

Statement of Corporate Governance Principles

2011 Annual Report

The Board and Management Team of Nexus Energy Limited ("the Company") are committed to achieving and demonstrating the highest standard of corporate governance across the Company. The Board has established corporate governance policies and charters designed to achieve the highest standard of corporate governance. The Company policies and charters are available from the corporate governance section of the company website at www.nexusenergy.com.au.

A description of the Company's main corporate governance practices is set out below. All these practices, unless otherwise stated were in place the entire year. They comply with the ASX Corporate Governance Principles and Recommendations (including 2010 amendments) unless otherwise stated.

Principle 1: Lay solid foundations for management and oversight

Role and Responsibilities of the Board

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

The Board is responsible for the overall corporate governance of the Company and its strategic direction, the identification and monitoring of corporate goals and policies, overseeing the Company's 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 the Company's shareholders and ensure the Company is properly managed.

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

Company direction and integrity of external reporting

- establishing and monitoring the Company's strategic and financial objectives;
- approving the budget, the business plan and compliance policies; and
- 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 the Company;
- convening general meetings of the Company shareholders; and
- considering the Company's corporate governance policies.

Risk oversight and management, and culture

- setting compliance with regulatory requirements and ethical standards;
- reviewing and ratifying the risk management strategies;
- overseeing the Company's risk 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; and
- 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.

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;
- establishing any incentive plan for Company officers and employees;
- 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; and
- recommending the appointment and reviewing the performance of Directors and senior management.

Delegated authority

- the Managing Director has been delegated the responsibility of the day-to-day running of the Company (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 the Company with the ASX, as well as assisting the Board to achieve its corporate governance objectives.

Performance of the Board, Board Committees, Individual Directors and senior management

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 process also includes internal interviews by the Chairman with each Director with a report on recommendations and findings prepared by the Chairman.

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.

Principle 2: Structure the Board to add value

Composition of the Board

In accordance with the Company's Constitution, there must be a minimum of three to a maximum of twelve Directors with the majority being Non-Executive Directors. The Board determines the size of the Board within those limits and annually reviews its size and composition, this includes taking into consideration that there is an appropriate number of Directors who satisfy the criteria for independence as set out in the Company's Independence of Directors Policy. A Director (other than the Managing Director) may not retain office for more than three years without submitting themselves for re-election.

As at the date of this report, the Board is comprised of seven Directors, being one Executive Director and six Non-Executive Directors. The roles of Managing Director and Chairman of the Board are held by separate individuals. The Board includes Directors who have a proper understanding of the Company's 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.

Recommendation 2.2 of the revised Corporate Governance Council Principles provides that the Chair should be an independent director. The Chair of Board, Michael Fowler was appointed as an Executive Director on 28 May 2009 to provide additional support with the direct management of the Company. The Board considered that in the Company's circumstances that the additional support was required and it was appropriate for the Chair to be an Executive Director and not independent. On 2 July 2011, Michael Fowler ceased the role as Executive Chairman and was appointed Non-Executive Chairman.

The skills, experience, expertise and commencement dates and period of office held by each Director is set out in the Directors' Report.

Director Independence

The Company 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 the Company's Independence of Directors Policy. The criteria for independence are set out in the company's Independence of Directors Policy and Recommendation 2.1 of the ASX Corporate Governance Guidelines.

The Board annually assesses the independence of each Director within the materiality thresholds taking into consideration all relevant information, facts and circumstances. An assessment of a Directors independence is also made prior to an appointment 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 the Company.

The Board have adopted an independence criteria and materiality thresholds to assist with the assessment of independence. The independence criteria and materiality thresholds for a Director to be not independent include:

- being employed in an executive capacity by the Company within the last three years;
- the Director and any entity or individual directly or indirectly associated with the Director holds more than 5% of Company shares; or
- the Director and any entity or individual directly or indirectly associated with the Director receives material (greater than \$250,000 per annum) consulting, advisory or other fees from the Company except in the capacity as a Director.

Directors are required to keep the Board apprised of any potential conflicts of interest they may have with the interests of the Company or circumstances which may affect their independence. A Directors declaration of interests is tabled at each Board meeting.

The Company has consultancy services agreements with director related entities of Ian Boserio and Steven Lowden. The consultancy services provided by these Non-Executive Directors are on normal commercial terms and conditions and at market rates.

Based on the Boards assessment of independence of each Director, there are five Non-Executive Directors who satisfy the criteria for independence being Michael Arnett, Ian Boserio, Symon Drake-Brockman, John Hartwell and Steven Lowden. Michael Fowler is not independent given that he held the position of Executive Chairman from 28 May 2009 until 2 July 2011.

Board Meetings

The Board usually meets on a bi-monthly basis and, where appropriate, receives 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 continuous disclosure, risk oversight and 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.

Independent Professional Advice

Each director, with the approval of the Chairman, can obtain independent professional advice at the Company's cost, in relation to their position while acting as a Director of the Company to help them carry out their responsibilities. Each Director has unrestricted access to all relevant Company records, information and senior management.

Board Committees

The Board has established various Committees to assist in carrying out its responsibilities. During the reporting year an internal review of the Board Committees was performed and it was determined that due to the size of the organisation and specific circumstances that the Committees required include the following:

- Audit Committee;
- Remuneration and Performance Committee; and
- Nomination Committee.

The Board has adopted charters setting out matters relevant to the composition, responsibilities and administration of each of these committees.

Nomination Committee

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

The members of the Nomination Committee include the whole Board with Ian Boserio as Committee Chair during the reporting period. On 2 July 2011, John Hartwell was appointed as Chair of the Committee.

Nomination Committee matters were included as part of the Meetings of the Board. 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.

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 those members will be independent Non-Executive Directors.

Principle 3: Promote ethical and responsible decision-making

Code of Conduct

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

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. The Company requires that senior management and employees 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.

Restrictions on Dealings in Securities

Directors, senior management, employees, contractors, consultants and advisors of the Company ("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 securities ("Company Securities") if they are in possession of inside information.

The Company 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 the Company must not deal in Company Securities or procure another person to deal in Company Securities.

The Company 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.

Directors, senior management and employees are not permitted to deal in Company Securities during the following Closed Periods:

- four weeks up to and including the day on which the Company's half-yearly results are announced to the ASX; and
- four weeks up to and including the day on which the Company's full year results are announced to the ASX; and
- any other period determined by the Board from time to time.

A Restricted Person, who is not in possession of inside information, may trade in Company Securities during a Closed Period where there are exceptional circumstances. The individual is required to seek clearance to trade and must satisfy the Managing Director (or Chair in the case of the Managing Director) and the Company Secretary that they are in severe financial hardship or that their circumstances are otherwise exceptional.

Diversity

The Company values diversity and recognises the benefits it can bring to the organisations ability to achieve its goals. The Company is committed to achieving employee, senior management and Board diversity. The Company is also committed to promoting a corporate culture that embraces diversity and recognises the long term value contributed from employees at all levels with diverse experiences and backgrounds. Diversity includes, but is not limited to, gender, age, ethnicity and cultural background.

During the reporting period, the Company formally established a Diversity Policy with measurable objectives for achieving greater diversity across the Company that included:

- ensuring that recruitment of employees and Directors is made from a diverse pool of qualified candidates;
- Setting target proportions of women or other groups of individuals within areas of the Company as follows:
 - Employees – 45% of the Company's employees and consultants be women.
 - Senior Management – 20% of the Company's senior management be women.
 - Board – 1 of the board members be a woman. and
- identifying programmes that assist in the development of a broader pool of skilled and experienced Board candidates.

Privacy of Information

The Company 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 it collects through its website. These policies apply to all Directors, senior management and employees of the Company.

Principle 4: Safeguard integrity in financial reporting

Audit Committee

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

The primary role of the Audit Committee is to assist the Board to fulfil its corporate governance responsibilities relating to financial accounting practises, external financial reporting, financial risk management and internal control, the internal and external audit function, compliance with laws and regulations relating to these areas of responsibility and identification and development of strategies and actions to manage business risk.

All members of the Audit Committee are Non-Executive Directors who are financially literate and have the appropriate background, skills and experience which is relevant to the operations and financial and strategic risk profile of Nexus.

The Audit Committee is chaired by Michael Arnett, who is not the Chairman of the Board, and includes Symon Drake-Brockman and Steven Lowden. Details of Director qualifications and attendance at Audit Committee meetings is set out in the Director's report.

External Auditors

The Company and Audit Committee policy is to appoint external auditors who clearly demonstrate quality and independence. The performance of the external auditor is reviewed annually and application for tender of external audit services are requested as deemed appropriate, taking into consideration assessment of performance, existing value and tender costs.

Moore Stephens was appointed as the external auditor in 2001. It's Moore Stephens Policy to rotate audit engagement partners on listed companies at least every five years. An analysis of fees paid to the external auditors, including break-down of fees for non-audit services is provided in the Directors Report to the financial statements. It is the policy of the external auditors to provide an annual declaration of their independence to the Audit Committee. The external auditor will attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the audit report.

Principle 5: Make timely and balanced disclosure

Continuous Disclosure Policy

The Company has established a Continuous Disclosure Policy, to ensure that 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 the Company, and promote investor confidence in the integrity in the Company and its securities.

To assist in determining whether information regarding the Company 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. The Company 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 the Company.

Principle 6: Respect the rights of shareholders

Market Communication

The Company is committed to effective communication with its shareholders, market participants, customers, employees, suppliers, financiers, creditors, other stakeholders and the wider community. The Company will ensure that all stakeholders, market participants and the wider community are informed of its activities and performance.

The Company has developed a Communications Strategy containing its approach and commitment to communication and will endeavour to make publicly available full information to ensure that trading in its shares takes place in an efficient, competitive, and informed market. Processes to ensure it achieves these goals have been implemented.

Principle 7: Recognise and manage risk

Risk recognition and management are viewed by the Company as integral to the Company's objectives of creating and maintaining shareholder value, and to the successful execution of the Company's strategies. The Board is responsible for the overall risk management framework and has delegated to the Audit Committee the responsibility in relation to the establishment, management and implementation of the company's key business risks and risks systems.

Management is responsible for designing, implementing and reporting on the adequacy of the company's risk management and internal control system and has to report to the Audit Committee on the effectiveness of:

- the risk management and internal control system during the year, and
- the company's management of its material business risks.

The Board of Directors encourage management accountability for the Company's financial reports requiring the Managing Director to state in writing to the Board of Directors that:

- a. the Company's financial reports present a true and fair view, in all material respects, of the Company's financial condition and operational results and are in accordance with relevant Australian Accounting Standards; and
- b. that financial reports are compiled in accordance with best practise and are properly monitored using the Audit Committee and external auditors to ensure a sound system of risk management and control.

The identification and effective management of risk, including calculated risk-taking is viewed as an essential part of the Groups approach to creating long-term shareholder value. The management team under the direction of the Managing Director is responsible for the designing, implementing and reporting on the adequacy of the Company's risk management and internal controls.

The role of the Audit 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 Audit Committee's role, responsibilities, composition and membership requirements are documented in the Audit Committee Charter. A review of Nexus' risk management will be included as part of the meetings of the Board. Management are required to provide at each Board meeting a summary of potential issues and risks involved with current and prospective matters being undertaken by the Company.

The Board is responsible for satisfying itself that the management team has developed and implemented a sound system of risk management and internal control. Risk management matters have been included as part of the meetings of the Board during the reporting period.

Principle 8: Remunerate fairly and responsibly

Remuneration and Performance Committee

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

The primary role of the Remuneration and Performance Committee is to advise the board on remuneration and incentive policies and practices, make specific recommendations on remuneration packages and other terms of employment for Executive Directors, other senior executives and Non-Executive Directors. The committee also provides advice and recommendations in relation to assessing the performance of individual Directors, the Board and senior management and the skills needed and available to the Board to discharge its duties and add value to the Company.

The committee also assumes responsibility for overseeing management succession planning, including the implementation of appropriate executive development programmes and ensuring adequate arrangements are in place, so that appropriate candidates are recruited for later promotion to senior positions.

Information on Directors and executive remuneration, including principles used to determine remuneration, are set out in the Directors report under the heading 'Remuneration Report'. In accordance with the Company policy, participants in equity based remuneration plans are not permitted to enter into any transaction that would limit the economic risk of options or unvested entitlements.

All members of the Remuneration and Performance Committee are Non-Executive Directors. During the reporting period the committee members were Ian Boserio (Chair), Michael Arnett and Symon Drake-Brockman. On 2 July 2011, the committee membership was changed to Ian Boserio (Chair), Michael Fowler and John Hartwell. Details of attendance at the Remuneration and Performance Committee meetings are set out in the director's report.