Cue Energy PLC

Annual Report and Accounts

For the year ended 31 December 2007

CONTENTS

COMPANY INFORMATION

Directors	Martin Thomas (Chairman) – appointed 28/03/07 Malcolm James (Non-Executive Director) Toby Howell (Non-Executive Director)
Secretary and registered office	Gregory Kuenzel 200 Strand London WC2R 1DJ
Auditors	PKF (UK) LLP 20 Farringdon Road London EC1M 3AP
Nominated advisor	HB Corporate 40 Marsh Wall London E14 9TP
Brokers	HB Corporate 40 Marsh Wall London E14 9TP
Principal Bankers	HSBC 129 New Bond Street London W1J 2JA
Registrars	Capita Registrars The Registry 34 Beckenham Road Beckenham Kent BR3 4TU
Registered number	05315922

CHAIRMAN'S STATEMENT

This is my first report as Chairman of your Company.

The year ended 31 December 2007 has indeed been disappointing for management and shareholders alike with the results presented in this report.

Cue Energy Plc entered 2007 with high expectations. We had rights to the developing CSIRO PEM fuel cell technology, (the "PEM Technology"); advanced working prototype fuel cells were underway; an internationally acclaimed CSIRO research team led by Dr. Sukhvinder Badwal; and a highly capable and experienced management team of Kevin Breen and Dr Charles Stone.

Independent expert reports were encouraging on the PEM Technology. As the year progressed we developed business plans, manufacturing plans and marketing and commercialisation plans in support of our prospective capital raising.

However the advancing year brought fast deteriorating market conditions and the appetite for investment in new higher risk ventures such as hydrogen fuel cells dried up. By September our former brokers reported to us that as a result of the changed market interest in such fundraisings they were unable to complete their brief to raise additional capital to develop the PEM Technology.

Faced with this situation the board took action to reduce expenditure on the project; management team contracts were terminated; CSIRO development expenditure was reduced to minimise outflows and the Company successfully re-negotiated the agreements with Oreion Australian Energy and subsequently acquired 100% of Oreion for the issue of fifty million shares. In addition significant efforts were put towards identifying other lower risk opportunities consistent with the Company's objectives.

These efforts included seeking new co-investors for the PEM Technology project as well as identifying other emerging energy sector opportunities. I am pleased to report that at the time of writing, and after some further disappointments, I am now cautiously optimistic on the prospects for further business development of the PEM Technology and the possible acquisition and development of the other opportunities in the increasingly buoyant energy sector.

Finally may I thank all our shareholders, for your patience and loyalty over an extended but frustrating period. I trust that market conditions, which are at last showing some signs of stabilising, prove more favourable to the Company in the year ahead.

Martin Thomas
Chairman
26 June 2008

OPERATING AND FINANCIAL REVIEW

Cue Energy Plc was established to acquire holdings in energy assets which the Directors of the Company believe are undervalued and where a transaction has the potential to create value for the Company's shareholders.

On 28 September 2007, the Company announced that it had agreed in principle, subject to funding, to acquire 100% of the issued capital of Oreion Australia Energy Pty Ltd ("Oreion"), a private Australian company, in order to commercialise the micro fuel cell technology ("the PEM Technology") which had been developed by CSIRO, Australia's leading technology research organisation. Trading in the Company's ordinary shares on AIM was suspended as the acquisition would have been classified as a reverse takeover under the AIM Rules.

On 24 December 2007, the Company announced that the Directors were working on a structure under which Oreion would commercialise the PEM Technology as an independent company in which Cue would have a significant equity position and that discussions regarding the original proposed acquisition had therefore terminated.

The Company announced on 21 February 2008 that it had conditionally agreed terms for the acquisition of 100% of the issued capital of Oreion. As part of the Company's passive investment strategy, it is envisaged that Oreion will raise funding and seek partners in order to enable the continued commercialisation of the PEM Technology.

The Company issued 50,000,000 new ordinary shares at an issue price of 2p to the shareholders of Oreion in consideration for the Acquisition. Approval was sought from Shareholders at a general meeting held on 14 March 2008 in order to effect the acquisition. Following this meeting, trading in the Company's ordinary shares on AIM was restored as the acquisition was not classified as a reverse takeover under the AIM Rules.

Since incorporation on 4 September 2001, Oreion undertook no trading or other activities until 3 August 2006 when it entered into the first of various agreements with CSIRO (the "Commercialisation Agreements"). The Commercialisation Agreements were extended beyond their original expiry date until 30 June 2008 conditional inter alia upon the Acquisition and subsequent funding contributions of A$69,000 per month (£32,547 at an exchange rate of A$2.12 to £1) by Oreion. They are also conditional on the Company and Oreion obtaining sufficient funding to enable the continued commercialisation of the PEM Technology. The level of funding required will be dependent on further negotiations with CSIRO and other potential partners. A further extension of the Commercialisation Agreements to 30 September 2008 on the same terms has been negotiated by the parties to allow the Company to continue discussions with various parties who have expressed an interest in funding or partnering with Oreion to develop the associated technologies. It is expected that this extension will be formalised in the coming week.

By virtue of the Commercialisation Agreements, Oreion intends to become a leading enabler of fuel cell technology, generating revenues through the sub-licensing of the PEM Technology for the development, manufacture and sale of fuel cell test stations and PEM electrolysers, and subsequently through the technology development of direct hydrogen micro fuel cell products and the licensing of related fuel cell technology. Under the Commercialisation Agreements, Oreion will, under certain terms and conditions, have an exclusive worldwide licence over certain advanced technology as well as access to a highly experienced technical team.

OPERATING AND FINANCIAL REVIEW (continued)

Oreion's audited Financial Accounts for the period ended 30 April 2007 reported a loss before tax of A$516,001 (£239,352) and net liabilities of A$509,751 (£236,453). Oreion's operations in Australia continue to be managed by its current directors, John Simpson, Jade Styants and Tim Malloch, with Oreion's management reporting to the Board of the Company. The Company's results for the year ended 31 December 2007 do not reflect any results for Oreion.

As at 31 December 2007, the total expenditure incurred by the Company on behalf of Oreion for research & development, technical, commercialisation and legal costs totalled £938,564. These costs have been recharged to Oreion. In addition, the Company has provided Oreion with a loan facility of £395,908 as at 31 December 2007 under the finance facility agreement dated 3 January 2007.

The Company is continuing to pursue additional new investment opportunities in line with the investing strategy.

During the course of the year the Company received investment income of £85,570 and other income of £938,564. It incurred administrative expenses of £ 462,127, expenses on behalf of Oreion of £938,564 and other expenses relating to the proposed reverse acquisition of Oreion Energy Australia Pty Ltd of £399,395, resulting in a loss for the period of £775,952.

Toby Howell
Director
26 June 2008

DIRECTORS' REPORT

The Directors present their report and the audited financial statements for the year ended 31 December 2007.

Principal activities and business review

The principal activities of the Company are to make investments and/or acquire projects in the energy sector, which may include exploration, development or production projects in oil and gas, coal, uranium and renewable energy.

A detailed review of activities, business developments and the Company's projects is included in the Chairman's Statement and the Operating and Financial Review on pages 3 to 5.

Key Performance Indicators

The Board monitors the activities and performance of the group on a regular basis. The primary performance indicator applicable to the company is Return on Investment. This key performance indicator was not significant during the year ended 31 December 2007 however it will be assessed during the 2008 year and reported on in the 2008 directors' report.

Results and Dividends

The Company's loss on ordinary activities after taxation amounted to £775,952 (2006: £225,682).

The Directors do not propose the payment of a dividend.

Directors and their interests

Other than in respect of Directors who resigned, there have been no changes in Directors' interests since the year-end.

The Directors who served during the year ended 31 December 2007 had, at that time and at the date of appointment, the following beneficial interests in the shares of the Company:

	Number of ordinary shares		Number of options
Director	**31 Dec 2007**	**%**	**31 Dec 2007**
Martin Thomas (appointed 14/03/2007)	-	-	-
Malcolm James*	10,630,989	4.62 %	1,151,040
Toby Howell	4,275,000	1.86 %	2,302,079
Christopher Lambert (resigned 04/02/2008)	4,600,000	2.00 %	1,151,040
Jade Styants ** (resigned 21/02/2008)	4,265,429	1.85 %	1,151,040

**4,001,000 shares are held by the James Family Superfund, the beneficiaries of which include Malcolm James*
***The shares are held by Black Ivory Ltd. The interest is a non-beneficial interest.*

Charitable and political donations

During the period there were no charitable or political contributions.

Payment of suppliers

The Company's policy is to settle terms of payment with suppliers when agreeing terms of business, to ensure that suppliers agree to the terms and abide by them. During the year ended 31 December 2007 average creditors days were 66 (2006: 9 days).

DIRECTORS' REPORT (continued)

Post balance sheet events

The post balance sheet events are set out in Note 17 to the accounts.

Financial instruments

The company's approach to financial instruments is set out in note 16.

Financial Risks' management

Details of the company's financial risk management policies are set out in note 16.

Principal Risks and Uncertainties

The management of the business and the execution of the Group's strategy are subject to a number of risks.

The key business risks affecting the Group are set out below.

General and economic risks:

- Contractions in the world economies or increases in the rate of inflation resulting from international conditions.
- Movements in global equity and share markets and changes in market sentiment towards the resource industry.
- the risk that the alternative technologies are adopted in preference to the Oreion / CSIRO technology.

Funding risk

- the Company may not be able to raise, either by debt or further equity, sufficient funds to enable it to finance its current investments or future acquisitions or investments.

Directors Remuneration

The remuneration of the Directors has been fixed by the Board as a whole. This has been achieved by the Board acknowledging the need to maximise the effectiveness of the Company's limited resources during the year.

Details of Directors' fees and of payments made for professional services rendered are set out in Note 7 to the accounts, Directors' remuneration.

Corporate governance

The Directors believe that the Company complies with the principles set out in the Combined Code on Corporate Governance published by the Financial Reporting Council so far as they consider is appropriate, having regard to the size and the nature of activities of the Company.

Board Composition

The Directors have responsibility for the overall corporate governance of the Company and recognise the need for the highest standards of behaviour and accountability. The Directors are committed to the principles underlying best practice in corporate governance and intend to comply with the principles of the Combined Code in such respects as they consider appropriate for a company of its size and nature. The Board has a wide range of experience directly related to the Company and its activities and its structure ensures that no one individual or group dominates the decision making process.

DIRECTORS' REPORT (continued)

Committees

The Company has established an Audit Committee and a Remuneration Committee.

Audit Committee

The Audit Committee, comprising of Martin Thomas and Malcolm James, reviews the Company's annual and interim financial statements before submission to the Board for approval. The Committee also reviews regular reports from management and external auditors on accounting and internal control matters. Where appropriate, the Committee monitors the progress of action taken in relation to such matters. The Committee also recommends the appointment of, and reviews the fees, of the external auditors. The Committee keeps under review the cost effectiveness and the independence and objectivity of the external auditors. A formal statement of Independence is received from the external auditors each year.

Remuneration Committee

The Remuneration Committee, comprising of Martin Thomas and Malcolm James, is responsible for reviewing the performance of the executive Directors and for setting the scale and structure of their remuneration, determining the payment of bonuses, considering the grant of options under any share option scheme and, in particular, the price per share and the application of performance standards which may apply to any such grant, paying due regard to the interests of shareholders as a whole and the performance of the Company.

Share Dealing

The Company has adopted a share dealing code for Directors and Officers in accordance with AIM rules and takes proper steps to ensure compliance by the Directors and Officers.

Control procedures

The Board has approved financial budgets and cash forecasts and implemented procedures to ensure compliance with accounting standards and effective reporting.

Auditors

The auditors, PKF (UK) LLP, have indicated their willingness to continue in office, and a resolution that they be re-appointed will be proposed at the annual general meeting.

Statement as to disclosure of information to auditors

So far as each Director is aware, there is no relevant audit information of which the Company's auditors are unaware, and the Directors have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

By the order of the Board

Toby Howell
Director
26 June 2008

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Directors' responsibilities for the financial statements

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. The financial statements are required to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements and other information included in annual reports may differ from legislation in other jurisdictions.

INDEPENDENT AUDITORS REPORT TO THE SHAREHOLDERS OF CUE ENERGY PLC

We have audited the financial statements of Cue Energy Plc for the year ended 31 December 2007, which comprise the Income Statement, the Balance Sheet, Statement of Changes in Equity, Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the annual report, and the financial statements in accordance with applicable law and International Financial Reporting Standards (**IFRS**) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information in the Directors' Report includes that specific information presented in the Operating and Financial Review that is cross referenced from the principal activities and business review section of the Directors' Report.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors' Report, the Chairman's Statement and the Operating and Financial Review. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of Audit Opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

INDEPENDENT AUDITORS REPORT TO THE SHAREHOLDERS OF CUE ENERGY PLC (continued)

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union of the state of the Company's affairs as at 31 December 2007 and of its loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

Emphasis of matter – availability of project finance and recoverability of loans

In forming our opinion, which is not qualified, we have considered the adequacy of the disclosures made in note 1(b) to the financial statements concerning the requirement for the Company or its subsidiary Oreion Australia Energy Pty Ltd (Oreion) to raise further funding if it is to further develop the PEM technology subject to the commercialisation agreement between Oreion and CSIRO. If the Company or Oreion is unable to secure such additional funding to develop the technology further, this may have a consequential impact on the recoverability of the balance of £1,350,869 due from Oreion. No adjustments have been made in the financial statements to reflect changes to amounts due from Oreion should the Company be unsuccessful in raising further finance.

PKF (UK) LLP
Registered Auditors
London, UK
26 June 2008

INCOME STATEMENT
for the year ended 31 December 2007

	Note	2007 £	2006 £
Administrative expenses	2	(462,127)	(253,360)
Other expenses	2	(938,564)	-
Transaction expenses	2	(399,395)	-
Other income	3	938,564	-
Operating loss		**(861,522)**	**(253,360)**
Finance Income	4	85,570	27,678
Loss on ordinary activities before taxation		**(775,952)**	**(225,682)**
Income tax expense	5	-	-
Loss for the financial year		**(775,952)**	**(225,682)**
Loss per share expressed in pence per share			
- Basic and diluted	8	(0.34)p	(0.22)p

The Notes on pages 16 to 28 form part of these Financial Statements.

BALANCE SHEET
as at 31 December 2007

	Note	2007 £	2006 £
Assets			
Non current assets			
Plant and equipment	9	1,894	3,341
Total non current assets		**1,894**	**3,341**
Current assets			
Trade and other receivables	10	1,561,328	43,643
Cash and cash equivalents	11	895,544	2,831,452
Total current assets		**2,456,872**	**2,875,095**
Total assets		**2,458,766**	**2,878,436**
Liabilities			
Current liabilities			
Trade and other payables	12	368,377	12,095
Total liabilities		**368,377**	**12,095**
Net Assets		**2,090,389**	**2,866,341**
Shareholders Equity			
Called –up share capital	13	161,146	161,146
Share premium account		2,755,170	2,755,170
Share based payment reserve		175,707	175,707
Retained losses		(1,001,634)	(225,682)
Total equity		**2,090,389**	**2,866,341**

These financial statements were authorised and approved for issue by the board of Directors on 26 June 2008 and were signed on its behalf by:

Martin Thomas
Director

Toby Howell
Director

The Notes on pages 16 to 28 form part of these Financial Statements.

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2007

	Called up share capital	Share premium reserve	Share based payment reserve	Retained earnings	Total equity
	£	£	£	£	£
As at 1 January 2006	-	-	-	-	-
Share capital issued	161,146	3,044,624	-	-	**3,205,770**
Share issue costs	-	(161,996)	-	-	**(161,996)**
Share based payments	-	-	48,249	-	**48,249**
Share based expenses	-	(127,458)	127,458	-	**-**
Loss for the year	-	-	-	(225,682)	**(225,682)**
As at 31 December 2006	**161,146**	**2,755,170**	**175,707**	**(225,682)**	**2,866,341**
Loss for the year	-	-	-	(775,952)	**(775,952)**
As at 31 December 2007	**161,146**	**2,755,170**	**175,707**	**(1,001,634)**	**2,090,389**

The Notes on pages 16 to 28 form part of these Financial Statements.

CASH FLOW STATEMENT
for the year ended 31 December 2007

	Note	2007 £	2006 £
Cash flows from operating activities			
Operating loss		(861,522)	(253,360)
Depreciation		1,447	276
Share options expensed		-	48,249
Increase in VAT due		(162,529)	(22,609)
Increase in prepayments		(4,720)	(20,601)
(Increase) / decrease in other receivables		(804,257)	(433)
Increase in operating creditors		199,579	4,095
Increase in accruals		22,829	8,000
Net cash used in operating activities		**(1,609,173)**	**(236,383)**
Cash flows from investing activities			
Loans granted		(395,908)	-
Interest received		69,173	27,678
Payments to acquire tangible assets		-	(3,617)
Net cash (used) / generated in investing activities		**(326,735)**	**24,061**
Cash inflows from financing activities			
Proceeds from issue of shares		-	3,205,770
Shares issue costs		-	(161,996)
Net cash flow from financing activities		**-**	**3,043,774**
Net (decrease) / increase in cash and cash equivalents		**(1,935,908)**	**2,831,452**
Cash and cash equivalents at 1 January		2,831,452	-
Cash and cash equivalents at 31 December	11	**895,544**	**2,831,452**

The Notes on pages 16 to 28 form part of these Financial Statements.

STATEMENT OF ACCOUNTING POLICIES
for the year ended 31 December 2007

1. Principal accounting policies

a) Authorisation of financial statements and statement of compliance with IFRS

The financial statements of Cue Energy plc for the year ended 31 December 2007 were authorised for issue by the board on 26 June 2008 and the balance sheets signed on the board's behalf by Martin Thomas and Toby Howell. Cue Energy plc is a public limited Company incorporated and domiciled in England and Wales. The Company's ordinary shares are traded on the AIM Market operated by the London Stock Exchange.

The Company's financial statements have been prepared in accordance with International Financial Reporting Standards (**IFRS**) as adopted by the European Union, and those parts of the Companies Act 1985 applicable to companies reporting under IFRS. The principal accounting policies adopted by the group are set out below.

The financial statements are prepared in accordance with International Financial Reporting Standards and Interpretations in force at the reporting date. The Company has not adopted any standards or interpretations in advance of the required implementation dates. It is not expected that adoption of standards or interpretations which have not been adopted will have a material impact on the financial statements.

The Company adopted the following standards for the first time:
IAS 1 (amendment) Presentation of Financial Statements – Capital Disclosures
IFRS 7 Financial Instruments – Disclosures
The resulting changes in disclosure are included in notes 13 and 16 respectively. There were no other impacts from the adoption of these standards.

b) Basis of preparation and going concern

The financial statements have been prepared on the historical cost basis, except for the measurement to fair value of assets and financial instruments as described in the accounting policies below, and on a going concern basis.

The Directors are confident that the extension of the commercialisation agreement between Oreion and CSIRO through to 30 September 2008 will allow the Company to continue discussions with various interested parties in relation to funding or partnering with Oreion to develop the associated technologies. The continued development of the technology and the commercialisation agreements beyond the 30 September 2008 deadline are dependent on further funding being available to either Oreion or the Company. The loans shown in the balance sheet as being owed to the Company by Oreion ultimately may not be recoverable if further funding is not forthcoming.

Although the Company's assets are not generating revenues and an operating loss has been reported, the Director's believe these assets will generate a return to the Company in the short term. The Company has sufficient funds to undertake its operating activities over the next 12 months including meeting its commitments under the extension of the CSIRO commercialisation agreement. The financial statements therefore, have been prepared on a going concern basis. However, if additional projects and acquisition targets are identified or current investments require additional funding that is unforeseen at this point in time, the Company may be required to raise additional funds either via an issue of equity or through the issuance of debt.

STATEMENT OF ACCOUNTING POLICIES
for the year ended 31 December 2007

The financial report is presented in Sterling and all values are in pounds (£) unless otherwise stated.

c) Revenue

The Company had no revenue during the year ended 31 December 2007.

d) Finance income

Finance income is recognised as interest accrues.

e) Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

f) Income tax and deferred taxation

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted by the balance sheet date.

No deferred tax asset has been recognised because there is insufficient evidence of the timing of suitable future profits against which they can be recovered.

g) Foreign currencies

Both the functional and presentational currency of Cue Energy plc is sterling (£). Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. All differences are taken to the income statement.

h) Plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided on all tangible assets to write off the cost less estimated residual value of each asset over its expected useful economic life on a straight line basis at the following annual rates:

Computer equipment – 40%

All assets are subject to annual impairment reviews.

i) Trade and other receivables

Trade receivables, which generally have 30 day terms, are recognised and carried at original invoice amount less any allowance for any uncollectible amounts.

STATEMENT OF ACCOUNTING POLICIES
for the year ended 31 December 2007

j) Trade and other payables

Trade payables and other payables are carried at amortised cost and represent liabilities for goods and services provided to the Company prior to the end of the financial year that are unpaid and arise when the Company becomes obliged to make future payments in respect of the purchase of these goods and services.

k) Financial Instruments

The Company's financial instruments comprise cash and items arising directly from its operation such as trade debtors and trade creditors.

There is no material difference between the book value and fair value of the Company's cash.

l) Share-based payment transactions

(i) Equity settled transactions

The Company provides benefits to employees (including senior executives) of the Company in the form of share-based payments, whereby employees 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 is determined using a Black-Scholes model.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Cue Energy Plc (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 period).

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the Company'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 Income Statement 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 vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. 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 is reflected as additional share dilution in the computation of earnings per share (see Note 8).

m) Earnings per share

Basic earnings per share is calculated as net profit attributable to members of the Company, 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 Company, 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.

n) Significant accounting judgements, estimates and assumptions

Share based payment transaction
The Company 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 were granted. The fair value is determined using a Black-Scholes model.

Cue Energy PLC

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2007

1. Turnover & Segmental analysis

The Company had no turnover during the year.

All of the Company's losses, and net assets arose in the United Kingdom.

2. Operating loss

The operating loss is stated after charging:	2007 £	2006 £
Auditors' remuneration – audit of financial statements	15,000	8,000
- corporate finance services	28,562	-
Directors' emoluments	119,956	33,992
Depreciation	1,447	276
Share options expenses	-	48,249
Other expenses	938,564	-
Transaction expenses	399,395	-

During the year ended 31 December 2007 the Company incurred costs totalling £399,395 in relation to the proposed reverse acquisition of Oreion Energy Australia Pty Ltd. As a result of deteriorating market conditions the proposed reverse acquisition and re-admission were abandoned. The acquisition was subsequently restructured as explained in Note 17.

During the year the Company incurred costs on behalf of Oreion for research & development, technical, commercialisation and legal costs totalling £938,564. These costs have been recharged to Oreion by way of a management fee (refer to Note 3).

3. Other Income

	2007 £	2006 £
Costs recharged to Oreion Energy Australia Pty Ltd	938,564	-

4. Finance Income

	2007 £	2006 £
Interest receivable	85,570	27,678

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2007

5. Taxation

	2007 £	2005 £
Current year taxation		
UK corporation tax for the year	-	-
Factors affecting the tax charge for the year		
Loss on ordinary activities before tax	(775,952)	(225,682)
Loss on ordinary activities at the UK standard rate of 30%	(232,785)	(67,705)
Effect of tax benefit of loss carried forward	232,785	67,705
Current year taxation	-	-

The Company has tax losses of £1,000,686 (2006: £226,864) available to carry forward against future taxable profits. A deferred tax asset has not been recognised because of the uncertainty over the timing of future taxable profits against which the losses may be offset.

6. Staff Costs

The Company had no full time employees during the year. The directors provided professional services as required on a part-time basis.

7. Directors' remuneration

	2007 £	2006 £
Non Executive Directors:		
Martin Thomas	23,956	-
Chris Lambert	18,000	7,405
Malcolm James	18,000	7,405
Jade Styants	30,000	5,905
Toby Howell	30,000	13,277
	119,956	33,992
Share based payment expense	-	48,249
Total	**119,956**	**82,241**

No pension benefits are provided for any Director.

8. Loss per share

The basic earnings per share is derived by dividing the loss for the period attributable to ordinary shareholders by the weighted average number of shares in issue.

For diluted earnings per share the weighted average number of ordinary shares in issue is adjusted to assume conversion of all potential ordinary shares.

Loss for the period	£775,952
Weighted average number of ordinary shares of 0.07p in issue	230,207,901
Loss per share – basic	(0.34) p

There were no dilutive potential ordinary shares for the year as the Company made a loss for the year.

9. Plant and Equipment

	Computer Equipment £
Cost	
At 1 January 2006	-
Additions	3,617
At 31 December 2006	3,617
Additions	-
As at 31 December 2007	3,617
Depreciation	
At 1 January 2006	-
Charge for the year	276
At 31 December 2006	276
Charge for the year	1,447
As at 31 December 2007	1,723
Net Book Value	
At 31 December 2007	1,894
At 31 December 2006	3,341

Cue Energy PLC

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2007

10. Trade and other receivables

	2007 £	2006 £
Current trade and other receivables		
Prepayments	25,321	20,601
Trade receivables	-	433
Other receivables (1)	1,334,472	-
Accrued interest income	16,397	-
VAT due	185,138	22,609
	1,561,328	**43,643**

(1) Other receivables include a £395,908 finance facility provided to Oreion Energy (Australia) Pty Ltd that accrues interest at 9% pa. The balance of other receivables of £938,564 represent amounts receivable from Oreion relating to the management fee recharge and are non-interest bearing.

11. Cash and cash equivalents

	2007 £	2006 £
Cash at bank	895,544	2,831,452

12. Trade and other payables

	2007 £	2006 £
Current trade and other payables		
Trade creditors	268,158	4,095
Accruals	100,219	8,000
	368,377	**12,095**

Cue Energy PLC

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2007

13. Share Capital

	2007	2006
Authorised		
20,000,000,000 ordinary shares of 0.07 p each	14,000,000	14,000,000
Issued and fully paid		
230,207,901 ordinary shares of 0.07 p each	£161,146	£161,146

The Company was incorporated on 17 December 2004 with an authorised share capital of £2,000,000 divided into 200,000,000 ordinary shares of 0.1p each, of which 2 shares were issued fully paid to the subscribers to the Memorandum of Association of the Company.

On 6 April 2006, 12 ordinary shares of 1p each were issued at par.

At the Company's first annual general meeting on 7 April 2006 the authorised share capital of the Company was increased from £2,000,000 to £14,000,000 by creation of 1,200,000,000 new ordinary shares of 1p each ranking equally with existing shareholders of 1p each. The authorised share capital was sub-divided from 1,400,000,000 ordinary shares of 1p each into 140,000,000,000 ordinary shares of 0.01p each and further consolidated from 140,000,000,000 ordinary shares of 0.01p each into 20,000,000,000 ordinary shares of 0.07p each.

Following the re-organisation, 200 ordinary shares were transferred by the initial subscribers to Black Ivory Limited on 18 May 2006.

On 21 June 2006, the Company issued and allotted 65,681,065 ordinary shares to certain founder subscribers, fully paid, at par value.

On 22 June 2006, 14,526,636 ordinary shares were issued and fully paid at 1.1p each

On 3 August 2006, 150,000,000 ordinary shares were placed at a price of 2p per share.

The Company's objectives when managing capital are to safeguard the entity's ability to continue as a going concern so that it can continue to increase the value of the entity for the benefit of shareholders. Given the nature of the Company's current activities the entity will remain dependant on equity funding in the short to medium term until such time as the Company becomes self-financing from income from its investments.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2007

13. Share Capital (continued)

Share options and warrants

Under IFRS 2 'Share Based Payments', the Company determines the fair value of options issued to Directors and Employees as remuneration and recognises the amount as an expense in the income statement with a corresponding increase in equity.

Name	Date Granted/ Vested	Number	Exercise Price (pence)	Expiry Date	Fair Value at Grant Date (pence)
Chris Lambert	3 August 2006	1,151,040	2	2 August 2011	0.0084
Malcolm James	3 August 2006	1,151,040	2	2 August 2011	0.0084
Jade Styants	3 August 2006	1,151,040	2	2 August 2011	0.0084
Toby Howell	3 August 2006	2,302,079	2	2 August 2011	0.0084
Totals		**5,755,199**			

The fair value of the employee options vested during the prior year was £48,249. The assessed fair value at grant date is determined using the Black-Scholes Model that takes into account the exercise price, the term of the option, the share price at grant date, the expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

The following table lists the inputs to the model used for the year ended 31 December 2006:

Dividend Yield (%)	-
Expected Volatility (%)	70
Risk-free interest rate (%)	4.60
Share price at grant date (£)	0.02

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may, not necessarily be the actual outcome.
The Company did not issue any share options and warrants during the year ended 31 December 2007.

14. Commitments

As at 31 December 2007, the Company had no material capital commitments.

15. Related party transactions

Claridge House Services Limited (CHS) was a company set up for the purpose of administering a serviced office for a number of companies, including Cue Energy Plc. The directors of CHS as at 31 December 2007 were Jade Styants, Toby Howell and Malcolm James, with Gregory Kuenzel being the beneficial owner. The Company has entered into an agreement with CHS for the provision of administrative and bookkeeping services and accommodation in relation to Suite 4, 32 Davies Street, London W1K 4ND, for a monthly fee payable quarterly in advance.

Cue Energy PLC

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2007

15. Related party transactions (continued)

During the year CHS invoiced the Company £60,426 (2006: £35,200) in respect of serviced office costs. At year end £17,625 is included in trade creditors (2006: nil). This amount relates to the prepayment of 2008 service charges.

16. Financial instruments

The Company uses financial instruments comprising cash, liquid resources and debtors/ creditors that arise from its operations.

The Company has not entered into any derivative transactions and it is not currently the Company's policy to undertake trading in financial instruments.

The main financial risks arising from the Company's activities are currency risk, liquidity risk, credit risk and interest rate risk

Estimation of fair values

There are no financial instruments where the fair values are different to the carrying values. These can be summarised as:

2007	Note	Weighted average effective interest rate%	Non-interest bearing £	Floating £	Fixed interest £	Total
Financial assets						
Cash	11	3%	-	895,544	-	895,544
Receivables	10	9%	1,123,702	-	395,908	1,519,610
Total			**1,123,702**	**895,544**	**395,908**	**2,415,154**
Financial liabilities						
Payables	12		368,377	-	-	368,377
Total			**368,377**	**-**	**-**	**368,377**

2006	Note	Weighted average effective interest rate%	Non-interest bearing £	Floating £	Fixed interest £	Total
Financial assets						
Cash	11	3%	-	2,381,452	-	2,381,452
Receivables	10		23,042	-	-	23,042
Total			**23,042**	**2,381,452**	**-**	**2,404,494**
Financial liabilities						
Payables	12		12,095	-	-	12,095
Total			**12,095**	**-**	**-**	**12,095**

All financial assets are classified as loans and receivables and all financial liabilities as carried at amortised cost.

16. Financial instruments (continued)

Interest rate risk

The Company currently finances its operations through equity financing. There is not considered to be any material interest rate risk.

Liquidity risk

To date the Company has relied upon equity funding to finance operations. The Directors are confident that adequate funding will be forthcoming with which to finance operations to commercial exploitation. Controls over expenditure are carefully managed.

Currency risk

The Company makes certain payments under its agreement with CSIRO and Oreion Energy Australia Pty Ltd denominated in Australian Dollars. The Company seeks to minimise its risk by closely monitoring exchange rates.

Credit risk

The Company considers the credit ratings of banks in which it holds funds in order to reduce exposure to credit risk.

The Company has a total amount receivable from Oreion of £1,350,869. The recoverability of these funds is dependent on Oreion receiving further funding to continue with the commercialisation of the PEM technology.

17. Post balance sheet events

On 21 February 2008 the Company agreed terms for the acquisition of 100% of the issued capital of Oreion Australia Energy Pty Ltd (the “Acquisition”). As part of the Company’s passive investment strategy, it is envisaged that Oreion will raise funding and seek partners in order to enable the continued commercialisation of the PEM Technology.

On 14 March, following approval by shareholders at an Extraordinary General Meeting, the Company issued 50,000,000 new ordinary shares to the shareholders of Oreion (the “Consideration Shares”) in consideration for the Acquisition. At the issue price of 2p per share, the value of the Consideration Shares is £1,000,000. The issue price of 2p was determined by the trading price of the shares on the date that the agreement was conditionally entered into. The Consideration Shares represent approximately 18% of the total issued enlarged share capital of the Company.

Since incorporation on 4 September 2001, Oreion undertook no trading or other activities until 3 August 2006 when it entered into the first of various agreements with CSIRO (the “Commercialisation Agreements”). The Commercialisation Agreements have been extended beyond their original expiry date until 30 June 2008 conditional inter alia upon the Acquisition and subsequent funding contributions of A$69,000 (£34,000) per month by Oreion. They are also conditional on the Company and Oreion obtaining sufficient funding to enable the continued commercialisation of the PEM Technology. The level of funding required will be dependent on further negotiations with CSIRO and other potential partners.

17. Post balance sheet events (continued)

A further extension has been agreed by CSIRO providing the Company with an additional 3 months (to 30 September 2008) with which to continue negotiations with various parties who have expressed an interest in funding or partnering with Oreion to develop the associated technologies. The Agreement has been extended conditional on funding contributions of A$69,000 (£34,000) per month.

By virtue of the Commercialisation Agreements, Oreion intends to become a leading enabler of fuel cell technology, generating revenues through the sub-licensing of the PEM Technology for the development, manufacture and sale of fuel cell test stations and PEM electrolysers, and subsequently through the technology development of direct hydrogen micro fuel cell products and the licensing of related fuel cell technology. Under the Commercialisation Agreements, Oreion will, under certain terms and conditions, have an exclusive worldwide licence over certain advanced technology as well as access to a highly experienced technical team.

Immediately prior to the acquisition and on the date of acquisition, Oreion had cash at bank and on hand of £23,000, Other receivables of £10,600, trade creditors of £20,600 and loans outstanding payable to the Company of £1,480,000. The fair value of intangible assets acquired has not been determined at the date of this report and the difference between the value of the assets and liabilities and the consideration has been provisionally allocated to goodwill.