



## December 2009 quarterly report

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### Chairman's comments

Nexus Energy Limited ("Nexus") is pleased to have commenced first production from the Longtom gas project in the December 2009 quarter. This is a significant achievement for the company across both technical and commercial disciplines and Nexus looks forward to many years of stable production from the Longtom asset. The company is now focused on refinancing the Longtom debt, given the project has transitioned from a development project to a producing asset. Furthermore, Nexus has embarked upon a sales process to realise part of the value of the Longtom asset interest in accordance with the company's objective of providing additional funding and deleveraging the balance sheet.

Nexus' priority for 2010 remains the commercialisation of the Crux asset. Discussions are ongoing with potential partners and Shell Development (Australia) Pty Ltd ("Shell"), the owner of the gas in AC/L9, to determine the best option that will deliver the maximum value to shareholders. To assist Nexus in this important effort, new board members with complimentary skill sets and extensive oil and gas industry experience are providing valuable support to the Nexus team.

### December quarter activities

- The Longtom gas project commenced production on 21 October 2009 and is satisfying the contractual off-take obligations under the gas sales agreement with Santos Ltd ("Santos").
- Reserves for the Longtom field were updated during the quarter with a 63% increase in the Proved (1P) reserves.
- The board of Nexus has been strengthened with the appointment of Symon Drake-Brockman, Ian Boserio and Steven Lowden.
- A strategy review on the commercialisation plans for the Crux asset is underway following the appointment of the new board members.
- The redundancy of managing director Ian Tchacos and retirement of Alastair Haydock from the board. A recruitment process for a chief executive officer has commenced.
- Completion of Rights Issue raising proceeds of \$44 million.

## Production & sales revenue

The table below summarises Nexus' production and sales for the quarter ended 31 December 2009.

			Quarter end Dec-09
<b>Gas</b>	Production	PJ	2.16
	Sales	PJ	2.07
<b>Condensate</b>	Production	kbbbl	27.3
	Sales	kbbbl	25.4
<b>Gas &amp; condensate</b>	Net revenue*	A\$ million	9.0

\*Net revenue is after the ~3% production royalty

Production from the Longtom gas project commenced on 21 October 2009 with continuous gas export from 24 October 2009. During the December quarter gas sales averaged 30 TJ/d. Gas sales volumes were in accordance with our gas off-take sales agreement with Santos. Condensate sales volumes for the quarter are lower than production due to the timing of individual truck liftings. The difference between gas production and sales is use of gas for fuel and flare.

## Production assets

### **Longtom gas project (Nexus 100%) VIC/L29 – Gippsland Basin, Victoria**

Development of the Longtom gas project was completed during the quarter. The Longtom gas project is expected to provide Nexus with stable cash flow over the next ten plus years on the back of a Gas Sales Agreement to supply Santos 350 PJ.

During the quarter Nexus announced a Reserves update for the Longtom field incorporating results from the Longtom-4 and Garfish wells. The Longtom field Reserves and Contingent Resources have been audited by Gaffney, Cline and Associates ("GCA"). A summary of movements is shown in the following table.

### **Summary of movements in the Longtom field gas Reserves**

<b>Sales gas (PJ)</b>	<b>Proved (1P)</b>	<b>Proved + Probable (2P)</b>
<b>1 October 2009</b>	<b>282</b>	<b>350</b>
26 April 2007	173	350
Change	+63%	0%

For the Proved plus Probable (2P) case the gas volume has been limited to the contracted quantity of 350 PJ. The additional gas volumes have been assigned to the Contingent Resources category until such time as a firm sales contract for the additional volumes is secured. In addition to the field Reserves, GCA has provided a summary of the Contingent Resources for the Longtom field of up to 71 PJ. The revised 1P gas reserve includes production from the planned Longtom-5 well.

## **Development projects**

### **Crux liquids project (Nexus 85%) \*\* AC/L9 – Browse Basin, Western Australia**

Following the board changes a strategy review for the commercialisation of the Crux asset is underway. Whilst the Crux liquids project will generate earliest cash flow for Nexus, recent announcements regarding the floating LNG (“FLNG”) technology in Australia has highlighted the potential for this to accelerate a gas development at Crux.

An internal review has been conducted on the Crux project liquid reserves given the shorter life of the proposed liquids project. Initial indications are that a development based on only the Crux field would provide recoverable reserves of approximately 65 MMbbl assuming an eight year production life. However, should appraisal drilling prove successful at Auriga, Nexus expects to recover in excess of the 75 MMbbl 2P reserve base currently carried for the Crux liquids project. Work is continuing to attract a suitable joint venture partner to progress the development.

Nexus continues to evaluate all development options for Crux, including the liquids project whilst retaining the value of the contractual rights to participate with respect to liquids under a Shell-operated gas project.

*\*\*Nexus holds an 85% interest in the liquids in AC/L9 which may be recovered via a liquids project prior to 2021 or alternatively, in circumstances where the liquids joint-venture unanimously decides not to progress with a liquids stripping project and notifies Shell of the same prior to 31 December 2020, via a possible Shell operated gas and liquids project in which case the 2021 end date does not apply.*

## **Appraisal and exploration assets**

Exploration activity has focused on maturing plans for potential prospects, subject in certain cases to securing appropriate farm-out arrangements. Prospects include, in the Browse Basin: Auriga-1 in the Crux permit AC/L9, Fossetmaker-2 in WA-377-P (Echuca Shoals); in the Gippsland Basin: Dusky-1 in VIC/P49 and Longtom West in VIC/P54; and in the Perth Basin: Yngling-1 in WA-368-P.

### **AC/L9 Licence (Nexus 85%) Browse Basin, Western Australia**

Two near field appraisal opportunities at Auriga and Caelum have been identified as possible additions to the Crux field. Drilling activity is on hold until a new partner is identified.

### **Echuca Shoals gas discovery (Nexus 66%\*) WA-377-P Permit – Browse Basin, Western Australia**

The potential gas in place at the Echuca Shoals gas field within WA-377-P is approximately 2 Tcf, with the potential for associated condensate. Geological studies also indicate the presence of a deeper exploration target which has the potential to add another 2 Tcf of gas in place. Two additional leads in a deeper and older reservoir section have also been identified on 3D seismic in the north-east of the permit. Nexus plans to farm-out equity in the permit to fund drilling activity and is currently in discussions with interested parties.

*\*During the quarter Shell indicated its intention to withdraw from the permit which would leave Nexus with a 100% interest.*

### **WA-424-P (Nexus 100%) Browse Basin, Western Australia**

Technical evaluation of WA-424-P has begun with the intention of farming out an interest before a commitment well is drilled in late 2010. The oil potential of the permit is confirmed by the small Gwydion oil field which was discovered in 1995. A review of the potential commerciality of this field and an adjacent structure is underway. In addition, several large stratigraphic leads have been identified and work is underway to define drill ready prospects.

**VIC/P54 Permit (Nexus 100%)**

**Gippsland Basin, Victoria**

Reprocessing of 3D seismic data over the Longtom field and the eastern part of VIC/P54 is complete and interpretation of this data is underway to determine the potential for the Longtom trend to extend further east. A gas discovery here could be tied into the nearby Longtom production facilities.

**VIC/P49 Permit (Nexus 80%)**

**Gippsland Basin, Victoria**

The Dusky prospect is a possible extension of the Basker field and is mature for drilling. There is potential for Dusky-1 to be drilled utilising the Kan Tan IV rig in 2H 2010, subject to Joint Venture approval. Interpretation of seismic data over the deep water part of the permit has identified several large structures and further work to generate drill ready prospects is underway prior to farming out an interest in the permit.

**WA-368-P (Nexus 50%)**

**Perth Basin, Western Australia**

Yngling is an oil prospect with a mean unrisked resource of 90 MMbbl. Nexus will seek to farm-out equity in the permit prior to drilling the prospect.

**NT/P66 (Nexus 100%)**

**Bonaparte Basin, Northern Territory**

No activity during the quarter. All drilling commitments for this permit have been fulfilled.

**Cash and funding**

At the end of December the company's cash balance was A\$48 million and the A\$160 million Longtom project finance facility was fully drawn. Financing activity during the quarter included:

- Completion of fully underwritten 1 for 3.75 non-renounceable rights issue at a price of A\$0.22 per share raising A\$44 million
- Longtom development expenditures of A\$26 million
- Repayment of AED deposit of A\$35 million

**Board changes**

In December 2009 Nexus took further steps to reduce operating costs and overheads following the successful completion of the Longtom project, this included a reduction in personnel levels. The position of managing director was also made redundant during the quarter. The company commenced a global search for a chief executive officer with Michael Fowler continuing as executive chairman to oversee the management of the company.

During the quarter non-executive director Alastair Haydock retired from the board and Nexus appointed Ian Boserio, Steven Lowden and Symon Drake-Brockman as non-executive directors.

**Susan Robutti**  
**Company Secretary**

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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")

31 December 2009

### Consolidated statement of cash flows

		Current quarter A\$'000	Year to date (6 months) A\$'000
<b>Cash flows related to operating activities</b>			
1.1	Receipts from product sales and related debtors		
1.2	Payments for		
	(a) exploration and evaluation	(669)	(1,240)
	(b) development	(30,674)	(79,416)
	(c) production	(257)	(257)
	(d) administration	(6,126)	(9,721)
1.3	Dividends received		
1.4	Interest and other items of a similar nature received	412	661
1.5	Interest and other costs of finance paid	(6,533)	(3,611)
1.6	Income taxes paid		
1.7	Other – GST, FX gains/losses	1,127	(551)
<b>Net Operating Cash Flows</b>		<b>(42,720)</b>	<b>(94,135)</b>
<b>Cash flows related to investing activities</b>			
1.8	Payment for purchases of:		
	(a) prospects	(5)	(36)
	(b) equity investments		
	(c) other fixed assets		
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	(35,000)	(35,000)
<b>Net investing cash flows</b>		<b>(35,005)</b>	<b>(35,036)</b>
1.13	Total operating and investing cash flows (carried forward)	<b>(77,725)</b>	<b>(129,171)</b>

+ See chapter 19 for defined terms.

**Appendix 5B**  
**Mining exploration entity quarterly report**

1.13	Total operating and investing cash flows (brought forward)	(77,725)	(129,171)
	<b>Cash flows related to financing activities</b>		
1.14	Proceeds from issues of shares, options, etc.	43,541	74,517
1.15	Proceeds from sale of forfeited shares		
1.16	Proceeds from borrowings	27,010	45,911
1.17	Repayment of borrowings		
1.18	Dividends paid		
1.19	Other		
	– borrowing transaction costs		
	– equity transaction costs	(1,187)	(1,365)
	– Finance lease repayments		
	<b>Net financing cash flows</b>	69,364	119,062
	<b>Net increase (decrease) in cash held</b>	(8,361)	(10,109)
1.20	Cash at beginning of quarter/year to date	53,137	55,377
1.21	Exchange rate adjustments to item 1.20	(35)	(527)
1.22	<b>Cash at end of quarter</b>	44,741	44,741

**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	2,215
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

Increase in loan facilities available and used resulting from capitalised interest during the quarter amounted to \$6.1 million.

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	296,293	296,293
3.2	Credit standby arrangements (\$60m letter of credit provided as security for completion of certain capital works on the Longtom project and for obligations in respect to gas deliveries)	60,000	60,000

**Estimated cash outflows for next quarter**

		\$A'000
4.1	Exploration and evaluation	1,549
4.2	Development	6,000
<b>Total</b>		<b>7,549</b>

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+ See chapter 19 for defined terms.

**Appendix 5B**  
**Mining exploration entity quarterly report**

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**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	28,501	27,900
5.2	Deposits at call	1,644	1,620
5.3	Bank overdraft		
5.4	Other (including escrow accounts and project finance facility reserve account)	14,596	23,617
<b>Total: cash at end of quarter</b> (item 1.22)		44,741	53,137

**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			

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+ See chapter 19 for defined terms.

**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 <b>Preference +securities</b> <i>(description)</i>				
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3 <b>+Ordinary securities</b>	958,061,849	958,061,849		
7.4 Changes during quarter (a) Increases through issues  (b) Decreases through returns of capital, buy-backs	215,911,666	215,911,666	\$0.22	\$0.22
7.5 <b>+Convertible debt securities</b> <i>(description)</i>				
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7 <b>Options</b> <i>(description and conversion factor)</i>	31,884,058  90,000 148,000 359,800 2,590,700 4,727,100		<i>Exercise price</i> 204 cents  225 cents 219 cents 225 cents 147 cents Zero	<i>Expiry date</i> 15 January 2013 (warrants) 28 April 2011 23 May 2011 23 May 2011 24 December 2012 30 June 2012
7.8 Issued during quarter			<i>Exercise Price</i>	<i>Expiry Date</i>

+ See chapter 19 for defined terms.

**Appendix 5B**  
**Mining exploration entity quarterly report**

7.9	Exercised during quarter			<i>Exercise Price</i>	<i>Exercise Date</i>
7.10	Expired during quarter	257,400 91,500		<i>Exercise Price</i>  <i>Zero</i> <i>Zero</i>	<i>Expiry Date</i>  26 November 2009 24 December. 2009
7.11	<b>Debentures</b> <i>(totals only)</i>				
7.12	<b>Unsecured notes</b> <i>(totals only)</i>				

**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 give a true and fair view of the matters disclosed.

Sign here: ..... Date: 29 January 2010  
 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.
- 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 6: Exploration for and Evaluation of Mineral Resources* and *AASB 107: Cash Flows Statement* 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.

+ See chapter 19 for defined terms.

Schedule of Exploration Permits  
Held by Consolidated Entity  
At 31 December 2009

<u>Permit</u>	<u>Basin</u>	<u>Interest %</u>
VIC/P54	Gippsland	100
VIC/L29	Gippsland	100
VIC/P49	Gippsland	80
NT/P66	Bonaparte	100
WA-368-P	Perth	50
AC/L9	Browse	85
WA-377-P	Browse	66
WA-424-P	Browse	100

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+ See chapter 19 for defined terms.