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## December 2008 quarterly report & Appendix 5B

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### December quarter activities:

- Longtom gas project: onshore construction work is underway with project on schedule and on budget for first gas in mid 2009.
- Crux liquids project: technical definition complete and project ready for an investment decision once FPSO charter and financing are in place. Well hardware ordered to enable the drilling of the first two 2009 wells in exploration permit AC/P23.
- Success with the Libra-1 exploration well in the AC/P41 exploration permit encountering a 206 metre gross hydrocarbon column. The Libra success significantly increases the potential resource size and likelihood of success at the Auriga prospect in AC/P23.
- Completion of farm-out agreements for exploration permit AC/P41 with Mitsui E&P Australia (for a 20% interest) and with Shell Development (Australia) Pty Ltd (for a 15% interest).
- Formal divestment process commenced focused on AC/P23 exploration permit and associated Crux liquids project, but expanded to include potential corporate offers.
- New Browse Basin exploration permit, WA-424-P, awarded with proven oil and gas potential.
- Cash balance at quarter end A\$51.7 million.

### Post quarter end and forecast activities for the March 2009 quarter:

- Sale of Roc Oil Company Limited ("Roc") shares in Q1 2009 releases further A\$23.5 million of cash.
- Results of divestment process anticipated in the coming month. Indicative proposals being considered at both the asset and corporate level with due diligence underway.
- Longtom offshore pipeline installation expected to commence in March 2009.

## **DEVELOPMENT PROJECTS**

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

Development of the Longtom gas project continued with first gas expected in mid 2009. The project is currently forecast to be delivered within its budget as revised last year, and restated to Australian dollars at current exchange rates, of A\$300 million (gross), including A\$20 million unallocated contingency.

Project activity during the December quarter included:

- Onshore construction work for the upgrade of Santos' Orbost gas plant, now underway with major procurement complete and civils and structural steelwork well advanced.
- Completion of sea trials for the new-build Aussie-1 pipelay barge contracted for the offshore installation work. The vessel is scheduled to commence work at the Longtom gas field for the offshore installation of the pipeline, the control umbilical and the associated subsea hardware and control equipment during March 2009.

### **Crux liquids project (Nexus 85%) \*\* AC/P23 Permit – Browse Basin, Western Australia**

Nexus has completed the technical definition for the Crux liquids project. The Crux project is technically ready for the final investment decision ("FID") with completion of the commercial arrangements for the charter of the floating production storage and offloading ("FPSO") and financing for the project the key remaining hurdles. The upstream capital estimate, based on a leased FPSO vessel, is US\$650-700 million gross, with approximately 75% of the costs now defined. The commitment to time critical equipment is expected to allow delivery of first production by mid 2011. Timing of FID, and consequently first production, will be dependent on the results of the ongoing divestment process.

Well equipment will be delivered during early 2009 for the commencement of an initial two well drilling program scheduled for mid 2009. The initial drilling program includes a well in the Octans area of the Crux field and exploration drilling on the adjacent Auriga prospect. The reserves potential and likelihood of success at Auriga has been enhanced as a result of the success of the Libra-1 well in the adjacent AC/P41 exploration permit. Additional reserves at Auriga would significantly enhance Crux liquids project economics and resilience to low oil price.

Project activity during the December quarter included:

- Detailed planning for the Q2 2009 Transocean Legend drilling campaign with delivery of long lead materials to meet the program schedule. Construction of two wellhead trees and associated subsea control systems is underway.
- Fabrication of the two long lead gas turbine powered gas injection compressors at GE in Italy continues, ahead of schedule.
- Completion of geotechnical survey with coring and sampling over the Crux FPSO location area, to obtain data for anchor and flowline design.
- Termination of the Memorandum of Agreement ("MOA") with Vanguard Oil and Gas International Limited and Viking Shipping Limited (together "Viking") for the supply of a FPSO. Termination was as a result of the Crux joint venture deciding that the project was unable to proceed to FID based on the proposed arrangements with Viking. As a result, the joint venture is now progressing negotiations for an alternative arrangement with an industry-leading FPSO provider.

*\*\* Nexus holds an 85% interest in the liquids in AC/P23 which may be recovered via a liquids project prior to 2021 or alternately via a combined gas and liquids project in which case the 2021 end date does not apply.*

## **APPRAISAL AND EXPLORATION ASSETS**

Exploration activity has focused on the Libra-1 gas discovery drilled in the December quarter and on maturing plans for up to six prospects to be drilled over the next 12–18 months, subject in certain cases to securing appropriate farm-out arrangements. These would comprise, in the Browse Basin: the Auriga-1 well in the Crux permit AC/P23, the Octans-1 well and another commitment well in permit AC/P41 adjacent to the Crux field, and the Fossetmaker-2 well in permit WA-377-P (Echuca Shoals); the Dusky-1 well in the Gippsland Basin permit VIC/P49 adjacent to the producing Basker field; and the Yngling-1 well in the Perth Basin in WA-368-P.

### **Echuca Shoals gas discovery (Nexus 66%)**

#### **WA-377-P Permit – Browse Basin, Western Australia**

Following the drilling of the Fossetmaker-1 well, detailed seismic inversion studies and geologic assessment of the well data has been undertaken. These studies indicate that the potential gas in place at the Echuca Shoals gas field within exploration permit WA-377-P is approximately 2 Tcf, with the potential for associated condensate. Another well will be required to test this potential and several possible well locations are being considered. These studies also indicate the presence of a deeper exploration target in an older reservoir section which has the potential to add another 2 Tcf of gas in place - this deeper reservoir section could be tested by deepening the well drilled to appraise the existing gas field. Detailed technical work was undertaken during the quarter in preparation for farm-out discussions. Subject to farm-out, Nexus is targeting a follow-up well to be drilled later in 2009.

### **VIC/L29 Permit (Nexus 100%)**

#### **Gippsland Basin, Victoria**

Results from the Garfish-1 exploration well and Longtom-4 development well are being incorporated into the Longtom gas field reservoir model to review current 1P and 2P reserves. The outcome of this study work is expected during Q2 2009.

### **AC/P41 Permit (Nexus 15%)**

#### **Browse Basin, Western Australia**

The Libra-1 well was drilled during the quarter and encountered a 206 metre gas column with better than expected net to gross ratio in the reservoir section. The hydrocarbon column at Libra-1 has a shallower gas water contact than the Crux field indicating that the Libra field is a separate accumulation. Nexus estimates that gas volumes within the Libra field are in line with its pre-drill expectations of 500 Bcf. A second AC/P41 commitment exploration well is planned to be drilled in Q2 2009 while a third commitment well may be drilled in Q4 2009. The majority of Nexus' drilling costs will be carried for the next two exploration wells.

### **AC/P23 Permit (Nexus 85%)**

#### **Browse Basin, Western Australia**

Success with the Libra-1 well in adjacent AC/P41 has very positive consequences for the Auriga prospect in the AC/P23 permit, containing the Crux field, where Nexus holds an 85% interest in the liquids. It is planned to drill Auriga in Q2 2009.

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

#### **Gippsland Basin, Victoria**

The Dusky prospect is mature for drilling. Dusky is a possible extension of the Basker oil field and the Kan Tan IV drilling rig has been contracted to drill the prospect in Q1 2010. Tiger and Leopard leads have also been identified on regional seismic lines in the deep water part of the basin and interpretation of seismic over these leads is nearing completion.

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

**Bonaparte Basin, Northern Territory**

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

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

**Perth Basin, Western Australia**

Yngling is an oil prospect with a mean unrisksed resource of 90 MMbbl.

**WA-424-P (Nexus 100%)**

**Browse Basin, Western Australia**

This block was awarded to Nexus during the quarter. Exploration permit WA-424-P is a large block located on the southern edge of the Browse Basin with proven oil and gas potential. The oil potential is confirmed by the small Gwydion oil field which was discovered in 1995. Nexus plans to test the large Tristram prospect which will evaluate the potential of a Jurassic aged stratigraphic trap. Nexus plans to farm-out this permit before the well is scheduled to be drilled in late 2010.

## **CORPORATE**

### **Cash flow and funding**

Exploration and development expenditure for the quarter, on a cash basis, was A\$83.5 million. This included development expenditure of A\$71.7 million, comprising A\$49 million in respect of the Longtom project mainly in relation to the Longtom-4 well drilled in the September quarter, plus work on the onshore plant, and A\$23 million in respect of the Crux project, principally for long lead equipment purchases. Exploration and appraisal cash expenditure totalled A\$11.8 million, mostly in respect of the Garfish (VIC/L29) and Sidestep (NT/P66) exploration wells drilled in the previous quarter. Expenditures in the quarter were funded from existing cash resources, the asset sales noted below and, in the case of the Longtom project, drawdowns of A\$35 million under the project finance facility.

Financing activity during the December quarter included:

- repayment of the outstanding A\$26.5 million loan established with Bank of Scotland International to finance shares in Anzon Australia Limited ("Anzon");
- cancellation of the Crux early stage project finance facility that had been prepaid in September 2009, following which the Crux asset is unencumbered; and
- farm-out of interests in exploration permit AC/P41 to Mitsui E&P Australia for a 20% interest and to Shell Development (Australia) Pty Ltd for a 15% interest, generating some A\$70 million in funding in the December quarter in addition to the carry of the majority of expenditure attributable to Nexus' remaining 15% working interest in AC/P41, including for the Libra-1 exploration well which was in progress at year end.

In October, Nexus accepted the takeover offer by Roc in respect of its shareholding in Anzon, resulting in a holding of 56.4 million ordinary shares in Roc and receipt of A\$3.5 million cash. Subsequently, Nexus decided to divest its investment in Roc through market sales and held 37.7 million shares at the end of December. The remaining Roc shares were sold in early January 2009 with total sale proceeds for all Roc shares of A\$29.5 million.

As at the end of December the company's cash balance was A\$51.7 million. On a pro forma basis adjusting for proceeds from the sale of the shares in Roc received in early January 2009, cash was A\$75 million. The end December balance included A\$6 million to be used to meet Longtom project expenditures, drawn under the debt facility prior to 31 December, plus a further A\$15 million of cash restricted for any Longtom cost overruns. Pro forma available cash for Crux project and other general expenditures was therefore A\$54 million.

At 31 December 2008, A\$55 million of the A\$160 million Longtom project finance facility was utilised, with A\$90 million, plus a cost overrun tranche of A\$15 million, remaining available. Cash costs to completion on the Longtom project as at 31 December 2008 were estimated at approximately A\$120 million, out of a total project cost of A\$300 million, both figures including contingencies.

Projected cash expenditure on exploration and development for the first quarter 2009 is A\$86 million, of which A\$47 million relates to Longtom and is expected to be funded from the project finance facility including the A\$6 million previously drawn and included in year end cash. These forecast amounts are estimates subject to change due to the inherent risks and uncertainties of any such estimates.

Nexus' average net selling price of Roc shares was A\$0.52 per share, which will result in recognition of a loss as compared with the original purchase price of A\$119 million. This will be partly offset by gains on the sale of interests in exploration permit AC/P41 during the December quarter.

### **Update on global sales process for an interest in AC/P23**

A global sale process for an interest in the AC/P23 exploration permit was announced on 7 October 2008 with Deutsche Bank AG appointed to conduct this process. As announced at the November Annual General Meeting the Board's intention is that it will evaluate all serious proposals including offers at the corporate level for Nexus with an objective to maximise value to all shareholders.

A number of parties have now made indicative offers with the due diligence process underway across a range of possible transactions (both at the asset and the corporate level) that will be evaluated over the coming weeks. There has been a delay in the sales process timing due in part to the belated Libra drilling results (exploration permit AC/P41) and slower progress by interested parties during the festive season. Nevertheless, results of the divestment process are anticipated in the coming month, with transaction execution still targeted in Q1 2009.

Further updates will be provided on the sale process in due course.

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**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 Dec 2008

### 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	(11,815)	(41,048)
	(b) development	(71,671)	(159,232)
	(c) production		
	(d) administration	(5,801)	(12,990)
1.3	Dividends received		
1.4	Interest and other items of a similar nature received	292	4,060
1.5	Interest and other costs of finance paid	(1,600)	(1,713)
1.6	Income taxes paid		
1.7	Other – GST, FX gains/losses	27	3,246
<b>Net Operating Cash Flows</b>		<b>(90,568)</b>	<b>(207,677)</b>
<b>Cash flows related to investing activities</b>			
1.8	Payment for purchases of:		
	(a) prospects		
	(b) equity investments		
	(c) other fixed assets	(421)	(933)
1.9	Proceeds from sale of:		
	(a) prospects		
	(b) equity investments	9,565	9,565
	(c) other fixed assets		
1.10	Loans to other entities		
1.11	Loans repaid by other entities		
1.12	Other – Sale of permit interests	70,543	70,543
<b>Net investing cash flows</b>		<b>79,687</b>	<b>79,175</b>
1.13	Total operating and investing cash flows (carried forward)	<b>(10,881)</b>	<b>(128,502)</b>

+ See chapter 19 for defined terms.

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

1.13	Total operating and investing cash flows (brought forward)	(10,881)	(128,502)
	<b>Cash flows related to financing activities</b>		
1.14	Proceeds from issues of shares, options, etc.		8,283
1.15	Proceeds from sale of forfeited shares		
1.16	Proceeds from borrowings	34,850	34,850
1.17	Repayment of borrowings	(26,500)	(89,500)
1.18	Dividends paid		
1.19	Other		
	– borrowing transaction costs		
	– equity transaction costs	(1)	(112)
	– Finance lease repayments	(3)	(4)
	<b>Net financing cash flows</b>	8,346	(46,483)
	<b>Net increase (decrease) in cash held</b>	(2,535)	(174,985)
1.20	Cash at beginning of quarter/year to date	53,094	223,807
1.21	Exchange rate adjustments to item 1.20	1,119	2,856
1.22	<b>Cash at end of quarter</b>	51,678	51,678

**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	205
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

Not included in the amounts reported in 1.23 above are fees of \$814,000 paid for legal services in the ordinary course of business to Clayton Utz, a firm which one of the Company's directors is a partner.

**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 \$4.0 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.

As part of a farm-out agreement with an entity for an interest in exploration permit AC/P41, that entity funded Nexus' participating interest related to the drilling costs for the Libra-1 well amounting to \$7.7 million for the quarter.

**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	284,338	179,188
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	11,000
4.2 Development	75,000
<b>Total</b>	<b>86,000</b>

+ 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	22,139	12,810
5.2 Deposits at call	12,940	38,347
5.3 Bank overdraft		
5.4 Other (including escrow accounts and project finance facility reserve account)	16,579	1,937
<b>Total: cash at end of quarter (item 1.22)</b>	<b>51,678</b>	<b>53,094</b>

**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	AC/P41	Exploration permit	50	15
6.2 Interests in mining tenements acquired or increased	WA-424-P	Exploration Permit	0	100

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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>	645,350,183	645,350,183		
7.4 Changes during quarter (a) Increases through issues  (b) Decreases through returns of capital, buy-backs				
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>	1,101,000 319,500 31,884,058  90,000 99,500 148,000 359,800 97,600 2,590,700		<i>Exercise price</i> 162 cents 195 cents 207 cents  225 cents 233 cents 219 cents 225 cents 225 cents 150 cents	<i>Expiry date</i> 14 January 2009 27 February 2009 15 January 2013 (warrants) 28 April 2011 27 July 2009 23 May 2011 23 May 2011 28 September 2009 24 December 2012

+ See chapter 19 for defined terms.

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

7.8	Issued during quarter	2,590,700		<i>Exercise Price</i>  <i>150 cents</i>	<i>Expiry Date</i>  <i>24December 2012</i>
7.9	Exercised during quarter			<i>Exercise Price</i>	<i>Exercise Date</i>
7.10	Expired during quarter	4,431,100		<i>Exercise Price</i>  <i>162 cents</i>	<i>Expiry Date</i>  <i>23 December 2008</i>
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: 23 January 2009  
 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.

+ See chapter 19 for defined terms.

- 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.

Schedule of Exploration Permits  
Held by Consolidated Entity  
At 31 December 2008

<u>Permit</u>	<u>Basin</u>	<u>Interest %</u>
VIC/P54	Gippsland	100
Longtom Sole Risk Programme (VIC/L29)	Gippsland	100
VIC/P49	Gippsland	80
NT/P66	Bonaparte	100
WA-368-P	Perth	50
AC/P23	Browse	85
WA-377-P	Browse	66
AC/P41	Browse	15
WA-424-P	Browse	100

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