

NEXUS ENERGY LIMITED



**FOR QUARTER ENDED
DECEMBER 2004**

HIGHLIGHTS

- Successful Drilling Program in Gippsland Basin
- Successful appraisal of Longtom gas field with discovery of additional gas bearing sands
- Successful gas flow from Longtom gas field
- Discovery of new gas field - Grayling
- Acquisition of new permit VIC/P49
- 4 well drilling program planned for next 12 months
- Successful capital raising completed - \$14 million



28 January 2005
(ASX code: NXS)

“ACTIVITIES UPDATE”

Status of Gippsland Basin Permits

VIC/P54 (Nexus 37.5%)

During the December quarter a successful exploration well was drilled on the Longtom structure encountering gas in a reservoir interval which had not previously yielded commercial production in the Gippsland Basin. A Drill Stem Test (DST) in a lower zone flowed at 19 mmcfpd during a 12 hour flow period. Despite similar log responses to the zone that had already flowed a second DST in an upper zone did not flow any hydrocarbons to surface. Following this the Longtom #2 well was sidetracked and a core was cut over the upper zone to establish whether formation damage had occurred or whether the sandstones were impermeable. The results of the coring will become available in the March 2005 quarter.

Additional geotechnical and engineering work is currently being carried out by Nexus to determine the full potential of the Longtom gas field with a view to drilling a further appraisal well later this year..

A second exploration well, Grayling-1, was spudded in December. The well successfully confirmed three gas columns in the intra Latrobe and Golden Beach intervals. Results obtained from the wireline logs provided sufficiently good data regarding reservoir quality and hydrocarbon composition not to warrant a DST. The well confirmed the viability of the Golden Beach sands as an exploration target in VIC/P54.

Gas at the Grayling location may provide additional reserves for a future development in VIC/P54. Additional geotechnical and engineering work is currently being carried out by Nexus to determine the reserves estimates of the Grayling gas discovery.

A third commitment well is required to be drilled in the permit prior to April 2006.

VIC/P56 and VIC/P49 (Nexus 100%)

During the quarter Nexus acquired VIC/P49, a large (2,351 sq. km) permit in the Gippsland Basin offshore Victoria, from the previous holders EnCana Corporation (of Alberta, Canada) in exchange for an overriding royalty of between 4% and 5% depending on the volume of hydrocarbons produced.

The permit is situated in close proximity to several significant producing oil and gas fields including Tuna, Flounder, Halibut, Terakihi/Blackback and Marlin, but lies within an area that Nexus believes is under-explored, containing only two wells: Great White 1 and Whaleshark 1.

VIC/P49 is immediately adjacent to Nexus's wholly owned permit VIC/P56, where Nexus plans to drill an exploration well later this year.

Two prospects, Culverin targeting “Top Latrobe reservoirs” and Scimitar targeting “Intra Latrobe and Golden Beach reservoirs”, overlie each other and can be tested by a single well. Culverin and Scimitar straddle the permit boundary between VIC/P56 and VIC/P49 and have the potential to contain mean oil

reserves of 100 million barrels and 64 million barrels respectively.

Nexus is currently offering both the VIC/P56 and VIC/P49 permits in a single package to potential farminees. A farmout is expected to be completed in the second quarter of 2005.

Discussions have commenced with rig owners to obtain up to two drilling slots for the forthcoming drilling campaign.

VIC/P39(v) (Nexus 100%)

Acquisition of 250 km of 2D seismic data over the Angus and Galloway Leads in VIC/P39(v) will commence in early February 2005 and will take 3 – 4 days to complete. These leads have the potential to contain mean oil reserves of 25 million barrels and 30 million barrels respectively.

Environmental studies have commenced for the subsequent drilling phase. The possibility of drilling the two prospects from onshore in order to reduce costs and time to first production is being evaluated.

Given the proximity of the block to shore and the nature of the prospectivity of the two prospects, the Company will consider the possibility of drilling at a 100% equity level rather than farmout. A well will be drilled as soon as is practicable in 2005.

Status of Bonaparte Basin Permit - NT/P66 (Nexus 100%)

The 3,294 km Fog Bay 2D seismic survey was completed on schedule during October with the processing of the data by Veritas in Singapore being completed in January 2005. The seismic data will then be interpreted in the first quarter of 2005 in conjunction with the airborne gravity data that was acquired in June 2004. Once the interpretation is completed, Nexus plans to farmout the permit before drilling a well during the 3rd Quarter of 2005.

Corporate

During the quarter the company completed a successful capital raising of \$14 million by placing 27.8 million share at 51 cents each to institutions and a range of sophisticated clients of Euroz Securities Limited and Grange Securities Limited and was also offered to sophisticated clients of EL & C Baillieu Stockbroking Limited.

**For further information, please contact:
Ian Tchacos on (03) 9660 2500
Email: itchacos@nxs.com.au**

Rule 5.3

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 2004

Consolidated statement of cash flows

| Cash flows related to operating activities | Current quarter \$A'000 | Year to date (12 months) \$A'000 |
|--|----------------------------|--|
| 1.1 Receipts from product sales and related debtors | | |
| 1.2 Payments for (a) exploration and evaluation (b) development (c) production (d) administration | (4,380) | (4,876) |
| 1.3 Dividends received | (657) | (1,184) |
| 1.4 Interest and other items of a similar nature received | 110 | 218 |
| 1.5 Interest and other costs of finance paid | (1) | (2) |
| 1.6 Income taxes paid | | |
| 1.7 Other - GST refunds | 276 | 359 |
| Net Operating Cash Flows | (4,652) | (5,485) |
| Cash flows related to investing activities | | |
| 1.8 Payment for purchases of: (a)prospects (b)equity investments (c) other fixed assets | (5) | (24) |
| 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 (provide details if material) | | |
| Net investing cash flows | (5) | (24) |
| 1.13 Total operating and investing cash flows (carried forward) | (4,658) | (5,509) |

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

| | | | |
|---|--|---------------|---------------|
| 1.13 | Total operating and investing cash flows (brought forward) | (4,658) | (5,509) |
| Cash flows related to financing activities | | | |
| 1.14 | Proceeds from issues of shares, options, etc. | 13,595 | 23,131 |
| 1.15 | Proceeds from sale of forfeited shares | | |
| 1.16 | Proceeds from borrowings | | |
| 1.17 | Repayment of borrowings | | |
| 1.18 | Dividends paid | | |
| 1.19 | Other (provide details if material) | | |
| | Net financing cash flows | 13,595 | 23,131 |
| | Net increase (decrease) in cash held | 8,937 | 17,622 |
| 1.20 | Cash at beginning of quarter/year to date | 9,480 | 795 |
| 1.21 | Exchange rate adjustments to item 1.20 | | |
| 1.22 | Cash at end of quarter | 18,417 | 18,417 |

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 | 76 |
| 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

| |
|------------------------------|
| Directors' Fees paid in 1.23 |
|------------------------------|

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

| |
|-----|
| Nil |
|-----|

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

| |
|-----|
| Nil |
|-----|

+ 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 | Nil | Nil |
| 3.2 Credit standby arrangements | Nil | Nil |

Estimated cash outflows for next quarter

| | \$A'000 |
|--------------------------------|--------------|
| 4.1 Exploration and evaluation | 5,800 |
| 4.2 Development | Nil |
| Total | 5,800 |

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 | 280 | 128 |
| 5.2 Deposits at call | 18,137 | 9,352 |
| 5.3 Bank overdraft | | |
| 5.4 Other (provide details) | | |
| Total: cash at end of quarter (item 1.22) | 18,417 | 9,480 |

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 | VIC/P49 | 0% | 100% |

+ 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) (cents) | Amount paid up per security (see note 3) (cents) |
|---|---|---------------|---|---|
| 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 | 234,097,573 | 234,097,573 | | |
| 7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs (c) Shares out of escrow | 27,925,770 | 27,925,770 | | |
| 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> | 4,000,000 2,000,000 2,000,000 2,000,000 3,000,000 3,250,000 3,000,000 | | <i>Exercise price</i> 14 cents 12.5 cents 25 cents 50 cents 20 cents 30 cents 33 cents | <i>Expiry date</i> 31 March 2005 30 June 2005 30 June 2005 30 June 2005 30 June 2005 31 December 2005 31 December 2005 |
| 7.8 Issued during quarter | | | | |
| 7.9 Exercised during quarter | | | | |
| 7.10 Expired during quarter | | | | |
| 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 /does not* (*delete one*) give a true and fair view of the matters disclosed.

Sign here: Date:27th January 2005
(Company secretary)

Print name: ..Edward Munks.....

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 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.

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+ See chapter 19 for defined terms.

Note 1

Schedule of Exploration Permits

Held by the Consolidated Entity

At 27 January 2005

| <u>Exploration Permits</u> | <u>Basin</u> | <u>Interest %</u> |
|-----------------------------------|---------------------|--------------------------|
| VIC/P54 | Gippsland | 37.5 |
| VIC/P56 | Gippsland | 100 |
| VIC/P39(v) | Gippsland | 100 |
| VIC/P49 | Gippsland | 100 |
| NT/P66 | Bonaparte | 100 |

Note:

1. In October 2004 the consolidated entity acquired a 100% interest in the offshore Gippsland Basin Permit VIC/ P49.