



December 2011 Quarterly Report & Appendix 5B

Chairman's Comments

The December 2011 quarter saw significant developments and milestones achieved for both the Crux and Longtom assets.

Crux

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.

In advance of executing binding agreements, a process to review all existing long lead items has commenced with a view to preparing them for sale.

Longtom

During the December quarter, Nexus sold 5.33 PJ of gas and 45.55 Kbbbl of condensate, booking total revenues of \$24.7 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 ROV 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 to identify further development opportunities to satisfy Nexus' obligation under the Gas Sales Agreement. As a result of this review a full updated reserves report is expected in March 2012.

Potential well designs for both the Longtom South exploration prospect (now renamed the Gemfish prospect) and a possible field infill development well (Longtom-5) were progressed as options for 2012 drilling.

Echuca Shoals

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 current work program commitments for permit year six (ending March 2012) include seismic reprocessing. This project is on target and near completion. Once completed, all work commitments for the permit term will be met.

As previously reported, a five year renewal term application was submitted to the government authority in December 2011, incorporating 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.

Michael Fowler
Chairman

Production Assets

Longtom Asset VIC/L29 Licence (Nexus 100%) Gippsland Basin, Victoria

			<u>Financial year</u>	<u>Quarter end</u>				<u>Financial year to date</u>
			<u>30-Jun-2011</u>	<u>Sept-2011</u>	<u>Dec-2011</u>	<u>Mar-2012</u>	<u>Jun-2012</u>	<u>30-Jun-2012</u>
Gas	Production	PJ	14.74	6.40	5.45	-	-	11.85
	Sales	PJ	14.37	6.20	5.33	-	-	11.53
Condensate	Production	Kbbl	136.38	58.76	46.86	-	-	105.62
	Sales	Kbbl	135.84	57.95	45.55	-	-	103.50
Total	Revenue	A\$ million	66.60	29.30	24.68	-	-	53.98

Nexus continued to supply gas in accordance with the Longtom Gas Sales agreement with production during the quarter of 5.45 PJ of gas and 46.86 Kbbls of condensate.

There were no significant shutdowns during the quarter with daily output averaging 57.9 TJ.

Following the first phase of the offshore works completed in September, a second phase of offshore works utilizing a small ROV was completed in December. The second phase of works located the source of a small hydraulic leak that has been ongoing. Long lead items are currently being sourced to enable repair of this leak and scheduled for 2H 2012.

Appraisal and Exploration Assets

Exploration activity during the quarter focused on seismic data enhancement in WA-377-P, the Crux area evaluation, and planning for future drilling in the Longtom area.

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

An extensive review of Longtom field infill drilling opportunities was undertaken during the quarter with the results to be integrated into an overall field review. Accordingly, potential well designs for both the Longtom South exploration prospect (now renamed the Gemfish prospect) and a possible field infill development well (Longtom-5) were progressed as options for 2012 drilling.

VIC/P54 Permit (Nexus 100%) Gippsland Basin, Victoria

The Longtom West prospect mapped within Vic/P54 is structurally complex with trap integrity the main geological risk. To mitigate risk, seismic reprocessing options are being addressed.

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

Seismic inversion processing, targeted at the recognition of sands and prediction of gas pay within the Crux field and the nearby Auriga and Caelum prospects, was completed by Fugro Jason during December quarter. The evaluation of this new data volume progressed during the reporting period. Two key conclusions to date are that the South Crux area of the field is in communication with the main Crux horst and that a "high probability of gas pay" is predicted at Auriga. Prediction of gas pay at Caelum is more ambiguous and hence a higher geological risk is ascribed to this prospect.

Nexus has signed a non-binding HOA with Shell and Osaka Gas to exclusively pursue a Shell-led integrated gas and liquids development to commercialise the Crux asset. The base case development option is for Crux to become part of the Prelude Floating LNG project currently under development by Shell.

The agreement once finalised (targeted for April 2012) will result in a new Joint Venture being formed to consolidate the existing gas and liquid interests. Participating interests for the new Joint Venture will be Shell holding 80%, Nexus 17% and Osaka Gas 3%. 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 be required.

This transaction will enable the new Joint Venture to potentially accelerate the evaluation of the Crux exploration prospects in 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%.

Echuca Shoals
WA-377-P, Gas Discovery (Nexus 100%)
Browse Basin, Western Australia

For the identified prospects within the permit, structural mapping and trap integrity are the major geological risks. To mitigate these risks, enhanced seismic data quality has been targeted with seismic reprocessing progressing well during the quarter.

The reprocessing project is nearing completion. The resultant improved seismic data volume will significantly impact on the evaluation of the Mashmaker and Cooper prospects located in the permit's north east.

The current six year exploration term will expire on 6 March 2012. In accordance with statutory requirements, a renewal application for a second term of five years was submitted to the Designated Authority in December 2011.

Cash Flow and Funding

During the December quarter, Nexus sold 5.33 PJ of gas and 45.55 Kbbbl of condensate, booking total revenues of \$24.7 million. At the end of December, the Company's cash balance was \$48.7 million, a decrease of \$13.9 million from the end of the September quarter as a result of principal repayments for the Longtom senior debt facility, Longtom offshore work expenditure and Crux long lead item commitments.

As a result of the HOA being signed for an integrated development at Crux with Shell and Osaka Gas, the long lead items acquired for the liquids project will now be reviewed and prepared for sale (post execution of binding agreements). Further, the HOA provides that post settlement of this transaction, Nexus will have at its discretion a 12-month put option to sell to Shell 2% of Nexus' participating interest in the Crux asset.

Chief Executive Officer

The process to appoint a Chief Executive Officer was slowed as a result of the festive season and in light of the corporate focus on finalising the HOA with Shell and Osaka Gas. However this is now progressing.

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 2011

Consolidated statement of cash flows

	Current quarter A\$'000	Year to date (6 months) A\$'000
Cash flows related to operating activities		
1.1 Receipts from product sales and related debtors	24,559	55,822
1.2 Payments for		
(a) exploration and evaluation	(441)	(819)
(b) development	(19,126)	(24,041)
(c) production	(10,555)	(20,979)
(d) administration	(4,716)	(11,891)
1.3 Dividends received		
1.4 Interest and other items of a similar nature received	781	1,615
1.5 Interest and other costs of finance paid	(2,641)	(11,133)
1.6 Income taxes paid		
1.7 Other – GST, FX gains/losses	1,364	2,884
Net Operating Cash Flows	(10,775)	(8,542)
Cash flows related to investing activities		
1.8 Payment for purchases of:		
(a) prospects		
(b) equity investments		
(c) other fixed assets	(125)	(129)
1.9 Proceeds from sale of:		
(a) prospects		
(b) equity investments		
(c) other fixed assets		784
1.10 Loans to other entities		
1.11 Loans repaid by other entities		
1.12 Other		
Net investing cash flows	(125)	655
1.13 Total operating and investing cash flows (carried forward)	(10,900)	(7,887)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(10,900)	(7,887)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.		
1.15	Proceeds from sale of forfeited shares		
1.16	Proceeds from borrowings		
1.17	Repayment of borrowings	(3,000)	(6,000)
1.18	Dividends paid		
1.19	Other	14	(19)
	Net financing cash flows	(2,986)	(6,019)
	Net increase (decrease) in cash held	(13,886)	(13,906)
1.20	Cash at beginning of quarter/year to date	62,577	62,612
1.21	Exchange rate adjustments to item 1.20	20	5
1.22	Cash at end of quarter	48,711	48,711

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	622
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

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	236,747	236,747
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	457
4.2 Development	619
4.3 Production (<i>Includes Longtom Facility interest and principle repayment</i>)	18,410
4.4 Administration (<i>Includes Convertible Notes interest</i>)	10,168
Total	29,654

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	3,329	12,751
5.2 Deposits at call	26,768	40,997
5.3 Bank overdraft		
5.4 Other	18,614	8,829
Total: cash at end of quarter (item 1.22)	48,711	62,577

Changes in interests in mining tenements

	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1 Interests in mining tenements relinquished, reduced or lapsed				
6.2 Interests in mining tenements acquired or increased				

+ 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 Preference +securities <i>(description)</i>				
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3 +Ordinary securities	1,326,821,159	1,326,821,159		
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	123,339		Ordinary shares pursuant to the Executive Director and Employee Plan Rules	
7.5 +Convertible debt securities <i>(description)</i>				
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7 Options <i>(description and conversion factor)</i>	31,884,058		<i>Exercise price</i> 202 cents	<i>Expiry date</i> 15 January 2013 (warrants)
	1,592,400		Zero	30 June 2013
	2,413,100		Zero	30 June 2014
7.8 Issued during quarter				
7.9 Exercised during quarter	123,339		Zero	
7.10 Expired during quarter				
7.11 Debentures <i>(totals only)</i>				
7.12 Unsecured notes <i>(totals only)</i>				

+ See chapter 19 for defined terms.

Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 4).
- 2 This statement does give a true and fair view of the matters disclosed.

Sign here: Date: 31 January 2012
Company Secretary

Print name: Susan Robutti

Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 6: Exploration for and Evaluation of Mineral Resources* and *AASB 107: Cash Flows Statement* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

**Schedule of Exploration Permits
Held by Consolidated Entity
At 31 December 2011**

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

* 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 (Osaka Gas) 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%.

+ See chapter 19 for defined terms.