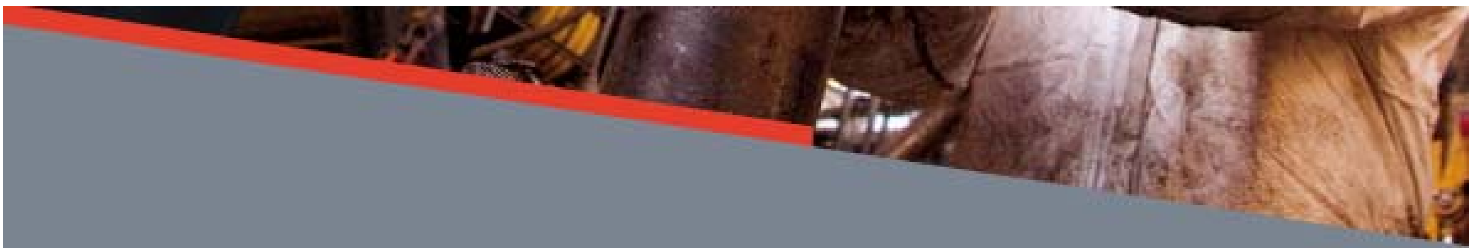
NEXUS ENERGY LIMITED AND SUBSIDIARIES
(ABN 64 058 818 278)

11

31 DECEMBER

financial report for
half year ended 31 December 2011



The Directors present their report of Nexus Energy Limited and Subsidiaries ("Group") for the half-year ended 31 December 2011.

Board of Directors

The name of directors who held office during or since the end of the half-year:

Michael Fowler	(Executive Chairman)
Ian Boserio	(Executive Director)
Michael Arnett	(Deputy Chairman and Non-Executive Director)
Steven Lowden	(Non-Executive Director)
Symon Drake-Brockman	(Non-Executive Director)
John Hartwell	(Non-Executive Director)
Richard Cottee	(Managing Director – Resigned 22 September 2011)

Review of operations - production segment

Longtom gas project (Nexus 100%)

VIC/L29 – Gippsland Basin, Victoria

During the period to 31 December 2011, Nexus sold 11.53 PJ of gas and 103.50 Kbbl of condensate, booking total revenues of $53.9 million. Production was in line with Santos' gas nominations.

Further to the first phase of the offshore works (completed in September), a second phase of offshore works utilising a small remote operated vehicle was completed in December 2011. The second phase of works located the source of a small hydraulic leak that has been ongoing for the last 15 months. Long lead items are currently being sourced to enable repair of this leak and this work is scheduled for 2H 2012.

As presented at the 2011 Annual General Meeting, the less than expected performance of producing wells Longtom-3 and Longtom-4 has led to an extensive review of the field.

A full and detailed internal review of the Longtom field reserves within the VIC/L29 production licence has been completed. In parallel to the internal review process an independent review has also been carried out by Gaffney, Cline & Associates (GCA). The revised Proved and Probable (2P) reserves is 137 PJ. On a like for like comparison, the pre-production 2009 reserves has reduced from 350PJs to 170 PJs (rounded), before taking into account the 32 PJs produced to 31 December 2011.

Nexus confirms that the current certified 2P (Proven + Probable) reserves, as our base case, are sufficient to satisfy Nexus' obligations under the Longtom Gas Sales Agreement (GSA) and in particular the delivery obligations to the Santos owned Patricia-Baleen plant.

The updated reserves position does not include any resources attributable to the Gemfish (previously Longtom South) prospect. The Gemfish prospect, while located in the same VIC/L29 licence area, is distinct from the developed Longtom field both in its reservoir target and structural setting. Gemfish is mapped within a fault terrace immediately south of, and separate from, the Longtom field. Nexus believes that Gemfish should provide a good opportunity to delineate additional hydrocarbon volumes in the future as part of the company's ongoing Gippsland gas strategy.

Review of operations - development segment

Crux asset (Nexus 85% - Liquids Interest)

AC/L9 – Browse Basin, Western Australia

Subsequent to 31 December 2011, Nexus Energy Limited (Nexus) signed a non-binding Heads of Agreement (HOA) with Shell Development (Australia) Pty Ltd (Shell) and Osaka Gas Crux Pty Ltd (Osaka Gas) to exclusively pursue a Shell-led integrated gas and liquids development to commercialise the Crux asset. The non-binding HOA was executed after fully considering the standalone liquids project versus an integrated development case with Shell. The agreement once finalised (targeted for April 2012) will result in a new Joint Venture being formed to consolidate the existing gas interests (held by Shell 100%) and liquid interests (held by Nexus 85% and Osaka Gas 15%).

Participating interests for the new Joint Venture will be Shell holding 80%, Nexus 17% and Osaka Gas 3%. Shell will take over from Nexus as operator of the AC/L9 Crux licence after settlement. This will require approval from the relevant Federal Government authorities. An amendment of the terms of the licence consistent with the integrated project will also be required. This transaction will enable the new Joint Venture to potentially accelerate the evaluation of exploration prospects, such as Auriga, within AC/L9. Nexus' contributions to the exploration activities will be determined by the participating interest at that time, noting that post completion Nexus will have an option to reduce its participating interest by 2% to 15% for A$75 million.

Review of operations - exploration segment

Echuca Shoals gas discovery (Nexus 100%)

WA-377-P – Browse Basin, Western Australia

Geological and geophysical studies are continuing on the Echuca Shoals exploration permit (WA-377-P) favourably located near the Prelude and Ichthys developments in the Browse Basin. The first permit term of six years expired on 6 March 2012 with all work program commitments completed.

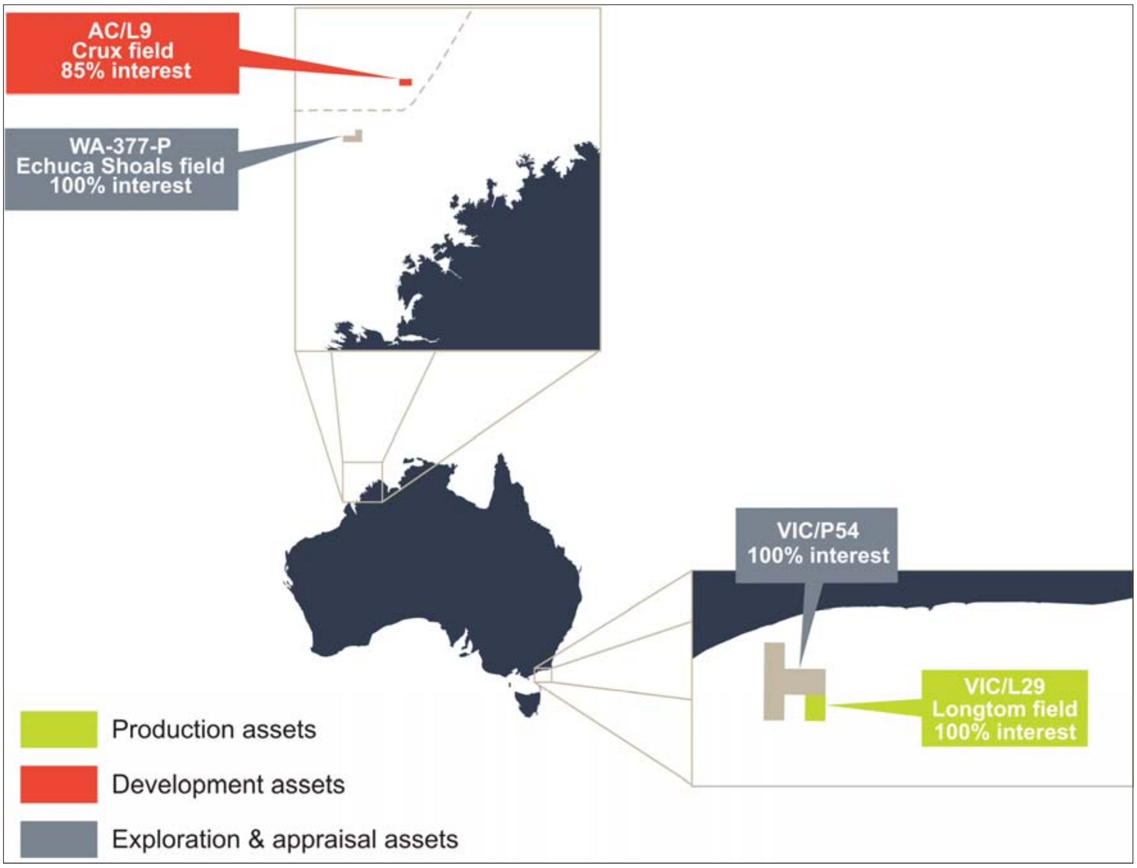
On 1 March 2012, the government authority approved the renewal of the WA-377-P exploration permit for a further period of 5 years. The renewal work programme incorporates further studies, prospect maturation and a commitment well in the third year. Farm out efforts are continuing with the objective of achieving a full carry on the planned well, hopefully earlier than year three.

VIC/P54 (Nexus 100%)

Gippsland Basin, Victoria

Technical studies continue in the evaluation of the structurally complex Longtom West prospect. Trap integrity is the main geological risk. To mitigate risk, improved seismic imaging is required with seismic reprocessing options now being addressed.

Location of Nexus Assets



Rounding off of amounts

The company is of the kind referred to in ASIC Class Order 98/0100, dated 10 July 1998, and in accordance with that Class Order amounts in the directors report and the half year financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

Auditor's Independence Declaration

A copy of the auditor's independence declaration for the half year ended 31 December 2011 has been received as required under Section 307C of the Corporations Act 2001 and is included on page 4.

This report is signed in accordance with a resolution of the Board of Directors.

Michael Fowler
Executive Chairman
Dated Melbourne this 15th day of March 2012

Auditor's Independence Declaration

As lead auditor for the review of Nexus Energy Ltd for the half year ended 31 December 2011, I declare that to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Nexus Energy Ltd and the entities it controlled during the period.

Charles Christie
Partner
PricewaterhouseCoopers

Melbourne
15 March 2012

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE HALF YEAR ENDED 31 DECEMBER 2011

	Note	31 Dec 2011 $ 000	31 Dec 2010 $ 000
Sales revenue	3	53,977	19,079
Operating costs	4	(48,933)	(22,117)
Operating profit / (loss)		5,044	(3,038)
Other revenue	3	2,933	693
Exploration expenditure expensed		(91)	(810)
Employee benefits expense		(2,337)	(2,202)
Depreciation and amortisation		(38)	(134)
Finance costs		(16,287)	(18,395)
Changes in fair value of derivative financial instruments		147	1,428
Net foreign currency gains / (losses)		957	(86)
Inventory write down		(1,903)	(652)
Restoration provision expense		(2,178)	(5,925)
Gain on extinguishment of financial liabilities		-	14,609
Impairment of production asset	6	(162,778)	-
Other expenses		(4,967)	(4,253)
Loss before income tax		(181,498)	(18,765)
Income tax benefit		52,224	51,217
(Loss) / profit for the year		(129,274)	32,452
Other comprehensive income		-	-
Other comprehensive income for the year, net of tax		-	-
Total comprehensive profit attributable to members of the parent entity		(129,274)	32,452
Earnings per share for profit / (loss) attributable to equity holders of the company			
Basic earnings per share (cents)		(9.74)	3.27
Diluted earnings per share (cents)		(9.74)	3.25

The accompanying notes form an integral part of this half year financial report.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2011

	Note	31 Dec 2011 $ 000	30 Jun 2011 $ 000
Current Assets			
Cash and cash equivalents	5	48,685	62,612
Trade and other receivables		9,170	9,063
Inventories		37	1,433
Other current assets		10	3,032
Total Current Assets		57,902	76,140
Non-Current Assets			
Trade and other receivables		-	6,389
Property, plant and equipment		283	226
Deferred tax asset		234,450	182,226
Intangible assets		37	5
Exploration and evaluation assets		10,860	10,140
Development assets		323,719	311,592
Production assets	6	147,794	332,508
Other non-current assets		26,852	25,116
Total Non-Current Assets		743,995	868,202
Total Assets		801,897	944,342
Current Liabilities			
Trade and other payables		30,338	43,670
Borrowings	7	10,000	11,000
Total Current Liabilities		40,338	54,670
Non-Current Liabilities			
Trade and other payables		8,059	8,059
Financial liabilities		1,508	1,654
Borrowings	7	200,579	201,207
Long-term provisions		48,007	45,853
Total Non-Current Liabilities		258,153	256,773
Total Liabilities		298,491	311,443
Net Assets		503,406	632,899
Equity			
Issued capital	8	688,934	688,934
Reserves		7,462	7,681
Retained profits/(accumulated losses)		(192,990)	(63,716)
Total Equity		503,406	632,899

The accompanying notes form an integral part of this half year financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE HALF YEAR ENDED 31 DECEMBER 2011

	Issued capital $ 000	Retained profits/ (accumulated losses) $ 000	Share based payments reserve $ 000	Total equity $ 000
Balance as at 1 July 2010	544,506	(24,514)	8,591	528,583
Shares issued during the financial year less transaction costs	25,124	-	-	25,124
Deferred tax credit on shares issued	129	-	-	129
Share based payments	-	-	(479)	(479)
Total other comprehensive income	-	-	-	-
Total comprehensive profit attributable to members of the parent entity	-	32,452	-	32,452
Balance as at 31 December 2010	569,759	7,938	8,112	585,809
Balance as at 1 July 2011	688,934	(63,716)	7,681	632,899
Shares issued during the financial year less transaction costs	-	-	-	-
Deferred tax credit on shares issued	-	-	-	-
Share based payments	-	-	(219)	(219)
Total other comprehensive income	-	-	-	-
Total comprehensive profit/(loss) attributable to members of the parent entity	-	(129,274)		(129,274)
Balance as at 31 December 2011	688,934	(192,990)	7,462	503,406

The accompanying notes form an integral part of this half year financial report.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HEALF YEAR ENDED 31 DECEMBER 2011

	Note	31 Dec 2011 $ 000	31 Dec 2010 $ 000
Cash Flows from Operating Activities			
Receipts from customers		56,012	23,829
Payments to suppliers and employees		(27,477)	(25,905)
Interest received		1,589	441
Finance costs		(11,133)	(9,808)
Net Cash used in Operating Activities		18,991	(11,443)
Cash Flows from Investing Activities			
Payments for plant and equipment and intangible assets		(129)	-
Proceeds from disposal of plant and equipment		-	3
Proceeds from sale of casing		783	541
Payments for exploration, development and production expenditure		(27,558)	(7,295)
Net Cash Flows used in Investing Activities		(26,904)	(6,751)
Cash Flows from Financing Activities			
Proceeds from issue of shares		-	14,080
Payments for transaction costs arising on share issues		(19)	(429)
Repayment of borrowings		(6,000)	-
Net Cash Flows Provided by Financing Activities		(6,019)	13,651
Net decrease in cash and cash equivalents held		(13,932)	(4,543)
Cash and cash equivalents at beginning of period		62,612	24,924
Effect of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies		5	(66)
Cash and cash equivalents at end of period	5	48,685	20,315

The accompanying notes form an integral part of these half year financial report.

1. BASIS OF PREPARATION OF HALF YEAR REPORT

This condensed consolidated interim financial report for the half year reporting period ended 31 December 2011 has been prepared in accordance with Australian Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Act 2011. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 134 Interim Financial Reporting.

This condensed consolidated interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2011 and any public announcements made by Nexus Energy Limited during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The consolidated interim financial report have been prepared using the same accounting policies and methods of computation as used in the corresponding previous financial half year and annual report for the financial year ended 30 June 2011. These accounting policies are consistent with Australian Accounting standard and with International Financial Reporting Standards.

Where necessary, comparative information has been reclassified to achieve consistency in disclosure with financial half year amounts and other disclosures.

The company is of the kind referred to in ASIC Class Order 98/0100, dated 10 July 1998, and in accordance with that Class Order amounts in the directors report and the half year financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

New or Revised Australian Accounting Standards and Interpretations

The Group has adopted all of the new and revised Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that are relevant to its operations and effective for the financial half year ended 31 December 2011.

The adoption of all of the relevant new and revised Australian Accounting Standards and Interpretations has not resulted in any changes to the Groups accounting policies and has had no effect on the amounts reported for the current or prior periods.

2. GOING CONCERN

On the basis of the present level of operations and after consideration of the Group’s ability to:

- Finalise and execute binding agreements with Shell and Osaka Gas for the integrated gas and liquids development at Crux;
- Farm out an interest in exploration permits to meet future exploration commitments; and / or
- Continue to work with lenders ensuring ongoing compliance with lending facility and review events,

the Directors are of the opinion that for the next 12 month period from the date of signing the Directors Declaration the Group and Company will have sufficient liquidity to meet their existing commitments and accordingly present these consolidated financial statements on a going concern basis.

	31 Dec 2011 $ 000	31 Dec 2010 $ 000
3. REVENUE		
Sale of gas and condensate	53,977	19,079
Total revenue	53,977	19,079
Other Income		
Interest income	1,589	441
Services revenue from joint venture operations	1,344	252
Total other income	2,933	693
4. OPERATING COSTS		
Production costs	21,595	9,862
Royalty expense	1,564	560
Amortisation of production asset	25,774	11,695
Total operating costs	48,933	22,117

	31 Dec 2011 $ 000	30 Jun 2011 $ 000
5. CASH AND CASH EQUIVALENTS		
Cash at bank and on hand	3,329	12,230
Bank deposits at call	26,768	45,200
Restricted bank deposits	18,588	5,182
Total cash and cash equivalents	48,685	62,612
6. PRODUCTION ASSETS		
At cost	473,646	469,808
Accumulated amortisation	(81,302)	(55,528)
Impairment	(244,550)	(81,772)
Balance at end of period	147,794	332,508
Reconciliation		
Balance at beginning of financial year	332,508	447,969
Additions - expenditure incurred	3,838	4,882
Impairment	(162,778)	(81,772)
Amortisation charge for the period	(25,774)	(38,571)
Balance at end of period	147,794	332,508

The production assets relate to the Longtom gas project (VIC/L29).

The asset valuations are based on a proved and probable (2P) reserve production profile and various estimates and assumptions. The key assumptions used in the value in use model include the following:

- Oil price – starting at a price of US$113 per barrel and based on the Brent Forward Curve for crude oil;
- Discount rates – the post-tax discount rate applied to cash flow projections is 10%. The discount has reduced from 14 % at 30 June 2011.
- Reserves – 2P 137 PJ as at 31 December 2011.

An impairment loss of $162.8 million has been recognised on the above production assets during the period. For this purpose, the Longtom gas field and its supporting infrastructure assets as a whole is considered as the cash-generating unit which represents the smallest identifiable group of assets that work together and generate cash inflows that are largely independent of the cash inflows from other groups of assets.

For the purpose of assessing impairment, the recoverable amount of the cash-generating unit was estimated as its value-in-use. The circumstances that led to the recognition of this impairment loss were a reduction in the recoverable 2P reserves and an increase in the contingent reserves following an independent reserves assessment.

		31 Dec 2011 $ 000	30 Jun 2011 $ 000
7. BORROWINGS			
Current			
Bank loan (secured)	(a)	10,000	11,000
		10,000	11,000
Non-current			
Bank loan (secured)	(a)	76,280	81,337
Senior subordinated notes (unsecured)	(b)	124,299	119,870
Total long-term borrowings		200,579	201,207

(a) Bank Loan

A restructure of the bank loan occurred in the 2011 financial year, which resulted in a principal repayment and a remaining balance of $90 million as at 30 June 2011. A repayment profile for the facility was agreed with scheduled principal repayments commencing in September 2011 and maturing in June 2016 unless repaid earlier. The existing $60 million senior secured letter of credit facility remains in place and is undrawn at 31 December 2011.

Interest continues to be charged at the Reuters BBSW bid rate on the first date of the funding period (three months) plus a margin of 3.5%. A 0.5% payment in kind is capitalised and added to the principal outstanding each funding period. As at 31 December 2011 the interest rate was 8.97% including the payment in kind (30 June 2011: 8.88%).

The Group has provided the following as security to BOS International (Australia) Limited:

(i) fixed and floating charge over the assets of Nexus Energy Aust. NL, Nexus Energy VIC/P54 Pty Ltd and Nexus Energy Corporate Pty Ltd. The carrying amount of assets given as security as at 31 December 2011 was $285.7 million (30 June 2011: $453.4 million);
(ii) mortgage over the issued capital in Nexus Energy Aust. NL, Nexus Energy VIC/P54 Pty Ltd, and Nexus Energy Corporate Pty Ltd; and
(iii) Parent guarantee from Nexus Energy Limited.

As is typical of project lending facilities, the loan is subject to certain review events and standard covenants. The key review events include making a final investment decision on the Crux Liquids Project by 31 March 2012, material decline in Longtom reserves and mobilisation of a drilling rig by 31 December 2012. Management is engaged co-operatively with the lender and at the date of this report, the Group is satisfied that the facility will continue to be in place.

(b) Senior subordinated notes

Following the successful completion of the Exchange Offer during the 2011 financial year, the Company has in place $18.7 million (face value) in Existing Notes due January 2013 plus $131.8 million (face value) in New Notes. The New Notes consist of $117.6 million (face value) of Tranche A Notes with bi-annual principal repayments commencing in July 2014 with a bullet repayment in January 2017 plus $14.2 million (face value) in Tranche B Notes due January 2013.

	31 Dec 2011 Number	30 Jun 2011 Number	31 Dec 2011 $	30 Jun 2011 $
8. ISSUED CAPITAL				
(a) Share capital				
Ordinary shares, fully paid	1,326,821,159	1,326,337,066	670,173,204	670,173,204
(b) Other equity securities				
Value of warrants – (unsecured)			19,305,120	19,305,120
Deferred tax liability component			233,394	233,394
Less: Transaction costs			(777,980)	(777,980)
			18,760,534	18,760,534
			688,933,738	688,933,738

Movements in ordinary share capital 30 June 2011 to 31 December 2011

30 June 2011	Closing balance	1,326,337,066		670,173,204
9 August 2011	Share issue – employee share plan	360,754	$0.00	-
21 November 2011	Share issue – employee share plan	123,339	$0.00	-
31 December 2011	Closing balance	1,326,821,159		670,173,204

	31 Dec 2011 $ 000	30 Jun 2011 $ 000
9. COMMITMENTS		
(a) Capital expenditure commitments		
Contracts for capital expenditure in relation to assets which are not provided for in the financial statements:		
(i) Drilling and Completions		
Not later than 1 year	-	-
Later than 1 year but not later than 5 years	-	-
	-	-
(ii) Development Project		
Not later than 1 year	-	11,173
Later than 1 year but not later than 5 years	-	-
	-	11,173
Total capital expenditure commitments	-	11,173
(b) Operating lease rental commitments		
Non-cancellable operating lease rentals not provided for in the financial statements and payable:		
Not later than 1 year	1,532	1,734
Later than 1 year but not later than 5 years	8,114	7,350
Later than 5 years	2,019	5,376
Total operating lease rental commitments	11,665	14,460

The Company has a photocopier lease with a primary 5-year term that expires during August 2013. Lease payments are made monthly in advance.

The Company has an office lease for Level 8 Freshwater Place Southbank with a 10-year term that expires in January 2019. Rent is payable monthly in advance.

	31 Dec 2011 $ 000	30 Jun 2011 $ 000
Non-cancellable operating lease rentals not provided for in the financial statements and receivable:		
Not later than 1 year	1,004	813
Later than 1 year but not later than 5 years	5,639	5,085
Later than 5 years	1,373	3,248
Total operating lease rental commitments	8,016	9,146

The company has sub-let level 8 Freshwater Place Southbank to a third party on a 7 year term that commenced in March 2011.

	31 Dec 2011 $ 000	30 Jun 2011 $ 000
(c) Exploration expenditure commitments		
Exploration expenditure commitments are estimates for work commitments pursuant to the award of petroleum exploration permits VIC/P54, WA-377-P (2011: VIC/P54 and WA-377-P)		
Not later than 1 year	700	1,052
Later than 1 year but not later than 5 years	20,950	750
Later than 5 years	-	-
Total exploration expenditure commitments	21,650	1,802

10. EVENTS SUBSEQUENT TO BALANCE SHEET DATE

Financial Report

The financial report was authorised for issue on 15 March 2012.

Crux Development Asset

On 19 January 2012, Nexus Energy Limited (Nexus) signed a non-binding Heads of Agreement (HOA) with Shell Development (Australia) Pty Ltd (Shell) and Osaka Gas Crux Pty Ltd (Osaka Gas) to exclusively pursue a Shell-led integrated gas and liquids development to commercialise the Crux asset. The non-binding HOA was executed after fully considering the standalone liquids project versus an integrated development case with Shell.

The agreement once finalised, and subject to a number of conditions (including regulatory approvals), will result in the following:

- A new Joint Venture will be formed to consolidate the existing gas and liquid interests: Shell currently holds 100% of the gas interests, with Nexus holding 85% of the liquids interests and Osaka Gas the remaining 15% of the liquids interest.
- Once binding agreements are signed, targeted for April 2012, participating interests for the new Joint Venture will be Shell (becoming Operator) holding 80%, Nexus 17% and Osaka Gas 3%. Nexus also has a 12-month option to sell 2% of its participating interest in the new Joint Venture to Shell for A$75 million. Exercising this option would reduce Nexus' participating interest to 15%.
- Shell will become operator of the AC/L9 Crux title from Nexus after settlement, which will require approval from the relevant Federal Government authorities. An amendment of the terms of the licence consistent with the integrated project will also be required.

This deal provides certainty for the commercialisation of the Crux asset and creates a transparent value for Nexus' share of the project. Furthermore, this transaction will enable the new Joint Venture to evaluate the Crux exploration prospects in AC/L9 and potentially increase reserves. The deal also involves Nexus' interest in Crux being converted from a liquids only interest into a liquids and LNG play.

The base case development option is for Crux to become part of the Prelude Floating LNG project currently under development by Shell. This provides Nexus with exposure to future LNG sales in proportion to its equity interest in Crux. As indicated by Shell, Crux gas is an integral part of its groundbreaking Prelude Floating LNG development, as it intends to use gas from Crux to ensure the Prelude Floating LNG facility continues to remain at full throughput for as long as possible.

The impact on the financial report on finalisation of binding agreements with Shell and Osaka Gas is the Petroleum Resource Rent Tax credits (net) of $141.6 million will be derecognised for accounting purposes and expensed to the income statement. At 31 December 2011 a total of $73 million has been included in the value of the Crux Development asset relating to the long lead items. A process is underway to review all existing long lead items with the expectation that on completion of binding documents these items will be prepared for sale.

11. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

T-D Joint Venture

In 2007, Nexus entered into an offshore installation contract with T-D Joint Venture Pty Ltd ("TDJV") in relation to the Longtom Gas Project. TDJV was placed into liquidation in December 2009. TDJV's liquidators and Nexus Energy Corporate Pty Ltd have communicated about good faith settlement negotiations to resolve both parties' claims. In March 2011, the Federal Court proceeding issued by Trident Australasia Pty Ltd (Trident), who formed part of the TDJV contractor consortium, was settled except for project management costs totalling $1,271,414 which the parties agreed to resolve by way of arbitration. The arbitration was held in October and the parties are currently awaiting the arbitrator's award.

Sedco Forex International

On 6 July 2011, Sedco Forex International Inc (Sedco) issued Federal Court proceedings against Nexus Energy Limited (Nexus), and its wholly owned subsidiary, Nexus Energy WA Pty Ltd (NEWA). Sedco seeks damages against NEWA based on an alleged breach and repudiation of a contract relating to the charter of the Transocean Legend drilling rig and has lodged a claim for the amount of $67,173,680. Sedco also claims against Nexus and NEWA based on alleged misleading and deceptive conduct. Nexus and NEWA strenuously deny the claims by Sedco. The information currently available indicates that Sedco was not itself able to perform the contract and was not therefore entitled to terminate it. Prior to termination, Nexus expressed concerns about the Transocean Legend's maintenance and safety. Nexus and NEWA consider that Sedco unlawfully terminated the contract so it could use the Transocean Legend to fulfil another contract. Nexus and NEWA will be vigorously defending Sedco's claim.

12. SEGMENT REPORTING

Identification of reportable segments

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Board of Directors (chief operating decision makers) in assessing performance and determining the allocation of resources. The operating segments identified by management are based on assets in production, development and exploration.

Types of products and services by segment

(a) Production
The production segment relates to the sale of gas and condensate. At 31 December 2011, the Longtom asset is reported in this segment which has a sale agreement with Santos for the sale of gas and condensate.

(b) *Development*
The development segment holds assets which have confirmed resources and are currently in development phase. At 31 December 2011, the Crux asset is reported in this segment.

(c) *Exploration*
The exploration segment holds assets which are currently in exploration and evaluation phase. All remaining assets and permits are reported in this segment.

Basis of accounting for purposes of reporting by operating segments

Accounting policies adopted
Unless stated otherwise, all amounts reported to the Board of Directors as the chief decision maker with respect to operating segments are determined in accordance with accounting policies that are consistent to those adopted in the annual financial statements of the Group.

Inter-segment transactions
An internally determined transfer price is set for all inter-entity sales. This price is re-set quarterly and is based on what would be realised in the event the sale was made to an external party at arm's length. All such transactions are eliminated on consolidation for the Group's financial statements.

Corporate charges are allocated to reporting segments based on the segments' activity within the Group. The Board of Directors believes this is representative of likely consumption of head office expenditure that should be used in assessing segment performance and cost recoveries.

Inter-segment loans payable and receivable are initially recognised at the consideration received net of transaction costs. If inter-segment loans receivable and payable are not on commercial terms, these are not adjusted to fair value based on market interest rates. This policy represents a departure from that applied to the statutory financial statements.

Segment assets
Where an asset is used across multiple segments, the asset is allocated to the segment that receives the majority of economic value from the asset. In the majority of instances, segment assets are clearly identifiable on the basis of their nature and physical location.

Segment liabilities
Liabilities are allocated to segments where there is direct nexus between the incurrence of the liability and the operations of the segment. Borrowings (with the exception of asset specific project financing) and tax liabilities are generally considered to relate to the Group as a whole and are not allocated. Segment liabilities include trade and other payables and certain direct borrowings.

Unallocated items
The following items of revenue, expense, assets and liabilities are not allocated to operating segments as they are not considered part of the core operations of any segment:

- derivatives;
- net gains / (losses) on disposal of available-for-sale investments;
- impairment of assets and other non-recurring items of revenue or expense;
- income tax expense;
- deferred tax assets and liabilities;
- current tax liabilities;
- other financial liabilities;
- intangible assets;
- general and administration expenditure;
- net foreign currency gains / (losses);
- share issues and related expenses; and
- retirement benefit obligations.

12. SEGMENT REPORTING (Continued)

Segment Performance

Year Ended 31 December 2011	**Production $000**	**Development $000**	**Exploration $000**	**Other $000**	**Total $000**
Revenue					
Sale of gas and condensate	53,977	-	-	-	53,977
Total segment revenue	53,977	-	-	-	53,977
Reconciliation of segment revenue to group revenue					
Total group revenue	53,977	975	-	-	54,952
Segment net profit / (loss) before tax	5,044	973	(91)	371	6,297
Reconciliation of segment result to group net profit / (loss) before tax					
Amounts not included in segment result but reviewed by the Board:					
• Depreciation and amortisation	-	-	-	(38)	(38)
• Inventory write downs	-	(1,903)	-	-	(1,903)
• Finance costs	(5,910)	-	-	(10,377)	(16,287)
• Restoration provision expense	(1,830)	(347)	-	-	(2,178)
• Impairment Longtom asset	(162,778)	-	-	-	(162,778)
• Changes in fair value of derivative financial instruments	147	-	-	-	147
Unallocated items:					
• Interest and other revenue					1,589
• Employee benefits expense					(2,337)
• Foreign exchange movements					957
• Other					(4,967)
Net profit / (loss) before tax					(181,498)

Segment Performance

Year Ended 31 December 2010	**Production $000**	**Development $000**	**Exploration $000**	**Other $000**	**Total $000**
Revenue					
Sale of gas and condensate	19,079	-	-	-	19,079
Total segment revenue	19,079	-	-	-	19,079
Reconciliation of segment revenue to group revenue					
Total group revenue	19,079	-	-	-	19,079
Segment net profit / (loss) before tax	(3,038)	(163)	(813)	-	(4,014)
Reconciliation of segment result to group net profit / (loss) before tax					
Amounts not included in segment result but reviewed by the Board:					
• Depreciation and amortisation	-	-	-	(134)	(134)
• Inventory write downs	-	(624)	(28)	-	(652)
• Finance costs	(9,484)	-	-	(8,911)	(18,395)
• Restoration provision expense	(5,029)	(896)	-	-	(5,925)
• Changes in fair value of derivative financial instruments	1,428	-	-	-	1,428
Unallocated items:					
• Interest and other revenue					693
• Employee benefits expense					(2,202)
• Foreign exchange movements					(86)
• Gain on extinguishment of financial liabilities					14,609
• Other					(4,087)
					(18,765)

12. SEGMENT REPORTING (Continued)

Segment Assets

Year Ended 31 December 2011	**Production $000**	**Development $000**	**Exploration $000**	**Total $000**
Segment assets	181,353	325,643	10,866	517,862
Segment assets increased for the period:				
• Capitalised costs	3,838	12,127	812	16,777
Reconciliation of segment assets to group assets				
Unallocated items:				
• Other assets				49,548
• Deferred tax assets				234,450
• Intangibles				37
Total group assets				801,897

Segment Assets

Year Ended 30 June 2011	**Production $000**	**Development $000**	**Exploration $000**	**Total $000**
Segment assets	368,748	319,402	10,131	698,281
Segment assets increased for the period:				
• Capitalised costs	4,882	37,366	1,764	44,012
Reconciliation of segment assets to group assets				
Unallocated items:				
• Other assets				63,830
• Deferred tax assets				182,226
• Intangibles				5
Total group assets				944,342

13. SUMMARY OF INTEREST IN PERMITS

Schedule of permits held by the Group as at 31 December 2011:

Permit	**Basin**	**Interest %**
VIC/P54	Gippsland	100
VIC/L29	Gippsland	100
AC/L9	Browse	85[1]
WA-377-P	Browse	100[2]

[1] - As announced on 19 January 2012, a non-binding Heads of Agreement has been signed with Shell Development Australia Pty Ltd (Shell) and Osaka Gas Crux Pty Ltd to exclusively pursue a Shell-led integrated gas and liquids development to commercialise the Crux asset. Upon finalisation of binding agreements and approval from relevant Federal Government authorities, Nexus participating interest in the newly formed Joint Venture will be 17%.

[2] - On 1 March 2012, the government authority approved the renewal of the WA-377-P exploration permit for a further period of 5 years. The renewal work programme incorporates further studies, prospect maturation and a commitment well in the third year.

DIRECTOR'S DECLARATION

FOR THE HALF YEAR ENDED 31 DECEMBER 2011

The Directors of the Company declare that:

1. The condensed consolidated financial statements and notes, as set out on pages 5 to 16, are in accordance with the Corporations Act 2001 including:

   (a) comply with Australian Accounting Standard AASB134: Interim Financial Reporting, the *Corporations Regulations 2001* and other mandatory professional reporting requirements;

   (b) giving a true and fair view of the Group's financial position as at 31 December 2011 and of its performance for the half year ended on that date; and

2. In the Directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;

This Directors' Declaration is made in accordance with a resolution of the Board of Directors.

On behalf of the Directors:

Michael Fowler
Executive Chairman
Dated Melbourne this 15th day of March 2012

Independent auditor's review report to the members of Nexus Energy Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Nexus Energy Limited, which comprises the condensed statement of financial position as at 31 December 2011, and the condensed statement of comprehensive income, condensed statement of changes in equity and condensed statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration for the Nexus Energy Limited Group (the "consolidated entity"). The consolidated entity comprises both Nexus Energy Limited (the "Company") and the entities it controlled during that half-year.

Directors' responsibility for the half-year financial report

The directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001* and for such control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of Interim and Other Financial Reports Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2011*. As the auditor of Nexus Energy Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001.*

PricewaterhouseCoopers, ABN 52 780 433 757

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Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Nexus Energy Limited is not in accordance with the *Corporations Act 2001* including:

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001.*

Matters relating to the electronic presentation of the reviewed financial report

This review report relates to the financial report of the Company for the half-year ended 31 December 2011 included on Nexus Energy Limited's web site. The Company's directors are responsible for the integrity of the Nexus Energy Limited web site. We have not been engaged to report on the integrity of this web site. The review report refers only to the statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the reviewed financial report to confirm the information included in the reviewed financial report presented on this web site.

PricewaterhouseCoopers

Charles Christie Melbourne Partner 15 March 2012

GLOSSARY OF TERMS

2P	proved and probable reserves
$ or cents	units of Australian currency
AASB	Australian Accounting Standards Board
AIFRS	Australian International Financial Reporting Standards
appraisal well	a well drilled to evaluate the size or quality of a hydrocarbon discovery
ASX	Australian Securities Exchange
ATO	Australian Taxation Office
bbl	barrel of oil or condensate (equivalent to 159 litres)
bbl/d	barrel of oil or condensate per day
Bcf	billion cubic feet of natural gas
boe	barrel of oil equivalent
capex	capital expenditure
condensate	light hydrocarbon compounds that condense into liquid at surface temperatures and pressures, generally produced with natural gas
contingent resources	as defined by the SPE/WPC/AAPG Petroleum Resources Management System are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations, but which are not yet considered mature enough for commercial development due to technological or business hurdles
exploration	the process of identifying prospective hydrocarbon regions and structures, mainly by reference to regional and specific geochemical, geological and geophysical surveys
farm-in/farm-out	the commercial arrangement in which an incoming participant earns an interest in a permit by funding a proportion of the exploration costs
FID	final investment decision
field	an area consisting of a single reservoir or multiple reservoirs all grouped on or related to the same individual geological structural feature or stratigraphic condition
FLNG	floating liquefied natural gas
gas in place (“GIP”)/oil in place (“OIP”)	an estimated measure of the total amount of gas (or oil) contained in a reservoir and, as such, a higher figure than recoverable gas (or oil)
Group or Consolidation	Nexus Energy Limited and its subsidiaries
GSA	Gas Sales Agreement
GST	Australian Goods and Services Tax
HSEC	health, safety, environment and community
hydrocarbon	organic compounds of carbon and hydrogen including natural gas, liquefied petroleum gas, crude oil and condensate
Joint Authority	decision making body responsible for the administration of the Offshore Petroleum Act 2006, comprised of the relevant State/Territory Minister and the Commonwealth Minister
Kbbl	One thousand barrels of oil
km	kilometre
km^2	square kilometres
KPI	key performance indicator
LNG	liquefied natural gas

GLOSSARY OF TERMS

Nexus, Nexus Energy and company	Nexus Energy Limited
operator	one of the companies in a joint venture which has been appointed to carry out all operations on behalf of the other joint venture participant/s
permit	a hydrocarbon tenement, lease, licence or block
PJ	petajoules
probable	means in respect of reserves, those additional reserves which analysis of geoscience and engineering data indicate are more likely than not to be recoverable. In this context, when probabilistic methods are used, there should be at least a 50% probability that the quantities actually recovered will equal or exceed the sum of estimated proved plus probable reserves.
prospect	a geological or geophysical anomaly that has been surveyed and defined, usually by seismic data, to the degree that its configuration is fairly well established, and on which further exploration such as drilling can be recommended
proved	means in respect of reserves, those quantities of oil and gas which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under defined economic conditions, operating methods and government regulations. If probabilistic methods are used, there should be at least a 90% probability that the quantities actually recovered will equal or exceed the estimate.
PRRT	Petroleum Resource Rent Tax
reserves	quantities of economically recoverable hydrocarbons
reservoir	a porous and permeable rock formation to store and transmit fluids such as gas, oil and water.
risk	an expression of uncertainty relating to the presence of principal geological factors controlling hydrocarbon accumulation
Santos	Santos Offshore Pty Ltd
scf	standard cubic feet of gas
seismic survey	a type of geophysical survey where the travel times of artificially created seismic waves are measured as they are reflected in a near-vertical sense back to the surface from subsurface boundaries. This data is typically used to determine the depths to the tops of stratigraphic units and in making subsurface structural contour maps and ultimately in delineating prospective structures.
Tcf	trillion cubic feet of gas
TJ/d	terrajoules per day
tpa	tonnes per annum
US$	United States dollars
WTI	West Texas Intermediate, a type of crude oil used as a benchmark in oil pricing