



## December 2010 quarterly report & Appendix 5B

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### Chairman's comments

Nexus Energy Limited ("Nexus") is pleased to report that a number of initiatives were successfully carried out during the quarter.

#### ▪ Longtom

The installation and commissioning of mercury removal facilities for gas and condensate was completed with processing of gas and condensate sales commencing in October 2010. During the quarter Nexus sold 4.37 PJ of gas and 35,247 bbl of condensate, booking revenues of approximately A\$19 million.

#### ▪ Crux

In November 2010 Nexus reached agreement on commercial terms with Shell Development (Australia) Pty Ltd (Shell) to purchase an option for a three (3) year extension of the gas rights handover date to 31 December 2023. This agreement is important for Nexus as it will enable a planned full ten (10) year production timeframe of the Crux liquids. Nexus has worked well with Shell's management since agreeing commercial terms late last year and the legal documentation is presently undergoing the various parties' internal approval for execution.

Furthermore, considerable work has been undertaken on the Crux Liquids project during the quarter as follows;

- Identifying and working with a contractor for the provision of an FPSO vessel,
- Selection of a preferred project financier and agreed terms,
- Reviewing project information with potential new joint venture partners for the Crux liquids project.

Nexus is targeting FID by the second half of the 2011 calendar year.

#### ▪ Share Placement

In November 2010, Nexus completed a share placement of 32 million fully paid ordinary shares at an issue price of \$0.44 per share to sophisticated investors identified as existing shareholders. Total proceeds from the placement was A\$14 million.

#### • Echuca Schoals

During the quarter additional 3D seismic data was acquired and considerable interpretation work undertaken. Nexus is optimistic that the reservoirs identified on seismic could contain commercial gas and condensate reserves. We have included this additional data in our planned farm out activities and are desirous to complete a farm out in early 2011 and drill identified prospects in 2011.

- **Funding**

Nexus plans to achieve a Crux Liquids partial sell down in the near term. In that instance surplus funds would be utilised to fund our Crux equity share as well as reduce Longtom debt and bring forward any drilling prospects where we believe there is a favourable chance of commercial success.

**Michael Fowler**  
**Executive chairman**

## **Production & sales revenue**

Production and sales of hydrocarbons commenced in October 2010. During the quarter Nexus sold 4.37 PJ of gas and 35,247 bbl of condensate, booking revenues of approximately A\$19 million.

## **Production assets**

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

In October 2010, Nexus recommenced production of hydrocarbons from the Longtom asset.

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 anticipated around March 2011. This will be used as the basis for a review of the full field development plan and the Longtom region has been an area of focus for our 3D seismic re-interpretation with encouraging results.

## **Development projects**

### **Crux liquids project (Nexus 85%) AC/L9 – Browse Basin, Western Australia**

Nexus is targeting FID by the second half of the 2011 calendar year. The Company has also reached agreement on commercial terms with Shell Development (Australia) Pty Ltd to purchase an option for a three year extension of the gas rights handover date from 31 December 2020 to 31 December 2023. The agreement is subject to final legal documentation and requisite parties' approvals.

Negotiations are proceeding with all relevant parties on the provision of an FPSO, finance and to ensure sufficient production time for the extraction of condensate in accordance with the FID timeline.

## **Appraisal and exploration assets**

Exploration activity continued to focus on maturing plans for potential prospects, subject in certain cases to securing appropriate farm-out arrangements. Prospects include, in the Browse Basin: Auriga and Caelum in the Crux permit AC/L9, Fossetmaker "updip", Backmaker and Mashmaker 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 in WA-368-P.

During the quarter, the ongoing evaluation of WA-377-P prospects identified additional potential referred to as the Cooper prospect. Seismic data enhancement is being reviewed as part of the forward plan for the permit evaluation.

### **VIC/L29 Licence (Nexus 100%) Gippsland Basin, Victoria**

Interpretation of the reprocessed 3D seismic data continued in the assessment of near Longtom gas field exploration opportunities. Possible gas related seismic attributes have been identified which further highlight the undrilled potential at the Longtom South prospect located some 4 kilometres south of the field infrastructure. It is being considered as a drilling opportunity in 2011.

### **AC/L9 Licence (Nexus 85%) Browse Basin, Western Australia**

Seismic mapping of the Crux field and associated prospects continued. Regional well data along with seismic indicate that the Auriga exploration prospect is a low geological risk opportunity with Caelum a possible moderate risk target. Both offer substantial volume upside to the Crux field.

**Echuca Shoals gas discovery (Nexus 100%)**

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

Multi client 3D seismic data was acquired during the quarter and integrated into the ongoing prospect evaluation. Prospects have now been mapped at several reservoir target levels with attractive estimated volume potential. The most likely gas in place at the Echuca Shoals-1 discovery is an estimated 0.4 Tcf, with an additional 1.7 Tcf at the same reservoir level in the Backmaker prospect to the north. Seismic mapping has identified potential drilling locations in the permit's north east where stacked reservoir targets could be tested. One such location tests the Backmacker/Cooper/Maltser prospect reservoirs and carries an estimated combined mean in place gas potential of circa 4 Tcf. Additionally, the combined potential for associated condensate in the permit is most likely more than 200 MMbbls. Further enhancement of the seismic data quality is being considered as the next step in the prospect evaluation process.

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

**Perth Basin, Western Australia**

Nexus continued to seek a farm-out in the permit prior to drilling the Yngling prospect. A further permit extension for the current year containing a commitment well was applied for during the quarter and efforts to secure a suitable drilling rig are ongoing.

**VIC/P54 Permit (Nexus 100%)**

**Gippsland Basin, Victoria**

Interpretation of the reprocessed seismic data focused on the maturing of the Longtom West exploration target. A gas discovery here could be tied into the Longtom production facilities. A five year permit renewal was accepted during the quarter.

**NT/P66 (Nexus 0%)**

**Bonaparte Basin, Western Australia**

Nexus' withdrawal from the permit was approved effective 16 November 2010.

**Cash flow and funding**

At the end of December the company's cash balance was A\$20 million with a net decrease of A\$2 million for the quarter.

Production and sales of hydrocarbons from Longtom re-commenced in October 2010. During the December 2010 quarter, Nexus sold 4.37 PJ of gas and 35,247 bbl of condensate, booking revenues of approximately A\$19 million, in line with expectations.

In November 2010, Nexus completed a share placement of 32 million fully paid ordinary shares at an issue price of \$0.44 per share to sophisticated investors identified as existing shareholders. Total gross proceeds from the placement was A\$14 million.

The A\$50 million equity facility with US-based investment fund YA Global Master SPV Ltd (established in the June 2010 quarter) has not been utilised and provides liquidity support for general corporate purposes, if required.

**Susan Robutti**  
**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, 01/06/10

Name of entity

Nexus Energy Ltd

ABN

64 058 818 278

Quarter ended ("current quarter")

31 December 2010

### 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	11,660	23,222
1.2 Payments for		
(a) exploration and evaluation	(528)	(603)
(b) development	(3,686)	(6,151)
(c) production	(12,961)	(19,790)
(d) administration	(3,083)	(6,611)
1.3 Dividends received		
1.4 Interest and other items of a similar nature received	207	441
1.5 Interest and other costs of finance paid	(3,991)	(9,809)
1.6 Income taxes paid		
1.7 Other – GST, FX gains/losses	549	1,104
<b>Net Operating Cash Flows</b>	<b>(11,833)</b>	<b>(18,197)</b>
<b>Cash flows related to investing activities</b>		
1.8 Payment for purchases of:		
(a) prospects		
(b) equity investments		
(c) other fixed assets		
1.9 Proceeds from sale of:		
(a) prospects		
(b) equity investments		
(c) other fixed assets	1	3
1.10 Loans to other entities		
1.11 Loans repaid by other entities		
1.12 Other		
<b>Net investing cash flows</b>	<b>1</b>	<b>3</b>
1.13 Total operating and investing cash flows (carried forward)	<b>(11,832)</b>	<b>(18,194)</b>

+ See chapter 19 for defined terms.

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

1.13	Total operating and investing cash flows (brought forward)	(11,832)	(18,194)
	<b>Cash flows related to financing activities</b>		
1.14	Proceeds from issues of shares, options, etc.	14,080	14,080
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	(429)	(429)
	<b>Net financing cash flows</b>	13,651	13,651
	<b>Net increase (decrease) in cash held</b>	1,819	(4,543)
1.20	Cash at beginning of quarter/year to date	18,493	24,924
1.21	Exchange rate adjustments to item 1.20	3	(66)
1.22	<b>Cash at end of quarter</b>	20,315	20,315

**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	889
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

Increase in loan facilities available and used resulting from capitalised interest during the quarter amounted to \$1 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.

### 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	312,054	312,054
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	704
4.2 Development	1,408
4.3 Production	2,767
4.4 Administration	4,438
<b>Total</b>	<b>9,317</b>

### 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	8,294	8,596
5.2 Deposits at call	1,340	1,323
5.3 Bank overdraft	-	-
5.4 Other (including escrow accounts and project finance facility reserve account)	10,681	8,574
<b>Total: cash at end of quarter</b> (item 1.22)	<b>20,315</b>	<b>18,493</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	WA/424P	Exploration Permit	80	0
	NT/P66	Exploration Permit	100	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 <b>Preference securities</b> (description)				
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3 <b>+Ordinary securities</b>	1,020,257,304	1,020,257,304		
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	32,000,000		<i>Issue price 44 cents per security</i>	
7.5 <b>+Convertible debt securities</b> (description)				
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7 <b>Options</b> (description and conversion factor)	31,884,058		<i>Exercise price 204 cents</i>	<i>Expiry date 15 January 2013 (warrants)</i>
	90,000		<i>225 cents</i>	<i>28 April 2011</i>
	92,500		<i>219 cents</i>	<i>23 May 2011</i>
	359,800		<i>225 cents</i>	<i>23 May 2011</i>
	2,253,300		<i>Zero</i>	<i>30 June 2012</i>
	3,110,200		<i>Zero</i>	<i>30 June 2013</i>
	999,200		<i>Zero</i>	<i>30 June 2013</i>
7.8 Issued during quarter	999,200		<i>Exercise price Zero</i>	<i>Expiry date 30 June 2013</i>
7.9 Exercised during quarter				
7.10 Expired during quarter			<i>Exercise Price</i>	<i>Expiry Date</i>
	145,400		<i>Zero</i>	<i>11 October 2010</i>
	64,500		<i>Zero</i>	<i>29 October 2010</i>
	298,300		<i>Zero</i>	<i>2 November 2010</i>
	230,800		<i>Zero</i>	<i>1 December 2010</i>
	2,590,000		<i>147 cents</i>	<i>21 December 2010</i>
	388,700		<i>Zero</i>	<i>31 December 2010</i>
7.11 <b>Debentures</b> (totals only)				
7.12 <b>Unsecured notes</b> (totals only)				

+ See chapter 19 for defined terms.



