



Wednesday, 31 January 2007

The Manager, Companies
Australian Stock Exchange

**ACTIVITIES UPDATE
& APPENDIX 5B**

FOR QUARTER ENDED 31 DECEMBER 2006

Please refer attached announcement.

Yours sincerely,

**Susan Robutti
Company Secretary**



Nexus Energy Limited

HIGHLIGHTS

- Crux-2 Appraisal Well begins in exploration permit AC/P23 (30 December 2006)
- US\$40 million received from Shell for Crux gas rights
- A\$30 million bridge finance secured with BOSI for Longtom appraisal and development
- Shell and Nexus finalise Farm-In Agreement for appraisal of the Echuca Shoals gas discovery for up to US\$55 million



Activities Update Quarter Ended 31 December 2006

During the reporting period the company has concentrated its efforts on:

- progressing the Longtom gas project toward securing a Financial Investment Decision ("FID"),
- preparation for the drilling of the Crux-2 appraisal well
- completing Front End Engineering and Design ("FEED") on the Crux liquids project and;
- concluding the transaction with Shell Development Australia Pty Ltd ("Shell") for the appraisal of the Echuca Shoals gas discovery.



Nexus projects and exploration permits in Australia

APPRAISAL AND DEVELOPMENT PROJECTS

Longtom Gas Project (Nexus 100%) VIC/P54 Permit - Gippsland Basin, Victoria

Nexus has retained a 100% interest in the Longtom gas project with Apache Northwest Pty Ltd electing not to exercise its back in rights to the Longtom sole risk project

Work during the quarter focused on updating geological and reservoir simulation models based on the results of the Longtom-3 well, optimisation of the field development plan, definition of the resource volume prior to the Financial Investment Decision (FID) and on the preparation and analysis of tenders for long-lead capital equipment and the drilling of the Longtom-4 development well.

A preliminary field development plan was submitted to the designated authority in December 2006.

The company expects to make a FID decision on the Longtom project following receipt of an independent reserves report by Gaffney Cline and Associates in the first quarter 2007.

Crux Liquids Project (Nexus 100%) AC/P23 Permit - Browse Basin, Northern Territory

Front End Engineering and Design ("FEED") of a gas condensate recycling project (Crux liquids project) continued with internationally recognised consulting firm Mustang Engineering. FEED activity is expected to be completed by the end of January 2007 and we expect to be able to commit to the development of the Crux liquids project in mid 2007.

Requests for expressions of interest were issued to contractors for the supply of floating production and storage and offloading vessel ("FPSO") for the project. Tender documentation will be issued to a number of qualified tenderers during February 2007.

The semi-submersible drilling unit "Songa Venus" began tow to the Crux-2 appraisal well location on 24 December 2006, and the well was spudded on 30 December 2006. Results of the Crux-2 well are expected to be included in the next quarterly report.

Nexus currently holds a 100% interest and operatorship of the Crux liquids project and any other liquid hydrocarbons in the AC/P23 permit.

Echuca Shoals Gas Discovery (Nexus 100%) WA-377-P Permit - Browse Basin, Western Australia

In January 2007, Nexus announced that it had signed a Farm-in Agreement with Shell Development Australia Pty Ltd ("Shell") to jointly commence the appraisal of the Echuca Shoals gas discovery.

Under the Farm-in Agreement Shell is required to provide funding of up to US\$60 million in a combination of cash (US\$5 million) and contributions toward the drilling of two appraisal wells (US\$ 55 million) to earn a 34% interest in the entire permit.

Shell will make a US\$5 million cash payment to Nexus Energy WA377P Pty Ltd following receipt of regulatory approvals for the Farm-in Agreement and finalisation of the terms of a joint operating agreement and will fund the first US\$30 million of Echuca Shoals-2, the first appraisal well. Shell has the right to fund the first US\$ 25 million of a second appraisal well to retain a 34% interest in the entire Echuca Shoals permit.

It is expected that the initial cash payment will be received in March 2007 and the first appraisal well will be drilled during the second quarter of 2007.

Reprocessing of the Adele 3D seismic data over the permit area continued and is expected to be completed in early February 2007. This data will be interpreted prior to the selection of a drilling location for the Echuca Shoals-2 appraisal well currently scheduled for the second quarter 2007.

EXPLORATION ASSETS

VIC/P49 Permit (Nexus 80%) Gippsland Basin, Victoria

CGG Australia Services Pty Ltd was contracted to acquire up to 2,000 km of 2D seismic in the first half of 2007 with the majority of the data designed to define the large leads, Tiger and Leopard, which have been identified on regional seismic lines in the deep water part of the basin.

A possible extension of the Basker oil field into the permit was also identified. Acquisition of additional seismic data is planned over this possible extension in the first half of 2007.

VIC/P39 (v) (Nexus 37.5%) Gippsland Basin, Victoria

Following the results of the Galloway-1 exploration well work continued to assess the remaining prospectivity in the permit before a decision is made to enter the secondary permit term early in 2007.

VIC/P56 (Nexus 40%) Gippsland Basin, Victoria

Studies to review remaining prospectivity in the permit following the drilling of the Culverin and Scimitar prospects continued during the quarter.

WA-368-P (Nexus 50%) Perth Basin, Western Australia

Processing of the 300 km² Catalina 3D seismic survey continued and is expected to be completed by the end of January 2007, once the data is available interpretation will commence.

NT/P66 (Nexus 100%) Bonaparte Basin, Northern Territory

A letter of intent with a drilling contractor has been signed with the intention of drilling a well in the permit to complete its primary term work programme. The company is also progressing a farmout campaign for the permit.

CORPORATE

Funding

In October 2006, US\$40 million (~A\$53 million) was received in full payment from Shell Development Australia Pty Ltd for the sale of the natural gas resources contained in the AC/P23 Permit.

In October 2006, the company secured and drew down on a bridge funding facility of A\$30 million which was applied towards the appraisal and development of the company's Longtom gas project from BOS International (Australia) Limited, part of the Bank of Scotland Group.

The company is at an advanced stage of securing project finance for the Longtom development project to coincide with a Financial Investment Decision (FID) decision during the first quarter 2007. The company is also progressing a potential bridge funding facility to be applied to the appraisal and development of the Crux liquids project.

As at the end December 2006 the company's cash balance was A\$61 million.

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Appendix 5B

Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001.

Name of entity

Nexus Energy Ltd

ABN

64 058 818 278

Quarter ended ("current quarter")

December 2006

Consolidated statement of cash flows

	Current quarter \$A'000	Year to date (6 months) \$A'000
Cash flows related to operating activities		
1.1 Receipts from product sales and related debtors		
1.2 Payments for		
(a) exploration and evaluation	(51,454)	(70,503)
(b) development		
(c) production		
(d) administration	(2,595)	(4,657)
1.3 Dividends received		
1.4 Interest and other items of a similar nature received	865	1,303
1.5 Interest and other costs of finance paid	(207)	(371)
1.6 Income taxes paid		
1.7 Other – GST	(116)	570
Net Operating Cash Flows	(53,507)	(73,658)
Cash flows related to investing activities		
1.8 Payment for purchases of:		
(a) prospects		
(b) equity investments		
(c) other fixed assets	(176)	(327)
1.9 Proceeds from sale of:		
(a) prospects		
(b) equity investments		
(c) other fixed assets		
1.10 Loans to other entities		
1.11 Loans repaid by other entities		
1.12 Other – Gas Rights	52,034	52,034
Net investing cash flows	51,858	51,707
1.13 Total operating and investing cash flows (carried forward)	(1,649)	(21,951)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(1,649)	(21,951)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	4,350	20,889
1.15	Proceeds from sale of forfeited shares		
1.16	Proceeds from borrowings	28,313	28,313
1.17	Repayment of borrowings	(7,000)	(7,000)
1.18	Dividends paid		
1.19	Other		
	– borrowing transaction costs		
	– equity transaction costs	-	(799)
	– Finance lease repayments	(4)	(7)
	Net financing cash flows	25,659	41,396
	Net increase (decrease) in cash held	24,010	19,445
1.20	Cash at beginning of quarter/year to date	37,638	42,464
1.21	Exchange rate adjustments to item 1.20	(633)	(894)
1.22	Cash at end of quarter	61,015	61,015

Payments to directors of the entity and associates of the directors

Payments to related entities of the entity and associates of the related entities

		Current quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	135
1.24	Aggregate amount of loans to the parties included in item 1.10	Nil

1.25 Explanation necessary for an understanding of the transactions

Non-cash financing and investing activities

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

+ See chapter 19 for defined terms.

Financing facilities available

Add notes as necessary for an understanding of the position.

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities	30,000	30,000
3.2 Credit standby arrangements		

Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	40,000
4.2 Development	
Total	40,000

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.

	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	19,409	9,435
5.2 Deposits at call	41,606	28,203
5.3 Bank overdraft		
5.4 Other (provide details)		
Total: cash at end of quarter (item 1.22)	61,015	37,638

Changes in interests in mining tenements

	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1 Interests in mining tenements relinquished, reduced or lapsed				
6.2 Interests in mining tenements acquired or increased				

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

Issued and quoted securities at end of current quarter

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

	Total number	Number quoted	Issue price per security (see note 3)	Amount paid up per security (see note 3)
7.1 Preference securities <i>(description)</i>				
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3 +Ordinary securities	394,313,608	394,313,608		
7.4 Changes during quarter (a) Increases through issues 3,630,000 655,000 100,000 384,800 500,000 1,000,000 (b) Decreases through returns of capital, buy-backs				
		3,630,000 655,000 100,000 384,800 500,000 1,000,000	55 cents 75 cents 77 cents 87 cents 90 cents 100 cents	
7.5 +Convertible debt securities <i>(description)</i>				
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7 Options <i>(description and conversion factor)</i>				
	2,595,000 650,000 11,954,500 1,000,000 199,400 410,300 500,000		Exercise price 75 cents 77 cents 87 cents 110 cents 136 cents 146 cents 150 cents	Expiry date 30 April 2007 30 April 2007 31 October 2007 6 October 2008 31 December 2007 31 December 2007 6 April 2009

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Appendix 5B
Mining exploration entity quarterly report

7.8	Issued during quarter	5,715,000		87 cents	31 October 2007
		1,000,000		110 cents	6 October 2008
		199,400		136 cents	31 December 2007
		410,300		146 cents	31 December 2007
		500,000		150 cents	6 April 2009
7.9	Exercised during quarter	3,630,000		55 cents	
		655,000		75 cents	
		100,000		77 cents	
		384,800		87 cents	
		500,000		90 cents	
7.10	Expired during quarter	150,000		55 cents	
		500,000		150 cents	
7.11	Debentures (totals only)				
7.12	Unsecured notes (totals only)				

Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 4).
- 2 This statement does /does not* (*delete one*) give a true and fair view of the matters disclosed.

Sign here: Date: 31 January 2007
Company secretary)

Print name: Susan Robutti

Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

Schedule of Exploratioon Permits
Held by Consolidated Entity
At 31 December 2006

<u>Permit</u>	<u>Basin</u>	<u>Interest %</u>
VIC/P54	Gippsland	37.5
Longtom Sole Risk Programme (VIC/P54)	Gippsland	100
VIC/P56	Gippsland	40
VIC/P49	Gippsland	80
VIC/P39(v)	Gippsland	37.5
NT/P66	Bonaparte	100
WA-368-P	Perth	50
AC/P23 (Crux)	Browse	100
WA-377-P (Echuca Shoals)	Browse	100

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