



ABN 45 066 383 971

13 March 2015

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ASX Market Announcements
ASX Limited
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Sydney NSW 2000

Second Supplementary Target's Statement in relation to the on-market cash takeover offer by NZOG Offshore Limited

As required by section 647(3)(b)(ii) of the Corporations Act 2001 (Cth) (as amended), enclosed is a copy of the Second Supplementary Target's Statement dated 13 March 2015 (the Second Supplementary Target's Statement) prepared by Cue Energy Resources Limited (ABN 45 066 383 971) (Cue Energy).

This Second Supplementary Target's Statement supplements Cue Energy's Target's Statement dated 24 February 2015 and the Supplementary Target's Statement dated 2 March 2015 in relation to the on-market cash takeover offer by NZOG Offshore Limited (the Bidder) to acquire all of the shares in Cue Energy.

The Second Supplementary Target's Statement has been lodged today with the Australian Securities and Investments Commission and sent to the Bidder.

Yours faithfully

Andrew M Knox
Chief Financial Officer

CUE ENERGY OVERVIEW

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

THE COMPANY HAS:

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

CUE ENERGY DIRECTORS

- Geoffrey King (Chairman)
- Stuart Brown
- Rowena Sylvester
- Andrew Young

CUE ENERGY MANAGEMENT

- David Biggs (CEO)
- Andrew Knox (CFO)
- Jeffrey Schroll (Exp Man)

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LISTINGS

ASX: CUE



THIS IS AN IMPORTANT DOCUMENT AND REQUIRES YOUR IMMEDIATE ATTENTION. YOU SHOULD READ ALL OF THE DOCUMENT. IF YOU ARE IN DOUBT AS TO WHAT YOU SHOULD DO, YOU SHOULD CONSULT YOUR INVESTMENT, FINANCIAL, TAXATION OR OTHER PROFESSIONAL ADVISER.

Second Supplementary Target's Statement

REJECT

Your Directors unanimously recommend that you REJECT the Offer made by NZOG Offshore to acquire all of your shares in Cue Energy for just \$0.10 per share

IF YOU HAVE ANY QUESTIONS, PLEASE CONTACT THE CUE ENERGY SHAREHOLDER INFORMATION LINE ON 1300 373 864 (WITHIN AUSTRALIA) OR +61 3 9415 4109 (OUTSIDE AUSTRALIA) BETWEEN 9.00AM AND 5.00PM (MELBOURNE TIME) MONDAY TO FRIDAY.

Financial Adviser



Legal Adviser

Allens & Linklaters

Allens

Second Supplementary Target's Statement

This document is a supplementary target's statement under section 644(1) of the Corporations Act (**Second Supplementary Target's Statement**), dated 13 March 2015. This is the second supplementary target's statement issued by Cue Energy Resources Limited (ABN 45 066 383 971) (**Cue Energy**) and supplements Cue Energy's Target Statement dated 24 February 2015, as supplemented by the Supplementary Target's Statement dated 2 March 2015. This Second Supplementary Target's Statement is to be read together with the Target's Statement and the Supplementary Target's Statement.

Important Notices

This Second Supplementary Target's Statement has been lodged with ASIC and provided to the ASX. Neither ASIC, ASX nor any of their respective officers take any responsibility for the content of this document.

It is important that you read the Target's Statement, the Supplementary Target's Statement and this Second Supplementary Target's Statement in their entirety before making any investment decision and any decision relating to the Offer. Your Directors encourage you to obtain independent advice from your investment, financial, taxation or other professional adviser before making a decision whether or not to accept the Offer.

This Second Supplementary Target's Statement prevails to the extent of any inconsistency with the Target's Statement or the Supplementary Target's Statement. Capitalised terms used in this Second Supplementary Target's Statement have the same meaning as defined in section 8 of the Target's Statement unless otherwise defined.

1 NZOG misses the mark with its comments on Independent Expert's Report

Cue Energy notes the claims by NZOG Offshore Limited (**NZOG**) in its First Supplementary Bidder's Statement released to ASX yesterday that the Independent Expert's Report obtained by Cue Energy from Grant Samuel & Associates Pty Limited (**Grant Samuel**) contains certain errors.

In its report, which was attached to Cue Energy's Supplementary Target's Statement dated 2 March 2015, Grant Samuel concluded that the Offer is neither fair nor reasonable and that the Offer of \$0.10 per share falls below the bottom end of the valuation range for Cue Energy Shares. Grant Samuel also determined in that report that the value of a Cue Energy Share on a controlling interest basis was in the range of \$0.117 to \$0.152 per share.

(a) Corporate/head office costs

NZOG's principal claim in relation to the Independent Expert's Report is that, in determining the amount to be included in the valuation for head office costs, Grant Samuel should not have taken into account the fact that an acquirer, if it obtains control of Cue Energy, would be able to save on those head office costs. NZOG appear to argue that the full amount of head office costs should be reflected in the valuation, without regard for the fact that if control passes through the Offer, NZOG would be able to utilise its control of Cue Energy to address duplication of corporate costs and achieve those cost savings.

Grant Samuel is an independent expert, so it is appropriate that it responds to these comments on its report. Grant Samuel's response is attached to this Second Supplementary Target's Statement in Annexure 1. In short, Grant Samuel rejects the NZOG claims on the basis that they are inconsistent with the nature of the Independent Expert's Report and market practice for independent expert's reports generally.

For its part, Cue Energy also believes that NZOG's argument is incorrect. The Grant Samuel Independent Expert's Report is a report on the fairness and reasonableness, or otherwise, of the takeover offer. It is a report in the context of a change of control transaction. In Cue Energy's view, it would be inappropriate and incorrect for Grant Samuel to ignore the head office cost savings which NZOG would get the benefit of if it obtained control of Cue Energy. NZOG's argument that its Offer may not result in a change of control occurring, and that the full current head office costs should be reflected, is misconceived. The report is prepared in response to a takeover offer, so must consider the fact situation which would apply if the offer is successful.

NZOG's argument also shows a fundamental misunderstanding of the approach customarily taken by independent experts when assessing the adequacy of offers in the context of proposed change of control transactions.

(b) Cue Energy cash position

NZOG also claims that the Independent Expert's Report is deficient in that Cue Energy's cash position should be adjusted for expenditure incurred between 31 December 2014 and the valuation date. Based on Cue Energy's cash position of \$37.1 million at 31 December 2014, the equity value of Cue Energy's cash position alone represents 5.3 cents per share. NZOG's concern appears to be that this cash balance may have been materially reduced since 31 December 2014.

On this, Cue Energy notes that the approach adopted by Grant Samuel to treatment of cash balances is consistent with Grant Samuel's approach to this area in the past, and is also consistent with established market convention for reports of this kind. Furthermore, Cue Energy notes that the only material commitments from its year end cash position relate to planned well commitments, the value of which has been expressly addressed by Grant Samuel in their asset by asset breakdown of the value of Cue Energy.

2 Acceptance by Todd Corporation of their remaining 7% shareholding in Cue Energy

Cue Energy also notes yesterday's acceptance by Todd Corporation (**Todd**) for their remaining 7% shareholding in Cue Energy. This transaction completes Todd's exit from Cue Energy which commenced when they sold 20% of Cue Energy at the current offer price of \$0.10 to NZOG in late 2014.

The acceptance by Todd for the balance of its shareholding is not surprising. The 20% stake which Todd sold to NZOG in late 2014 was the maximum which NZOG could acquire at that time under takeover laws. To acquire the balance of 7% could only be achieved under a takeover bid, or some other exception to takeover laws. It would appear from statements made by NZOG in its Bidder's Statement about being comfortable if it could acquire only another 10% of Cue Energy, and the fact that the Offer Price represented only a negligible premium to the price of Cue Energy shares immediately before announcement of the bid, that the real purpose of NZOG's Offer was to acquire the 7% stake from what Cue Energy assumes was a motivated seller.

The fact that Todd may have accepted into NZOG's bid for its remaining 7% stake in no way changes the Cue Energy Board's view that the Offer is opportunistic, inadequate and substantially undervalues your Cue Energy Shares. Accordingly, your Directors continue to unanimously recommend that you REJECT the Offer.

Your Directors note that, other than the acceptance of the Todd Corporation, NZOG's offer has only generated acceptances from 0.23% of the Cue Energy share register since its announcement on 12 February 2015.

3 Consents

This Supplementary Target's Statement contains a letter from, and statements based on statements made by, Grant Samuel. Grant Samuel has given and has not, before the lodgement of this Second Supplementary Target's Statement, withdrawn its consent to the inclusion in this document of references to its name, and the letter, and to each statement which is based on a statement it has made, in the form and context in which they appear.

Grant Samuel does not make, or purport to make, any statement in this Target's Statement other than those statements referred to above and as consented to by it, and to the maximum extent permitted by law, expressly disclaims and takes no responsibility for any part of this Second Supplementary Target's Statement other than as described in this section

As permitted by ASIC Class Order 13/521, this Second Supplementary Target's Statement contains statements that are made, or based on statements made, in documents lodged with ASIC or ASX (in compliance with the Listing Rules), including the Bidder's Statement and First Supplementary Bidder's Statement. Pursuant to this Class Order, the consent of persons to whom such statements are attributed is not required for the inclusion of those statements in this Second Supplementary Target's Statement.

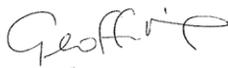
Any Cue Energy Shareholder who would like to receive a copy of any of the documents (or parts of the documents) that contain the statements which have been included pursuant to ASIC Class Order 13/521 may during the Offer Period obtain a copy free of charge by contacting the Cue Energy Shareholder Information line on 1300 373 864 (within Australia) or +61 3 9415 4109 (outside Australia) between 9:00am and 5:00pm (Melbourne time) on Monday to Friday.

4 Approval of Second Supplementary Target's Statement

This Second Supplementary Target's Statement has been approved by a resolution passed by the Directors of Cue Energy. Each Director of Cue Energy voted in favour of the resolution authorising this Second Supplementary Target's Statement.

Dated 13 March 2015

Signed for and on behalf of Cue Energy:



Geoffrey King

Chairman

Annexure 1 – Independent Expert's Letter



13 March 2015

The Directors
Cue Energy Resources Limited
Level 19
357 Collins Street
Melbourne VIC 3000

Dear Directors

On-market takeover offer by NZOG Offshore Limited

Grant Samuel & Associates Pty Limited (“Grant Samuel”) prepared an independent expert’s report dated 28 February 2015 (“Report”) in relation to the on-market takeover offer by NZOG Offshore Limited (“NZOG”) for all the shares in Cue Energy Resources Limited (“Cue Energy”).

NZOG has released a Supplementary Bidders Statement dated 12 March 2015 (“Supplementary Bidders Statement”). You have asked us to respond to comments in the Supplementary Bidders Statement in relation to the treatment in the Report of Cue Energy corporate/head office costs.

As set out in Section 5.1 of the Report, the “valuation represents the estimated full underlying value of Cue Energy assuming 100% of the company was available to be acquired and includes a premium for control”. We have not attempted to estimate (nor is it relevant in this context) a standalone or trading value for Cue Energy. Accordingly, the valuation takes into account the savings in head office costs that would be available to potential acquirers of Cue Energy on the basis that they acquired 100% of the shares in Cue Energy. The remaining head office costs (i.e. the estimated residual costs that a potential acquirer would assume) have been capitalised and reflected in our valuation of Cue Energy.

We note that this is standard valuation practice and is the approach adopted over many years in numerous independent expert’s reports on change of control transactions in the Australian market place.

The Australian Securities and Investments Commission (“ASIC”) has issued Regulatory Guide 111 (Content of Expert Reports) (“RG 111”). RG 111 sets out ASIC’s expectations in relation to the preparation of independent expert’s reports, including for takeover offers. RG 111.11(b) requires that, in assessing whether an offer is “fair”, the expert’s analysis should be made on a basis “assuming 100% ownership of the target”. “The expert should not consider the percentage holding of the ‘bidder’ or its associates in the target ...”. The approach used in our Report is entirely consistent with the requirements set out in ASIC RG111.

Please contact us if you require further information in relation to this matter.

Yours faithfully
GRANT SAMUEL & ASSOCIATES PTY LIMITED

Grant Samuel & Associates