets the negative value of $30m for corporate overheads. We also deduct $8m for exploration expenditures, while giving no recognition to potential value from this program. Despite the M&A potential, we do not include any control premium for corporate action.

Figure 4: CUE Valuation

Valuation	Unrisked ($m	Risk %	Risked ($m)		$/share
Maari oil field NZ	54	100%	54		0.10
Wortel Indonesia	19	100%	19		0.03
Oyong Indonesia	3	100%	3		0.01
NZ development potential	20	10%	2		0.00
Total Assets	**96**		**78**		**0.14**
Plus Net Cash	37		37		0.07
Less: Exploration	(8)		(8)		(0.01)
Less: Corporate	(30)		(30)		(0.05)
TOTAL NAV	**95**		**77**	**$**	**0.14**
Price Target				**$**	**0.14**

Source: Canaccord Genuity Estimates

Figure 5: DCF valuations at different oil prices



Source: Canaccord Genuity Estimates

The valuation sensitivity shown in Fig.6 above shows that a flat US$40 oil price would reduce the valuation to $0.09/sh (which is close to the current share price) whereas a US$80 long term oil price would raise the valuation closer to $0.15/sh. The sensitivity is not as large as many stocks, due to the Indonesian gas assets, and the net cash position. This makes CUE a relatively low risk exposure to the oil and gas sector in 2015, a year when oil price uncertainty is high in the market.

Strong balance sheet – Cash plus debt capacity

CUE had $37m of cash and no debt at the end of the December quarter 2014. This was down from $39m at the end of September, due to $14.8m of capex on the Maari project and exploration. This was offset by cash flow and US$7m (A$8.5m) cash received for the sale of its SE Gobe oil interest in PNG. This is a healthy position to be in, and the rising production from Maari should increase cash flows, albeit the boost to production coincides with very weak oil prices. While we expect modest FCF in 2015 due to capex at Maari and exploration, we forecast FCF of $12-15m pa for CUE over the next three years.

The Maari oil field is a long-term oil project, with another 20-year life expectancy at low decline rates and operating costs below $20/barrel (as recently confirmed by its partner in Maari, Horizon Oil Ltd (HZN: ASX, Not Rated).

Great time to buy production assets

Over the last 18 months, CUE has signaled a desire to buy additional production assets. Considering the company's balance sheet, major capex completing, strong cash flows and current drop in oil prices, the company is in an advantageous position to purchase assets. We cannot predict where or what type of asset CUE might buy, but following discussions with management, we believe a conservative approach to acquisitions will be applied. Any acquisition is planned to be an onshore production asset, or a development with near-term production. The geographic focus is also on Australia and neighbouring countries. Considering the limited opportunities in Australia and New Zealand, and the fact that the company has recently established an office in Jakarta, we think Indonesian acquisition opportunities could be at the top of the list. The opportunity set in Indonesia is good, with a hugely petroliferous region, the new administration under President Joko Widodo is genuinely addressing corruption issues, and growing demand for gas is raising prices towards international parity. Depending on the quality and the size of the asset, CUE may even consider some debt funding to finance an acquisition, potentially making a material transaction, generating a catalyst for share price performance.

New Board and management making steady progress

The management team at CUE has changed significantly over the last 18 months. A re-structured Board has also led to some new strategic initiatives, which we see as positives for investors.

Mr David Biggs was appointed CEO in mid-2013, having spent the previous 18 years with BHP Petroleum, and prior positions with Petrocorp of NZ and Natural Gas Corporation of NZ. Mr Jeff Schrull was appointed as GM Exploration and Production in August 2014, a geophysicist with experience at Rialto Energy, Addax Petroleum and Chevron.

The Board of Directors is made up of Geoff King as Chairman (a lawyer having worked with Esso, Ampolex and the Asian Development Bank), and three non-executive Directors: Andrew Young (an engineer with a background from Esso, Bridge Oil, Anzon Ltd and Gaffney Cline), Stuart Brown (having worked as a geologist at Woodside and Shell) and Rowena Sylvester (a finance background at ANZ, Ampolex, Essential Energy and Optus). As already mentioned, the previous representation by the former, large shareholder Todd Petroleum ended in May 2014, so the Board is entirely independent.

Some key signs of change occurring at CUE in the last 18 months:

Sale of PNG assets for US$7m – CUE has historically been content to participate as a minority equity owner in all its projects, and to our knowledge has never sold production assets like the 3% interest in SE Gobe and 5% of the Gobe oil licenses in PNG. With a modest level of oil production after many years of decline, and plans to develop the overlying gas cap for PNG LNG, this was an asset that never made much of a difference to the investment case in CUE, but the Board and management have, in our view, correctly decided to sell out for a good sale price. Cash of A$8.5m was received in December 2014.

Operatorship at Mahakam Hilir – Traditionally, CUE has not been an operator. In October 2014, CUE announced that it had acquired the subsidiary company of its JV partner in the Mahakan Hilir PSC onshore Kalimantan, Indonesia, thereby taking 100% ownership and operatorship. The willingness and capability to take on operatorship is a positive in our view.

Farm-out or drop offshore exploration. The old approach by CUE (and many others in the industry) was to participate in new exploration licenses through a JV, which would be followed by a farm-out at the drilling stage, whereby CUE's equity would be diluted for a free carry in the drilling of an exploration well. While CUE has tried to farm-out the existing exploration licenses in WA for a while, the recent oil price decline has made that approach very unlikely to succeed. CUE has stated that it will drop the licenses if no farm-outs can be achieved. We understand that the company has limited expenditures on these licenses, so represent limited downside. We put zero value on these licenses, but we and many other analysts would have put some value on such assets in the past. That is hard to justify in the current environment, and if companies have drilling obligations on such licenses, it could in fact represent a negative value.

De-listing of the company's shares from the NZ Stock Exchange and the Port Moresby Exchange in mid-2014. The listing of CUE's shares on these exchanges was an attempt to attract investors in those markets, but never gained real traction, and essentially only cost the company money. While this is a relatively minor issue, we think the decision to remove this cost reflects a healthier respect for shareholders' money, and a sign of the new corporate culture.

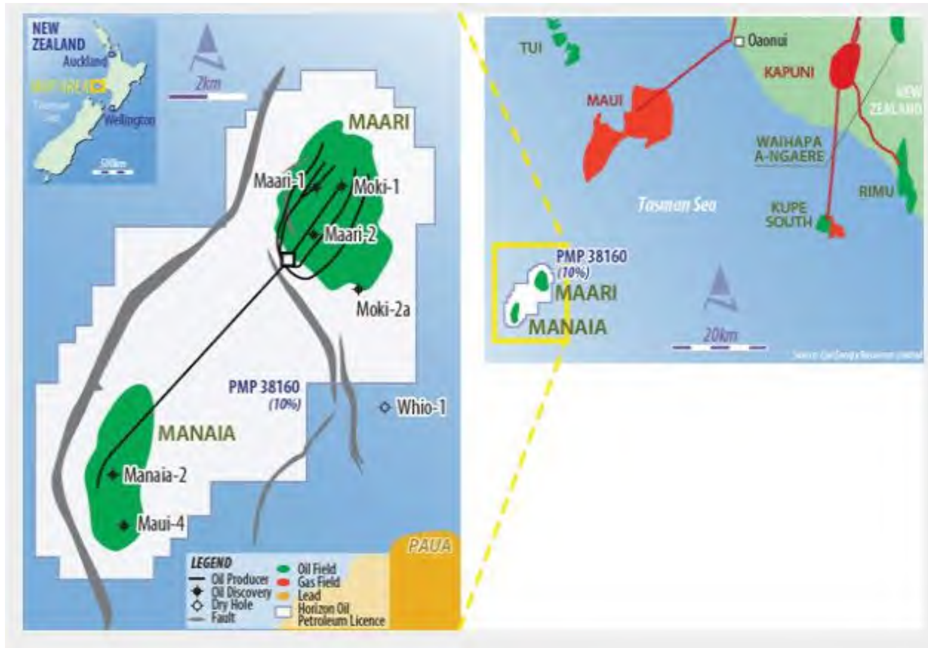
ASSET DISCUSSION

Figure 6: Raroa FPSO and Maari wellhead platform and Ensco 107 rig in background

Source: CUE

Kiwi oil production expected to double. CUE should enjoy a strong production boost from the Maari oil field offshore New Zealand, where MR8A is the first of 4 new production wells to be completed, plus work-overs on existing wells and possibly a new water injection well. This is expected to boost production from around 7,000bopd up to 17,000bopd in mid-2015. We have delayed this production peak until the September quarter 2015, with an annual decline rate of 10% thereafter.

Figure 7: New Zealand oil field locations



Source: CUE

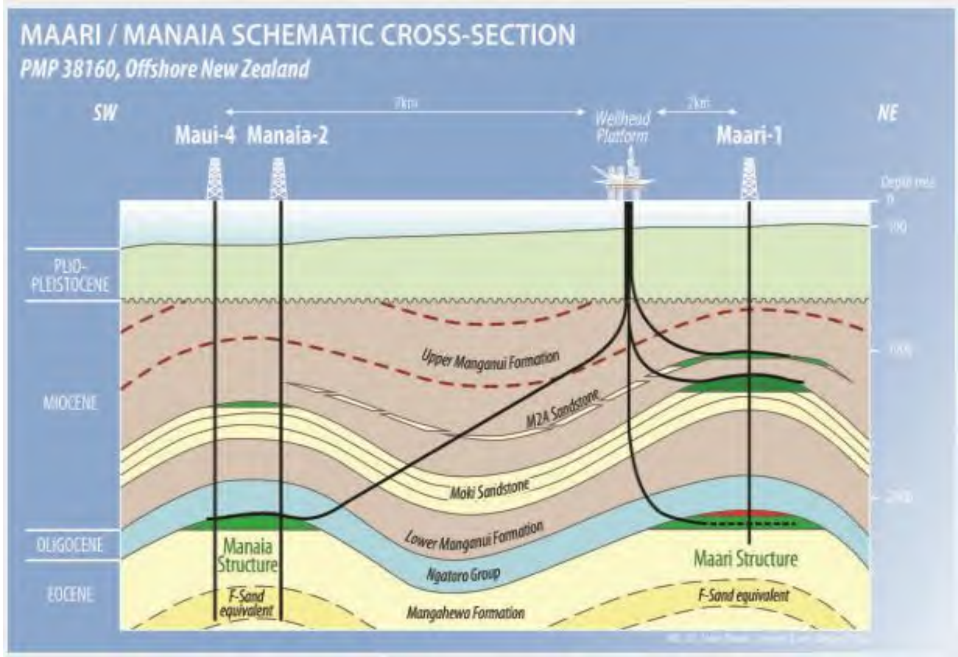
Background on the Maari oil field. CUE owns 5% of the offshore Maari oil field, which has been in production since early 2009. The operator is OMV, Austria's largest oil and gas company, 31% owned by the Austrian Government.

About 24mmbbl of oil has been produced to date, with remaining reserves about 32mmbbl, based on a 41% recovery factor from the 190mmbbl OIIP in the Moki and M2A sandstones (RISC report from merger documents between Horizon Oil and Roc Oil, June 2014). Significant additional reserves potential exist, particularly in the deeper Mangahewa sandstone, both in the Maari structure and the nearby Manaia structure. This upside will depend on various issues such as oil prices, costs of extraction, ultimate recovery factors etc, but could add another 30-40mmbbl if another 10-15% of the OIIP is recoverable.

The field is in about 100m of water depth, and has been developed using a wellhead platform taking up to 12 well slots, currently comprising seven horizontal producers and one deviated water injection well. The output is processed on the FPSO Raroa, with crude oil transferred to oil tankers. The platform incorporates a permanent work-over rig on the deck, as the Electrical Submersible Pumps (ESP's) need regular maintenance or replacement.

The field was shut down for 5 months in late 2013, after the JV exercised its option to buy the Raroa FPSO for US$33m (US$1.65m net to CUE). This led to the repair of mooring lines and an upgrade of the FPSO, in order to extend the life of the project.

Figure 8: Maari and Manaia oil field cross sections



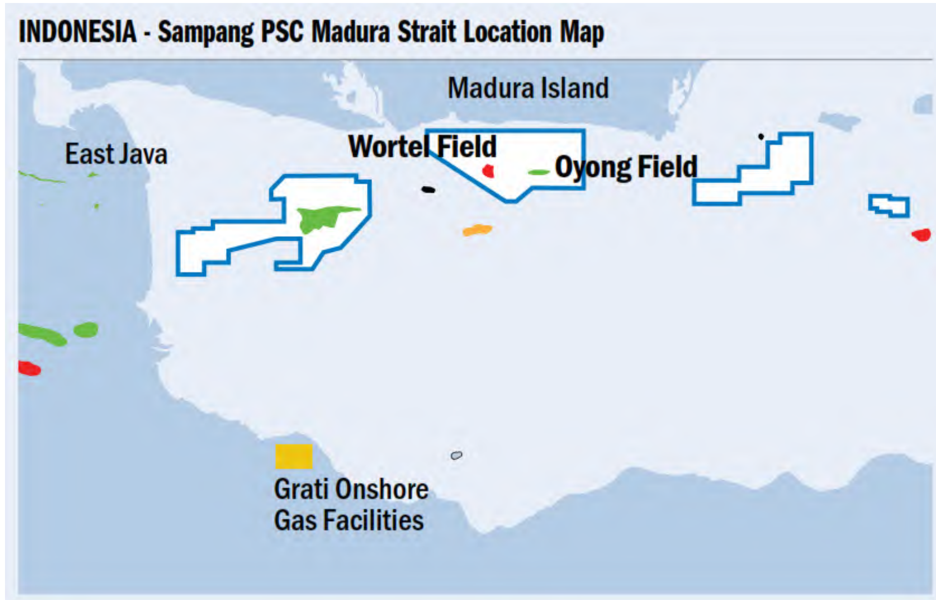
Source: CUE

Oil in multiple reservoirs. Most of the Maari reserves bookings and production have come from the Moki sandstone, but oil has also been produced from the shallower M2A and the deeper Mangahewa sandstone reservoirs, through the extended reach wells into the Manaia structure. As part of the production expansion, a new well is planned in the hitherto un-drained Mangahewa Formation in the Maari structure. Production from the extended well into the Mangahewa Formation in the Manaia structure has ceased for now, but remains a longer-term development option.

These production enhancements are coming through in early 2015, and the field is expected to peak at around 17,000bopd in mid-2015. The field actually started production at over 30,000bopd in 2009, but had declined to less than 7,000bopd by the December quarter 2014. We forecast production to average around 15,000bopd in calendar 2015, with a 10% annual decline rate thereafter, which would allow the project to keep going until 2030. However, this will require regular work-overs of old wells and some new wells, plus a possible replacement of the FPSO at some stage, as the Raroa vessel is ageing.

Indonesian assets generate good cash flows. The company's Sampang PSC 60km offshore Java produces mostly gas from the unmanned Wortel platform, plus oil and gas from the nearby Oyong field, with CUE owning 15% of the project. Santos (STO: ASX, Not Rated) is the operator, currently completing the installation of compression, as well as doing well work-overs to extend the life of the fields, with Oyong probably going for another 2-3 years, and Wortel for 4-5 years. This will be subject to reserves extensions, commodity prices and other factors.

Figure 9: Indonesian oil and gas field locations



Source: CUE

The Indonesian fields are expected to do about 65mmcfd and 1200bopd (gross) in 2015, generating about $12m gross revenues and $6m EBITDAX to CUE. The company's share of capex in 2015 is estimated at $4.3m. The gas is sold to PT Indonesia Power on a long-term contract. While gas prices have not been publicly disclosed, we believe that positive price adjustments have taken place to reflect improved market conditions for gas, and to encourage the additional expenditures on the project. We assume a gas price of US$8/mcf in 2015, with the gas delivered to the Grati gas plant, near the city of Surabaya (population 3m).

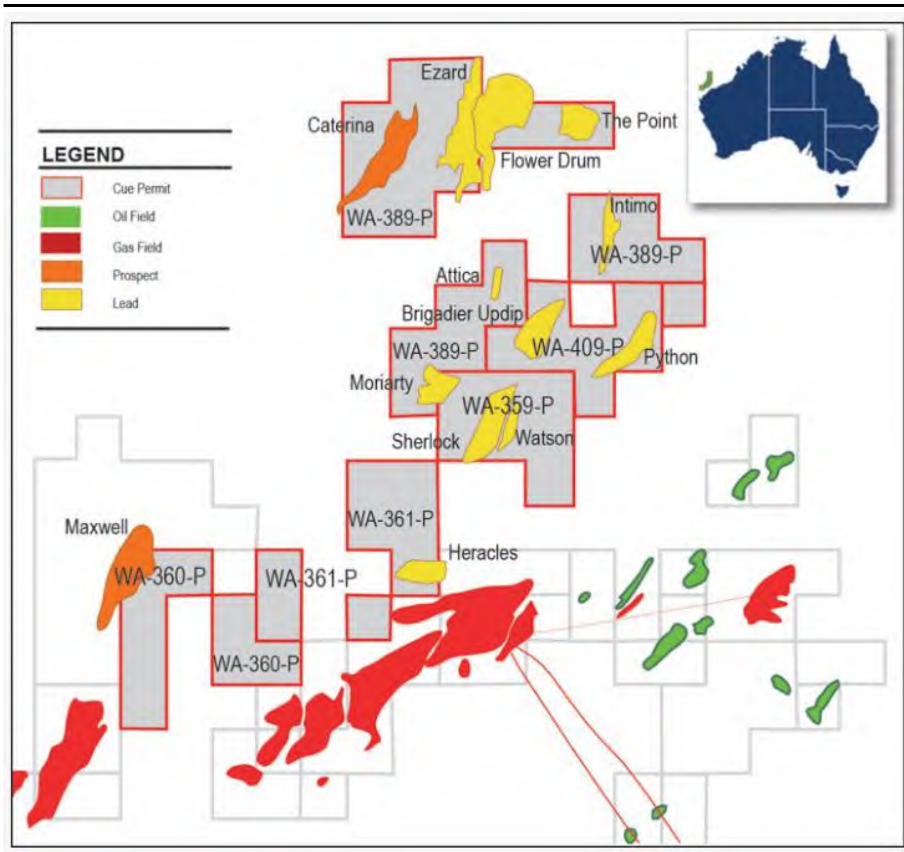
The Sampang PSC also contains an oil discovery called Jeruk, which was drilled in 2005, and initially caused great excitement due to large reserves expectations in the hundreds of million barrels being discussed by the market. Follow-up drilling led to severe downgrades as the field's complexity became evident. No development was undertaken, and is unlikely in our view.

CUE plans to drill 4 wells in calendar 2015, with 3 of them in Indonesia.

- **Naga Selatan-2** is planned in the Mahakam Hilir PSC, Kalimantan, where CUE now holds 100% of this exploration area. This is a small (2-5mmbbl) but robust oil prospect between two oil fields in a neighbouring PSC, at Sei Nangka and South Pelarang. CUE may seek a farm-in partner to drill this target, although the cost of drilling ($2m) is low due to the shallow depth of 1,000m.
- **Petapahan North-1 plus another well** in the Mahato PSC, Central Sumatra represent bigger prospects, with CUE having farmed-in for a 12.5% interest last November. Prospect sizes are 10-100mmbbl, and on trend with the 130mmbbl Petapahan oil field, and 50km to the west of the giant Minas oil field containing 5 billion barrels.
- **Te Kiri North-1** is planned for late 2015, in PEP 51149 onshore New Zealand. CUE holds 20% of this potential 10mmboe oil and gas prospect.

West Australian exploration has no assumed value. CUE holds interests in a number of WA exploration licenses, but does not plan to spend any significant funds on these areas. The company is attempting to farm out these licenses, but the farm-out market is very difficult at present. While the licenses are on trend with some of Woodside's (WPL: ASX, Not Rated) NW Shelf assets, mixed drilling results, high costs of rigs and the drop in the oil price suggest that these leases have limited value. Luckily, there are very low obligations on the licenses, so CUE is most likely to relinquish them, for little cost.

Figure 10: West Australian exploration licenses



Source: CUE

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Cue Energy Resources Limited - CUE

The valuation is based on a risked DCF, using a 10% discount rate. Our oil price assumptions are based on the futures strip for Brent until 2018, and US$8/mcf for Indonesian gas prices.

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Cue Energy Resources Limited - CUE

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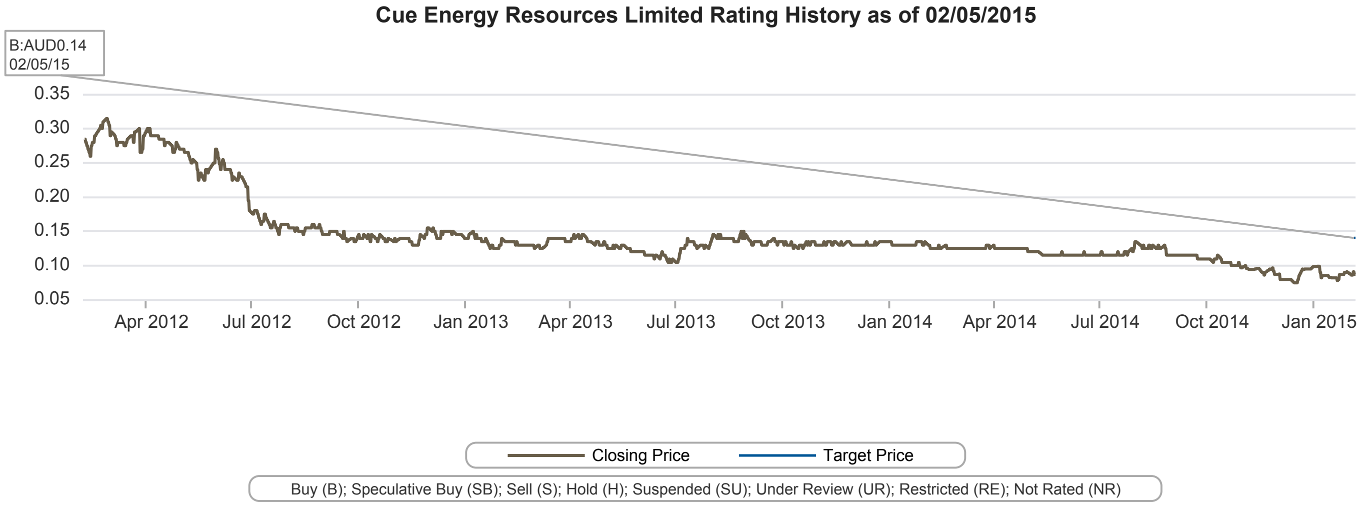

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