

Nexus Energy Limited (“the Company”) has made and continues to make it a priority to adopt systems of control and accountability as the basis for the administration of corporate governance. In 2007 and 2008 Nexus reviewed its corporate governance practices and procedures and updated them in accordance with the second edition of the ASX Corporate Governance Guidelines released in August 2007.

Nexus has followed each recommendation of the ASX Corporate Governance Guidelines where the Board has considered the recommendation to be an appropriate benchmark for corporate governance practices, taking into account factors such as the size of Nexus and the Board, resources available and the activities of Nexus. Where, after due consideration, Nexus' corporate governance practices depart from the recommendations, the Board has offered full disclosure of the nature of, and reasons for, the adoption of its own practice.

Further information about Nexus' corporate governance practices is set out on Nexus' website at www.nexusenergy.com.au. In accordance with the recommendations of the Corporate Governance Council, information published on Nexus' website includes summaries of charters (for the Board and its Board Committees), codes of conduct and other policies and procedures relating to the board and its responsibilities.

Set out below are the key aspects of Nexus' corporate governance framework.

The roles of the Board and Senior Management

The Board is responsible for the strategic direction of Nexus, the identification and monitoring of corporate goals and policies, overseeing Nexus' management and regularly reviewing performance.

The Board's key objectives are to increase shareholder value within an appropriate framework which safeguards the rights and interests of Nexus' shareholders and ensure Nexus is properly managed.

The Board acts in accordance with the Board Charter and Nexus' Constitution. The Board Charter details the composition, functions and responsibilities of the Board and distinguishes such functions and responsibilities from those which have been delegated to management.

Responsibilities of the Board

As well as matters expressly required by law to be approved by the Board, the Board's responsibilities include:

Nomination, Remuneration and Performance

- approving the remuneration and conditions of service including financial incentives for the direct reports to the Managing Director, as recommended by the Remuneration and Performance Committee;
- monitoring and assessing management's performance in achieving any strategies and budgets;
- appointing and removing the Managing Director and Company Secretary and determining his or her terms and conditions of service, including approving any financial incentives;
- evaluating the performance of the Managing Director;
- contributing to management's development of corporate strategy and performance objectives;
- satisfying itself that processes and plans are in place to maintain an orderly succession of appointments of non-executive Directors to the Board and an appropriate balance of skills within the Board;
- recommending the appointment and reviewing the performance of Directors and senior management;

Company direction

- establishing and monitoring Nexus' strategic and financial objectives;

Risk oversight and management, and culture

- monitoring compliance with regulatory requirements and ethical standards;
- reviewing and ratifying the risk management strategies;
- overseeing Nexus' HSEC Policy, risks management and continuous disclosure obligations;
- overseeing effective internal control systems;
- encouraging a culture that promotes ethical and responsible decision-making, in compliance with legal responsibilities and transparency through effective and timely reporting;
- approving any matters in excess of the discretion that it delegates to the Managing Director and senior management in relation to business transactions, credit transactions, risk limits and expenditure;

Integrity of external reporting

- approving annual accounts, reports and other public documents;

Stakeholder interests

- within the constraints of the Corporations Act 2001 and the ASX Listing Rules, approving the issue of any shares, options, equity instruments or other securities in Nexus;
- convening general meetings of Nexus' shareholders;
- considering Nexus' corporate governance policies;

Delegated authority

- the Managing Director has been delegated the responsibility of the day-to-day running of Nexus (except for those matters expressly reserved to the Board or senior management); and
- the Company Secretary has been delegated the responsibility of preparing for and arranging Board and Board Committee meetings, responsibility for the overall administration of the Communications Strategy and all communications by Nexus with ASX, as well as assisting the Board to achieve its corporate governance objectives.

Board Committees

The Board has also established various Board Committees to assist in carrying out its responsibilities and include:

- Audit Committee;
- Health, Safety, Environment and Community Committee;
- Nomination Committee;
- Remuneration and Performance Committee; and
- Risk Management Committee.

The Board has adopted charters setting out matters relevant to the composition, responsibilities and administration of each of these committees. The role and responsibility requirements of each Board Committee are set out below.

Board Structure and Composition

In accordance with Nexus' Constitution there must be a minimum of three to a maximum of twelve Directors of Nexus. The Board determines the size of the Board within those limits. As at the date of this report, the Board is comprised of five Directors being one Executive Director, Mr Ian Tchacos (Managing Director), and four Non-Executive Directors, Mr Michael Fowler (Chairman), Mr Alastair Haydock, Mr Neil Ferguson and Mr Geoff Simpson.

The period of office held by each Director, the attendance of Directors at meeting of the Board and Board Committees is set out in the Directors' Report.

The Board also includes Directors who have a proper understanding of Nexus' business and who can add value in the context of that business. The Nomination Committee assists the Board in identifying the appropriate skills and experience required for the Board and to identify potential new candidates for the Board. The skills, experience, expertise and commencement dates of the Directors are set out in the Directors' Report. The Board annually reviews its size and composition. The Board also includes a majority of Directors and non-executive Directors who satisfy the criteria for independence

set out in Nexus' Independence of Directors Policy. The role of Managing Director and Chair of the Board are held by separate individuals, the Chair being an independent non-executive Director.

The skills, experience, expertise and commencement dates of the Directors are set out in the Directors' Report.

A Director (other than the Managing Director) may not retain office for more than three years without submitting themselves for re-election. In effect, one third of Directors in office (with the exclusion of the Managing Director) retires by rotation at the annual general meeting. Retiring Directors' re-election is not automatic and each must seek re-election by the shareholders.

Director Independence

Nexus recognises the importance of independent Directors on the Board so that it can effectively review and challenge the performance of management and exercise independent judgement. The Board has determined that its composition should include a majority of independent Directors and has developed criteria for independence of Directors set out in Nexus' Independence of Directors Policy. However, the Board reserves its right to make an appropriate assessment of a Director's independence and determine a Director to be independent even if the Director does not meet the criteria specified.

The majority of non-executive Directors of the Company, including the Chairman, are considered independent. The criteria for independence is set out in the company's Independence of Directors Policy and Recommendation 2.1 of the ASX Corporate Governance Guidelines.

Although Mr Neil Ferguson does not satisfy the criteria set out, the Board considered that on assessing all the facts and that as Mr Ferguson served as interim Chief Operations Officer for a period of less than three months (from 1 January 2008 until 17 March 2008) they resolved him to be independent.

Based on the assessment of independence of Directors conducted by the Board, three Directors are independent. The three independent Directors are Mr Michael Fowler, Mr Alastair Haydock and Mr Neil Ferguson. The Chairman, Mr Michael Fowler, is an independent non-executive Director.

The Board annually assesses the independence of Directors of Nexus, as well as upon the appointment of a Director or upon a disclosure of a change in their circumstances which may affect their independence or give rise to a conflict of interest with their duties to Nexus. Directors are required to keep the Board apprised of any potential conflicts of interest they may have with the interests of Nexus or circumstances which may affect their independence.

Board Meetings

The Board usually meets on a monthly basis and, where appropriate, hears presentations from senior management who may be questioned directly by Board members on any matter including operational and commercial issues. The Board considers issues relating to Health, Safety, Environment and Community, continuous disclosure, risk oversight and risk management at every meeting.

Directors are also required to attend Board meetings for committees to which they have been appointed. The number of Board meetings held during the reporting period and each Director's attendance is set out in the Directors' Report.

Performance of the Board, Board Committees and Individual Directors

The Board, with the assistance of the Remuneration and Performance Committee, reviews the performance and effectiveness of the Board, Board Committees and individual Directors at least annually. Each Director is required to submit to the Remuneration and Performance Committee their views on the performance and effectiveness of the Board and the Board Committees and their individual performance.

The role of the Remuneration and Performance Committee includes the identification of those areas of governance and performance that may require an increased level of attention by the Board and recommends improvements to the Board's processes and procedures.

The Managing Director annually conducts performance reviews of members of senior management against measures appropriate to Nexus' operations and activities. A performance evaluation of senior executives has taken place in the reporting period in accordance with the process disclosed.

Remuneration of Directors and Senior Management

The Board's focus is on long term strategic direction and overall performance of Nexus. As a consequence, non-executive Director remuneration is primarily related to the long term performance of Nexus.

Non-executive Directors will generally be remunerated by way of fees. The maximum total annual amount of fees to be paid to non-executive Directors is determined by shareholders. Non-executive Directors will generally not receive options or bonus payments nor retirement benefits other than superannuation. Non-executive Directors may however salary sacrifice their Directors' fees into equity in accordance with Nexus' Non-Executive Director Plan.

The Remuneration and Performance Committee may from time to time seek independent advice in relation to the remuneration of non-executive Directors and may make recommendations to the Board in relation to any total fee increase. The Board annually reviews non-executive Director remuneration.

Remuneration for senior management and Executive Directors may incorporate fixed and variable pay performance elements with both a short term and long term focus. The Executive Directors and senior management, as well as other employees, may also be able to participate in Nexus' Executive Director and Employee Plan. The Board takes into account performance indicators and achievements in determining the remuneration of Executive Directors and senior executives.

The performance and remuneration of the Managing Director will be considered and determined by the Board and Chair of the Board. The remuneration for each Director during the reporting period is set out in the Directors' Report.

Access to management and independent professional advice

Individual Directors may, with the reasonable approval of the Chair, obtain independent professional advice, at Nexus' cost, in relation to their position while acting as a Director of Nexus.

The Board and Board Committees also have access to senior management and, in the performance of their duties and responsibilities, access to all information and records held by Company in accordance with the Company's Privacy Policy.

Privacy of Information

Nexus is committed to protecting the privacy and confidentiality of the information it collects and has established privacy policies applying to the use, disclosure, security and storage of the information it collects generally and the information its collects through its website. These policies apply to all Directors, senior management and employees of Nexus and its subsidiaries.

Code of Conduct, Securities Trading and other polices

The Board recognises that it has a responsibility to shareholders, employees, clients and the community as a whole and is committed to corporate practices that reflect these responsibilities. Nexus requires that senior management and employees of Nexus act in a manner that reflects the highest of standards of behaviour and professionalism. It emphasises the need for honesty and integrity in all areas and in particular, in relation to legal compliance, record keeping, conflicts of interest, and confidentiality.

Code of Conduct

Nexus' has established a Code of Conduct which recognises Nexus' commitment to business and corporate ethics and recognition of the interests of shareholders. Nexus' Directors, senior management, employees and where relevant and to the extent possible, contractors of Nexus are required to comply with the Code of Conduct.

Restrictions on Dealings in Securities

Directors, senior management and employees of Nexus ("Designated Persons") are restricted under the Corporations Act on applying for, acquiring or disposing of securities in or derivatives or other relevant financial products of, Nexus ("Company Securities") if they are in possession of inside information.

Nexus has established a Securities Trading Policy which sets out the circumstances in which Designated Persons may deal or trade in Company Securities with the objective that no Designated Person will contravene the requirements of the Corporations Act.

The Securities Dealing Policy is not designed to prohibit Designated Persons from investing in Company Securities but does recognise that there may be times when Designated Persons cannot or should not invest in Company Securities.

Additionally, a person in possession of inside information in relation to Nexus must not deal in Company Securities or procure another person to deal in Company Securities.

Nexus expressly prohibits Directors, senior management and employees from short term trading of Company Securities and trading in shares of any other entity if in possession of inside information on such entity which they acquire by virtue of their position as a Director, senior manager or employee of Nexus.

Market Communication

Nexus is committed to effective communication with its shareholders, market participants, customers, employees, suppliers, financiers, creditors, other stakeholders, and the wider community. Nexus will ensure that all stakeholders, market participants and the wider community are informed of its activities and performance. Nexus has developed a Communications Strategy containing its approach and commitment to communication. Nexus will endeavour to make publicly available full information to ensure that trading in its shares takes place in an efficient, competitive, and informed market, and has implemented a number of processes to ensure it achieves these goals.

Continuous Disclosure Policy

Nexus has established a Continuous Disclosure Policy, to ensure that Nexus, as a minimum, complies with its continuous disclosure obligations under the Corporations Act and the ASX Listing Rules and achieves or exceeds best practice, provide shareholders and the market with timely, direct and equal access to information issued by Nexus; and promote investor confidence in the integrity of Nexus and its securities.

To assist in determining whether information regarding Nexus is, or may be, material, the Board has adopted materiality guidelines. Whether a matter is material must be considered from both a quantitative and qualitative viewpoint. Some guidance is also given to assist in identifying material contracts.

Nexus has also established procedures for the identification and disclosure of material information to ASX. This Continuous Disclosure Policy is administered by several key personnel within Nexus.

Risk Management

Risk recognition and management are viewed by Nexus as integral to Nexus' objectives of creating and maintaining shareholder value, and to the successful execution of Nexus' strategies.

Risk is defined as possible outcomes that could materially adversely impact on Nexus' financial performance, assets, reputation, people or the environment. There are a number of risks which are inherent to the business activities that Nexus undertakes, including:

- the availability and cost of reserves replacement and recovery;
- commercialisation of gas reserves;
- sovereign risk;
- exposure to oil price and exchange rates;
- production availability;
- technical and project management competencies;
- health, safety, environment and community risks; and
- exposure to debt.

The Risk Management Committee is responsible for risk oversight and the management and internal control of the processes by which risk is considered for both ongoing operations and prospective actions.

The Board has received assurance from the Managing Director that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

Health, Safety, Environment and Community (HSEC)

Nexus is committed to adhering to high standards of health, safety, environment, and community performance. Nexus has adopted a Health, Safety, Environment, and Community Policy which applies to all personnel, contractors and joint venturers engaged in activities under Nexus' operational control. The Managing Director is accountable to the Board of Directors for ensuring that this Policy is implemented.

Nexus has also established the HSEC Committee to assist the Board to achieve its objectives in respect to HSEC.

Audit Committee

The role of the committee is to oversee and enhance Nexus' financial reporting process focusing on issues relevant to the following activities:

- the integrity of Nexus' financial reporting;
- the appointment, remuneration, qualifications, performance and independence of the external auditor;
- the performance of the internal audit function; and
- the integrity of the audit process as a whole.

The Audit Committee's role, responsibilities, composition and membership requirements are documented in the Audit Committee Charter.

The members of the Audit Committee are Geoff Simpson (Committee Chair), Michael Fowler and Alastair Haydock. All members of the Audit Committee are non-executive Directors and all are financially literate and have a background, skills and experience which is relevant to the operations and financial and strategic risk profile of Nexus.

The Audit Committee is chaired by Mr Geoff Simpson, who is not the Chairman of the Board. The Audit Committee has met twice during the reporting period.

Nomination Committee

The role of the committee is to make recommendations to the Board in relation to:

- the identification of suitable candidates for nomination to the Board, Board Committees and senior management;
- succession planning for the Board and senior management;
- the appointment and re-election of Directors; and
- ensuring the skills needed are available to the Board to discharge its duties and add value to Nexus.

The Nomination Committee's role, responsibilities, composition and membership requirements are documented in the Nomination Committee Charter.

The members of the Nomination Committee include the whole Board with Alastair Haydock as Committee Chair. Directors having a conflict of interest in relation to a particular item of business of the Nomination Committee must absent themselves from the Nomination Committee meeting before commencement of discussion on the topic.

As the size of the Board increases, the Board may consider a restructure so that the committee comprises at least three members of the Board to the Nomination Committee, but not including the Managing Director. A majority of members of those members will be independent Non-executive Directors.

During the reporting period, Nomination Committee matters were included as part of the Meetings of the Board on three occasions.

Remuneration and Performance Committee

The role of the Committee is to make recommendations to assist the Board in considering the following activities:

- the qualifications and experience represented on the Board and Board Committees;
- the assessment of the performance of the Board and individual Directors;

- succession planning issues and strategies for the ongoing effective performance of the Board; and
- the development of a process for evaluation of the performance of the Board, Board Committees and individual Directors.

The Remuneration and Performance Committee's role, responsibilities, composition and membership requirements are documented in the Remuneration and Performance Committee Charter and Remuneration and Performance Policy.

The members of the Remuneration and Performance Committee are Alastair Haydock (Committee Chair), Geoff Simpson and Neil Ferguson.

During the reporting period, Remuneration and Performance Committee matters were included as part of the Meetings of the Board on eight occasions.

Risk Management Committee

The role of the Committee is to assist the Board in managing the risks associated with Nexus' ongoing operations and prospective actions, in particular by focusing on the following activities:

- the effectiveness of the systems of internal control and risk management;
- the identification and development of strategies and actions to manage business risk; and
- the compliance by management with constraints imposed by the Board.

The Risk Management Committee's role, responsibilities, composition and membership requirements are documented in the Risk Management Policy and Risk Management Committee Charter. The Risk Management Policy provides that a review of Nexus' risk management will be included as part of the meetings of the Board with the Risk Management Committee meeting at least once a year.

The members of the Risk Management Committee is the whole Board with Neil Ferguson as Committee Chair. As the size of the Board increases, the Board may consider a restructure so that the committee comprises at least three members of the Board.

Risk Management Committee matters have been included as part of the Meetings of the Board during the reporting period.

HSEC Committee

The role of the Committee is to oversee the implementation and observance of the Health, Safety, Environment and Community Policy.

The HSEC Committee's role, responsibilities, composition and membership requirements are documented in the HSEC Committee Charter.

The members of the HSEC Committee are Neil Ferguson (Committee Chair), Alastair Haydock and an Independent Consultant.