

FIRST SUPPLEMENTARY BIDDER'S STATEMENT

12 MARCH 2015

IN RESPECT OF THE ON-MARKET CASH OFFER BY

NZOG OFFSHORE LIMITED

**(a wholly owned subsidiary of NEW ZEALAND OIL & GAS
LIMITED ARBN 003 064 962 (NZX/ASX: NZO))**

to acquire all the ordinary shares in

CUE ENERGY RESOURCES LIMITED ABN 45 066 383 971

for A\$0.10 cash per share

This is the first supplementary bidder's statement dated 12 March 2015 ('First Supplement') issued by NZOG Offshore Limited in relation to its on-market Offer for all the ordinary shares in Cue. This First Supplement supplements, and is to be read together with, the Bidder's Statement dated 12 February 2015 ('Bidder's Statement').

Unless the context requires otherwise, defined terms in the Bidder's Statement have the same meaning in this First Supplement. This First Supplement prevails to the extent of any inconsistency with the Bidder's Statement.

A copy of this First Supplement was lodged with ASIC on 12 March 2015. Neither ASIC nor its officers takes any responsibility for the contents of this First Supplement.

Supplementary information

The following supplementary information is added to the Bidder's Statement.

1. The Bidder believes the Supplementary Target's Statement contains errors and omissions that are material to calculating Cue's value of equity per share.

The Bidder believes that the Supplementary Target's Statement dated 2 March 2015 and Independent Expert's Report dated 28 February 2015 contain errors and omissions that are material to the indicated value per share of Cue and that the Bidder's Offer of A\$0.10 per share to acquire all of the remaining shares of Cue is both fair and reasonable having regard to the matters discussed below.

The Independent Expert's Report, prepared by Grant Samuel on behalf of Cue Energy, indicates that Cue has a value range of between 11.7 cents to 15.2 cents per share¹.

The Bidder believes Grant Samuel has either applied incorrectly, or omitted completely, material considerations in calculating the value per share of Cue and that the true value per share range for Cue is substantially less than calculated by Grant Samuel.

Some of the considerations mistakenly applied or omitted in the value assessment are:

a. Corporate Costs / Head Office Costs have been excluded.

Section 5.6 of the Independent Expert Report identifies that Cue incurs on average corporate overhead costs of c. \$6.5 million dollars per year². Nevertheless, Grant Samuel's assessment of Cue's fair value has excluded all Corporate/Head Office Costs, except for the allowance of residual corporate costs and one-off implementation costs of \$2 - 4 million². Grant Samuel advises that the overhead costs were omitted on the basis that Bidder, if successful in acquiring 100% of Cue, will be in a position to eliminate all of the overhead costs via capturing synergies. This implies that any potential cost savings should be paid to Cue's shareholders upfront in the purchase price – irrespective of whether the Bidder is able to achieve a full takeover or to subsequently realise those savings.

The Bidder believes that the corporate and head office costs have been omitted incorrectly, resulting in Grant Samuel assessing a higher value range for Cue shares than can be justified, as:

- It is inconsistent with the Cue Board recommending that shareholders reject the Bidder's Offer.

The Cue Board is advising Cue shareholders that they would be better off by allowing Cue to continue to operate business as usual – which must also include incurring the annual corporate overhead costs. Therefore, the fair market value of Cue shares to its shareholders must be based on the Board's recommended 'business as usual' scenario, including full annual overheads.

¹ Grant Samuel Report, Section 5.1 "Summary", 28 February 2015, page 30.

² Grant Samuel Report, Section 5.6 "Corporate Costs/Head Office Costs", 28 February 2015, page 41.

- The Bidder's Statement³ further supports that Cue may continue to operate business as usual, including incurring full annual overhead costs, post the closing of the Offer, in that:

"The Offer extends to all Shares, but the Bidder will be comfortable if it can acquire at least a further 10% of Shares under the Offer. If at the end of the Initial Offer Period, the Bidder has a clear indication of whether it will receive acceptances of 10% of Shares, it is unlikely to extend the Offer Period..."

On the basis that Cue intends to continue to operate 'business as usual' until at least 2028 (being the average period of time that RISC has estimated that economic production from Maari will continue⁴), and assuming that Cue's annual overhead costs remain constant at \$6.5 million p.a. (real \$ terms), the NPV of Cue's annual corporate overhead costs (calculated using Grant Samuel's range of discount rates and 2.5% p.a. inflation rate assumptions⁵ and assuming all other asset values in the Grant Samuel assessment remain as stated) are:

Cue Corporate Overhead Costs			
Discount Rate	9.5%	10.0%	10.5%
NPV, A\$ millions	(61)	(60)	(58)

Thereby, the inclusion of Cue's annual overhead costs in the Grant Samuel assessed value range (after adding back the one-off Head Office costs) reduces the total assessed value of equity range to **\$25 million to \$50 million, or 3.6 cents to 7.2 cents per share.**

The Bidder is aware that analysis of the Grant Samuel report undertaken independently by institutional sharebroker Woodward Partners concludes a similar lower range of value⁶.

The Bidder submits that if Grant Samuel is seeking to include the full value of potential corporate cost savings in setting the highest value of the value range, it must also acknowledge that the lowest value of the value range must include the business as usual scenario, where cost savings are not achieved and full overhead costs continue to be incurred.

Based on the above analysis, the Bidder believes that the appropriate low value of equity for Cue shares should be 3.6 cents per share. Taking Grant Samuel's high value of equity at face value, this would mean that the full value of equity range for Cue shares would be 3.6 cents to 15.2 cents per share.

b. The Bidder believes certain payment commitments have been omitted from the calculation of Cue's cash position.

Based on Cue's reported cash position of \$37.1 million at 31 December 2014, the equity value of Cue's cash position represents 5.3 cents per share. However, the value assessment fails to account for any expenditures incurred, committed, or likely to be committed to by Cue between 31 December 2014 and the valuation

³ Bidder's Statement, Section 5.2 "Rationale for the Offer", page 14.

⁴ RISC, "Independent Technical Specialist Report", February 2015, pages 8-18.

⁵ Grant Samuel Report, Section 5.3 "Valuation Assumptions", 28 February 2015, page 33.

⁶ Woodward Partners Equity Research report, "New Zealand Oil & Gas - Cue the Fight Back", 9 March 2015.

date (such as the payment of advisor fees, takeover defence costs, additional well costs or other capital commitments).

Applying these costs and commitments to Cue's reported cash position at 31 December 2014 could be material, and thereby further reduce, the assessed value of equity. Cue should disclose these costs and commitments so that shareholders can make a fully informed assessment of the Offer.

2. The Bidder's Offer of A\$0.10 per share is fair.

Grant Samuel states⁷:

*"Grant Samuel has valued Cue Energy in the range of \$82-106 million which corresponds to a value of 11.7-15.2 cents per share. 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. The Value exceeds the price at which, based on current market conditions, Grant Samuel would expect Cue Energy shares to trade on the ASX in the absence of a takeover Offer.**" (emphasis added)*

Grant Samuel does not separately disclose the included premium for control or the price they would expect Cue Energy shares to trade on the ASX once the Offer closes. Neither Grant Samuel nor Cue have given Cue shareholders any basis to believe that the trading price of Cue's shares, in the absence of the Offer, would not likely revert to around the price of Cue shares on 19 December 2014 (**8.5 cents per share**), being the trading day just prior to the Bidder having acquired its initial 19.99% shareholding.

3. Consents

This Supplementary Bidder's Statement contains statements based on statements made by Woodward Partners. Woodward Partners has given and has not, before lodgement of this Supplementary Bidder's Statement with ASIC, withdrawn their consent to the inclusion of:

- a.) references to its name; and
- b.) each statement which is based on a statement it has made,

in this Supplementary Bidder's Statement in the form and context in which those statements appear and to the maximum extent permitted by law expressly disclaims and takes no responsibility for any part of this Supplementary Bidder's Statement other than any statement which has been included in this Supplementary Bidder's Statement with the consent of Woodward Partners.

This Supplementary Bidder's Statement includes statements which are made in, or based on statements made in, documents lodged with ASIC or on the company announcement platform of ASX by Cue and others. Under the terms of ASIC Class Order 01/1543, the parties making those statements are not required to consent to, and have not consented to, the inclusion of those statements in this Bidder's Statement. If you would like to receive a copy of any of these documents, please contact the Offer information line on +64 4 495 2423 from Monday to Friday between 7.00am and 3.00pm (Sydney, Australia time) and you will be sent copies free of charge. Information may also be obtained from Cue's website at www.cuenrg.com.au.

⁷ Grant Samuel Report, Section 5.1 "Summary", 28 February 2015, page 30.

Based on the comments made in this First Supplementary Bidder's Statement:

Bidder's Offer of A\$0.10 per share is both fair and reasonable and shareholders should **ACCEPT** the Offer.

Signature

DATED 12 March 2015

Signed on behalf of the Bidder according to a resolution of the director of the Bidder dated 12 March 2015.



Andrew Knight
Sole Director