# **ASX** Announcement

18 September 2013

## Nexus Energy 2013 Financial Year Full Year Results Announcement

Nexus Energy (ASX: NXS) (Nexus) today announces results for the year ended 30 June 2013.

**Financial Headlines**

- Revenue from operations of $52.0 million, down 36% (2012: $80.7 million)
- Reported Net Profit after Tax including non-recurring items of $17.5 million* (2012: Loss of $342.3 million*)
- Operating profit $18.6 million, up 28% (2012: $14.5 million) reflecting lower amortisation charges following FY12 impairment review
- Net debt reduced to $134.7 million, decrease of 24% from $177.2 million

  **(Note: FY13 NPAT includes a $45.8 million gain relating to the sale of 2% of Crux and a $9.3 million gain on settlement of obligations on long lead Items. FY12 included $243.8 million of non-recurring non-cash items relating to the impairment of the Longtom asset and Long-Lead Items)*

**Longtom Production and Performance**

- Production of 11.3PJ gas, down 35% reflecting production outage due to offshore electrical fault
- Santos led remediation campaign completed May 2013, production returned 26 May 2013
- Nexus completed CY13 maintenance works on time and under budget
- System availability of 99.8% achieved since production restored

**Progress against strategic agenda**

**Significant advancements made in commercial repositioning of Crux**

- Consolidation agreement completed in October 2012, repositioning Crux as an FLNG value play
- Sale of 2% interest to Shell completed December 2012 for $75 million
- Acceptance of five year Retention Lease by Joint Venture in February 2013
- Retention Lease work program targets earliest possible commercialisation, in line with Government's expectation of final investment decision within the current Retention Lease term

**Revised Gas Sales Agreement (GSA) terms with Santos optimises value of Longtom asset**

- Future production and pricing realigned to capitalise on tightening East Coast gas market
- Efficient work program that is less capital intensive; drilling of Longtom 5 (deferred by 12 months) and requirement to drill Longtom 6 no longer required to meet gas supply obligations
- Commercial framework provides for delivery of additional quantities of gas prior to end of CY18, if market conditions prove attractive and parties agree

**Technical repositioning of Echuca Shoals asset to support future growth**

- Technical studies have focused on trap and reservoir definition using reprocessed seismic data to identify most appropriate drilling opportunity
- Mashmaker identified as priority drilling candidate
- FLNG feasibility study initiated in Q1 FY14

### Balance sheet strengthened

- During FY13 total of $73 million debt retired ($63 million from sale proceeds of 2% interest in Crux to Shell); improving gearing and lowering ongoing finance costs
- Range of options being explored to fund next phase of growth, including divestment of an interest in one or more of three high-quality assets, and potential refinance of existing debt facilities

### Corporate governance assessment completed and cost disciplines improved

- Board and organisational structures now aligned to the company's strategic objectives and industry best practise
- Delivered 37% reduction in annual administration costs, well ahead of the 30% target

Lucio Della Martina, Managing Director and Chief Executive Officer of Nexus said:

*"We have made progress against our strategic imperatives, in particular through the commercial repositioning of our Crux and Longtom, and the technical repositioning of Echuca Shoals.*

*Financial performance for the year was impacted by the four month production outage and a number of non-recurring items. Since production was returned in May, system performance at Longtom has been excellent.*

*During FY13 we have repaid significant debt, made progress in strengthening our balance sheet, while delivering reductions in cost base ahead of budget.*

*Nexus has material equity positions in three outstanding assets spanning production, development and exploration. Our 100% owned Longtom asset is a high-quality producing asset which provides leverage in the tightening Australian East Coast gas market. Our 15% share in the Crux Joint Venture and 100% interest in Echuca Shoals potentially positions our shareholders to benefit from exploration upside*."

## FINANCIAL REVIEW

### Profit & Loss

The 2013 reported revenue from Longtom of $52.0 million was down 36% from $80.7 million reported in the prior year.

Longtom generated a gross operating profit after amortisation of $18.6 million, a 28% improvement from the $14.5 million profit reported in 2012. This improvement largely reflects lower amortisation charges following the 2012 impairment review.

Reported net profit after income tax was $17.5 million, compared with the 2012 loss of $342.3 million which included $243.8 million of non-recurring items related to the impairment of Longtom and long lead items. The 2013 reported result was impacted by $55.1 million of non-recurring items, comprising an accounting profit realised on the sale of 2% of Crux which totalled $45.8 million, and profit on settlement of long lead items of $9.3 million.

### Balance Sheet

During the year, Nexus made progress against its objective to strengthen its balance sheet, which was one of the key features of our strategic agenda for the year. Nexus raised $75.0 million from the sale of 2% of our interest in Crux of which $62.9 million was used to retire debt, resulting in an annual total of $72.9 million debt retirement. Thereby reducing ongoing future finance costs and improving our gearing ratio** from 38% at 30 June 2012 to 30% at the year-end.

The revised GSA terms provide for an efficient work program in a way that is much less capital intensive for Nexus. Near term investment for the drilling of Longtom 5 has been deferred by 12 months to the end of CY14, and the requirement to drill Longtom 6 to meet the gas supply requirements has been removed.

Following the execution of the revised GSA terms, we reviewed the ongoing asset divestment process and a range of funding options to support the next phase of growth and development of the business. Following this review, our current strategy has been extended to include the divestment of an interest in one or more of our assets, and the potential for a refinancing of existing debt facilities.

Whilst we have previously stated that we were working towards a decision regarding the optimisation of our assets and portfolio balance in the third quarter of CY13 our priority has been to achieve:
- an optimum outcome for shareholders; and
- strategic alignment with any new partner to establish a strong platform for future growth.

We are actively engaged and continue to focus on achieving these objectives.

*** (Note Gearing = net debt / (net debt + equity)*

## REVIEW OF OPERATIONS

### Production

**Longtom Gas Project: VIC/L29 Licence (Nexus 100%)**
**Gippsland Basin, Victoria**

Longtom production during 2013 was impacted by a system outage from January to May 2013 due to an electrical fault in the offshore facilities. As a result production was 35% lower than in 2012. Production was restored on 26 May 2013. Following completion of the Santos led remediation campaign, system availability since resuming of 99.8%.

Nexus undertook maintenance and inspection works in 4Q CY13 to fulfil the planned yearly activities. These works were completed on time and under budget, with the outcomes now incorporated into Asset Integrity Management Plans and planning for future maintenance activities.

In May 2013, Nexus announced that it had agreed revised GSA terms with Santos for delivery of a remaining aggregate contract quantity of 83PJ of gas for the period 1 July 2013 to 31 December 2018. With revised pricing and an accelerated production profile during the CY 2015-18, Nexus is well positioned to capitalise on a tightening of the Australian East Coast gas market. During this period, demand is forecast to be high and supply constrained.

The supply requirements under the revised GSA terms are less capital intensive for Nexus, and will be met by Longtom 3, accessing previously unexploited sands at Longtom 4 and the drilling of Longtom 5 which has been deferred 12 months to late CY14. Further, the requirement to drill Longtom 6 to meet the gas supply obligations has been removed.

Importantly, the revised GSA terms provide the possibility for Nexus to supply additional quantities of gas prior to December 2018 if market conditions prove attractive and the parties so agree, adding further value to the Longtom system. Additional quantities of gas would be supplied from Longtom 6 and/or development of the Gemfish prospect.

## Development

**Crux: AC/RL9 Licence (Nexus 15%)**
**Browse Basin, Western Australia**

In October 2012, Nexus completed the consolidation of interests with Joint Venture partners Shell and Osaka Gas aligning the parties to realise the maximum value from the asset as a potential FLNG value play. Following this we completed a sale of 2% of our stake to Shell for $75.0 million securing near-term funding and deleveraging the balance sheet in the near term.

In February 2013, Nexus announced that the Crux Joint Venture had accepted an offer from the Joint Authority for the issuance of a five year Retention Lease. The Retention Lease provides a clear framework, including a detailed work program, for the Joint Venture to meet the Federal Government's expectation of the earliest possible commercialisation of Crux (including a final investment decision within the current Retention Lease term).

The detailed work program, which has already commenced, includes technical studies and the drilling of a commitment well in year two (2014) relating to the Auriga prospect. The outcome of this drilling campaign could be high-impact, and, if positive, will further support the commercial viability of standalone FLNG facility.

With resource development concepts and costings to be completed in year three (2015), Nexus will, at that time, have a clear view of the commercial viability of a standalone FLNG facility. Thereafter, the work program requires concepts and development studies to be completed and the Joint Venture is required to finalise development concepts within 30 days of the commencement of year five (2017).

The focus for 2014 will be the drilling campaign for the Auriga prospect. Planning activities are well advanced and it is currently intended that a drilling unit will be on location in Q4 FY14. It is intended that the final plug and abandonment of the Crux-2/ST1, Crux-3 and Crux-4 wells will be undertaken in FY15.

## Exploration

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

Echuca Shoals is an exploration asset with identified prospects and high exploration upside backed by prospective undiscovered initially in-place volumes. With 100% ownership of the permit there is significant upside potential from this asset.

Nexus technical studies have focused on the three identified drilling candidates within the permit, being the Mashmaker exploration prospect, the Cooper exploration prospect and appraisal of the Echuca Shoals-1 and Fossetmaker-1 log interpreted gas discovery wells. Technical studies during FY13 focused on identifying the most appropriate drilling opportunity for the next well to be drilled in the permit. A Year 3 commitment well is to be drilled by March 2015.

The technical studies were broad in scope, addressing seismic mapping and geological aspects of the proposed trapping mechanisms. The results identified the Mashmaker prospect as a high priority candidate for drilling with significant volume potential. The Cooper prospect is viewed as offering the highest volume reward but at higher relative geological risk. Further appraisal of the Echuca Shoals/Fossetmaker structure carries lower risk with lower volume expectations. Importantly, the additional subsurface knowledge gained from drilling Mashmaker will enhance our understanding of both Cooper and Echuca Shoals/Fossetmaker. Work is progressing on preparing a geological basis of well design for Mashmaker.

Inpex Browse Ltd submitted a 'Referral of Proposed Action' to The Australian Government Department of Sustainability, Environment, Water, Population and Communities on 12 June 2013. The Inpex exploration permit WA-341-P adjoins the northern and eastern boundaries of Nexus' permit WA-377-P and based on Nexus' mapping, the Inpex operated well will also test the northern extent of the Mashmaker prospect. Timing of the Inpex drilling campaign was indicated as 1Q FY14.

**VIC/L29 License and VIC/P54 Permit (Nexus 100%)**
**Gippsland Basin, Victoria**

The increasing demand for gas along the Australian East Coast, together with Longtom's existing infrastructure, has improved the commercial attractiveness of Nexus' acreage in the Gippsland Basin.

In Petroleum Production Licence VIC/L29, Longtom infill drilling is the priority, however the Gemfish prospect remains an attractive opportunity and is considered "drill ready" from a geological perspective. Evaluation studies are progressing, focusing on commercial development scenarios in the success case.

Petroleum Exploration Permit VIC/P54 contains the Hussar and Longtom West prospects, two future drilling candidates that could support further expansion of the Longtom project. Seismic reprocessing of VIC/P54 data was completed in March 2013. The seismic interpretation and mapping of the Hussar prospect using the reprocessed 3D data volume has now been completed confirming the Hussar structural play. The seismic interpretation effort will now focus on Longtom West.

The Hussar prospect evaluation continues but is now addressing geological uncertainties, in particular, reservoir quality and trap integrity. Incorporation of the open file data from the nearby Esso/BHP discoveries Remora-1 and SE Remora-1 will be an integral component of this work. To further address trap integrity, a trial pre-stack depth migration study was initiated. Depending on the results of this work, further seismic reprocessing could be considered over both Hussar and Longtom West.

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