



June 2010 quarterly report

Chairman's comments

Nexus Energy Limited ("Nexus") is pleased to report that a number of initiatives were successfully carried out during the quarter under the guidance of Richard Cottee, who during the quarter transitioned from Chief Executive Officer to Managing Director.

Balance sheet

Nexus was successful in securing an equity line of credit for A\$50 million during the period. We also announced the Exchange Offer for New Notes to replace the majority of our existing Subordinated Notes which not only eases the cash burden from an interest perspective until mid 2011 but also pushes out the maturity date until 2017 to better align commitments with Nexus' assets and revenue from those assets.

Crux

Under Richard Cottee's guidance, the Nexus management team has been actively revising strategies to ensure that Nexus's largest asset, the Crux liquids project, is commercialised in a manner consistent with the terms of the AC/L9 Production Licence. The Production Licence for Crux currently requires the Title holder to commence recovery operations on or before 23 February 2014.

Nexus has held discussions with a build/own/operate ("BOO") contractor for the provision of an FPSO who has confirmed the project's viability and indicated its capacity to provide funding from its own third party financiers. In addition, Nexus has obtained an indication from a major Australian bank that it is willing to be mandated to provide additional project finance. Both sources of finance would need to be subject to standard commercial terms including:

- Confirmation that the Crux Title arrangements are adequate so as to provide a bankable production and return period of ten years. This would require an extension of the 31 December 2020 hand over date;
- Standard subordination rights;
- Confirmation of Nexus' ability to effect sell-downs of Crux project equity if required.

These terms require negotiation with the other legal and equitable Title holders in Crux.

Longtom

During the quarter our focus has been to resume Longtom gas production. We have been working closely with Santos during the period and are on track for gas production to resume in late September.

Michael Fowler
Executive Chairman

Production & sales revenue

The table below summarises Nexus' production and sales for the quarter ended 30 June 2010 and financial year.

			<u>Quarter end</u>			<u>Financial year</u>
			<i>June-2010</i>	<i>March-2010</i>	<i>Delta</i>	<i>30-June-2010</i>
Gas	Production	PJ	0.96	3.32	-71%	6.44
	Sales	PJ	0.93	3.22	-71%	6.23
Condensate	Production	kbbl	11.2	40.1	-72%	78.6
	Sales	kbbl	12.9	40.0	-68%	78.4
Total	Net revenue*	A\$ million	4.5	14.8	-69%	28.3

*Net revenue is after the ~3% production royalty

Production and sales ceased from the Longtom field on 23 April 2010 following the detection of low levels of mercury in the delivered gas. 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

On 23 April 2010, Nexus advised the market that production was halted from the Longtom field after routine gas testing detected low levels of mercury in the produced gas. Nexus is working with Santos on the installation of mercury removal equipment at the onshore Patricia Baleen gas plant. The equipment is to be installed by late September 2010 with Nexus targeting gas production to resume at that time.

Monitoring of the reservoir pressure during the production shut down has indicated that the reservoir distribution may be more complex than previously modelled and therefore the originally planned Longtom-5 development well may be brought forward. Nexus also believes that an earlier drilling date may improve data in the Gippsland region for drilling additional nearby prospects.

Reconciliation of the reservoir pressure behaviour with field mapping is ongoing coupled with further data on the undeveloped 400 sands on Longtom-3, with the results being finally known around March 2011. This will be used as the basis for a review of the full field development plan and an update to the reserves which is expected to be available after March 2011.

Development projects

Crux liquids project (Nexus 85%) **

AC/L9 – Browse Basin, Western Australia

Nexus has been in discussions with a build/own/operate ("BOO") contractor for the provision of an FPSO for the Crux liquids project. In accordance with the AC/L9 Production Licence terms, recovery operations are required on or before 23 February 2014**.

The BOO contractor has confirmed the project's viability and indicated its capacity to provide funding from its own third party financiers subject to standard commercial terms including confirmation that the Crux Title arrangements are adequate so as to provide a bankable production and return period of ten years. This would require an extension of the 31 December 2020 hand over date and negotiation with the other legal and equitable Title holders in Crux.

**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 and Caelum-1 in the Crux permit AC/L9, Fossetmaker-2, Backmaker and Mashmaker-1 in WA-377-P (Echuca Shoals); in the Gippsland Basin: Longtom West in VIC/P54; Longtom South in VIC/L29 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 100%)

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 3 Tcf, with the potential for associated condensate. Geological studies also indicate the presence of deeper exploration potential at Backmaker which could add up to another 6 Tcf of gas in place. An additional prospect (Mashmaker) has been identified on 3D seismic in the north-east of the permit in the prospective Plover reservoir.

WA-424-P (Nexus 100%)

Browse Basin, Western Australia

Discussions are underway with interested parties with a view to farming out the permit in order to drill the commitment well. Recent technical work has highlighted the potential for the Gwydion oil discovery to be larger than previously thought.

WA-368-P (Nexus 50%)

Perth Basin, Western Australia

Yngling is an oil prospect with a mean unrisked resource of 90 MMbbl. Nexus is seeking to farm-out equity in the permit prior to drilling the prospect. The company is investigating the availability of a suitable rig to drill the permit. A six month permit extension has been awarded.

VIC/P54 Permit (Nexus 100%)

Gippsland Basin, Victoria

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

VIC/L29 Licence (Nexus 100%)

Gippsland Basin, Victoria

Interpretation of the reprocessed 3D seismic data has resulted in the generation of a new prospect, Longtom South, which has potential oil and gas targets at a range of horizons.

VIC/P49 Permit

Gippsland Basin, Victoria

The permit expired during the quarter.

NT/P66 (Nexus 100%)

Bonaparte Basin, Northern Territory

Nexus elected to withdraw from the permit during the quarter. As at 30 June 2010 Nexus had not received confirmation that the request had been processed.

Cash flow and funding

At the end of June the company's cash balance was A\$25 million with a net decrease of A\$9 million for the quarter.

Nexus received cash payments from sales revenue from the Longtom gas project of A\$10 million for the period until the production halt. Production costs include processing tariff, opex and prepayment of tariffs in the form of take or pay charges totalling A\$9 million. Cash interest and financing costs for the quarter reflect interest and fee charges on the Longtom project debt facility.

As at 30 June 2010, total loan facilities of A\$303 million are represented by the fully drawn Longtom project debt facility (A\$160 million) and fully capitalised Unsecured Senior Subordinated Notes (A\$143 million). The available Standby Letter of Credit has been issued to Santos in support of Nexus' obligations under the Longtom Gas Sales Agreement. The Letter of Credit was undrawn at the end of the quarter and remains so.

During the quarter, Nexus announced the establishment of an \$A50 million equity facility with US-based investment fund YA Global Master SPV Ltd. The terms of the equity facility provide that at Nexus' option, subject to customary conditions, Nexus is able to issue shares to YA Global at any time over the next 60 months, up to a total value of A\$50 million by drawdowns of up to A\$2 million in any 10 trading day period. The facility has not been utilised and provides liquidity support for general corporate purposes, if required.

After the quarter end, Nexus announced that Binding Commitments were entered with 85.82% of the holders of the A\$110 million Unsecured Senior Subordinated Notes due 2013 ("Committed Noteholders"). Under the Binding Commitments, the Committed Noteholders agreed to accept the Exchange Offer. The key terms of the Exchange Offer being the exchange of Existing Notes for (i) new Unsecured Senior Subordinated Notes, Tranche A of which are due in 2017 and Tranche B of which are due in 2013 ("New Notes"), and (ii) issue of up to 35 million Nexus ordinary shares being subject to a 6 month escrow. The value of Existing Notes exchanged and the number of shares issues will be confirmed following settlement of the Exchange Offer.

The issuance of the New Notes removes the financial impediments to the early development of Crux by postponing the maturity until after the date on which Crux needs to be developed under its existing production licence (being 2014). The New Notes also maximise the Group's near-term cash flows to counter the effect of the interruption of production at Longtom as well as providing interest rate relief until 2013 to enable the Company to focus on its growth strategy.

Management update

On 19 April 2010, Nexus announced the appointment of Mr Richard Cottee as Chief Executive Officer. In the period since his appointment, Mr Cottee has established strong foundations on which the Company will progress its growth strategy and on 22 July 2010 was appointed Managing Director.

Susan Robutti
Company Secretary

For further information please contact:
Richard Cottee – Managing Director
Ph: +61 3 9660 2500

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")

30 June 2010

Consolidated statement of cash flows

		Current quarter A\$'000	Year to date (12 months) A\$'000
Cash flows related to operating activities			
1.1	Receipts from product sales and related debtors	10,276	27,727
1.2	Payments for		
	(a) exploration and evaluation	(2,482)	(2,522)
	(b) development	(295)	(84,822)
	(c) production	(8,878)	(24,146)
	(d) administration	(3,452)	(18,519)
1.3	Dividends received		
1.4	Interest and other items of a similar nature received	430	1,350
1.5	Interest and other costs of finance paid	(4,838)	(13,340)
1.6	Income taxes paid		
1.7	Other – GST, FX gains/losses	519	306
Net Operating Cash Flows		(8,720)	(113,966)
Cash flows related to investing activities			
1.8	Payment for purchases of:		
	(a) prospects		
	(b) equity investments		
	(c) other fixed assets	(10)	(47)
1.9	Proceeds from sale of:		
	(a) prospects		
	(b) equity investments		
	(c) other fixed assets	-	5
1.10	Loans to other entities		
1.11	Loans repaid by other entities		
1.12	Other	-	(35,000)
Net investing cash flows		(10)	(35,042)
1.13	Total operating and investing cash flows (carried forward)	(8,730)	(149,008)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(8,730)	(149,008)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	-	74,517
1.15	Proceeds from sale of forfeited shares		
1.16	Proceeds from borrowings	-	45,911
1.17	Repayment of borrowings		
1.18	Dividends paid		
1.19	Other		
	– borrowing transaction costs		
	– equity transaction costs	-	(1,365)
	– Finance lease repayments		
	Net financing cash flows	-	119,063
	Net increase (decrease) in cash held	(8,730)	(29,945)
1.20	Cash at beginning of quarter/year to date	33,623	55,377
1.21	Exchange rate adjustments to item 1.20	31	(508)
1.22	Cash at end of quarter	24,924	24,924

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	641
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

<p>Increase in loan facilities available and used resulting from capitalised interest during the quarter amounted to \$4 million.</p>

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	303,207	303,207
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	512
4.2 Development	3,506
Total	4,018

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	17,841	23,691
5.2 Deposits at call	1,307	1,660
5.3 Bank overdraft	-	-
5.4 Other (including escrow accounts and project finance facility reserve account)	5,776	8,272
Total: cash at end of quarter (item 1.22)	24,924	33,623

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	VIC/P49	Exploration Permit	80	0
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	958,061,849	958,061,849		
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs				
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>	31,884,058		<i>Exercise price</i> 204 cents	<i>Expiry date</i> 15 January 2013 (warrants)
	90,000		225 cents	28 April 2011
	148,000		219 cents	23 May 2011
	359,800		225 cents	23 May 2011
	2,590,700		147 cents	24 December 2012
	3,863,800		Zero	30 June 2012
7.8 Issued during quarter			<i>Exercise Price</i>	<i>Expiry Date</i>
7.9 Exercised during quarter			<i>Exercise Price</i>	<i>Exercise Date</i>
7.10 Expired during quarter	620,000		<i>Exercise Price</i> Zero	<i>Expiry Date</i> 15 May 2010
	20,500		Zero	29 May 2010
	42,900		Zero	7 June 2010
	118,100		Zero	14 June 2010
7.11 Debentures <i>(totals only)</i>				
7.12 Unsecured notes <i>(totals only)</i>				

+ See chapter 19 for defined terms.

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: 30 July 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.

**Schedule of Exploration Permits
Held by Consolidated Entity
At 30 June 2010**

Permit	Basin	Interest %
VIC/P54	Gippsland	100
VIC/L29	Gippsland	100
WA-368-P	Perth	50
NT/P66*	Bonaparte	100
AC/L9	Browse	85
WA-377-P	Browse	100
WA-424-P	Browse	100

* On 17 June 2010 Nexus applied to surrender exploration permit NT/P66. As at 30 June 2010 Nexus had not received confirmation that the application had been processed.

+ See chapter 19 for defined terms.