

ASX Announcement : 3 June 2013

CEO on Longtom Heads Of Agreement



Open Briefing interview with MD and CEO Lucio Della Martina

Nexus Energy Limited
Level 23
530 Collins Street
Melbourne VIC 3000

In this Open Briefing[®], Lucio discusses:

- New Longtom HOA
- Funding and development plan
- Strategic review and outlook

Record of interview:

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Nexus Energy Limited (ASX: NXS) recently announced a binding Heads of Agreement (HOA) with Santos Limited (Santos) to amend the Longtom (NXS 100%) Gas Sales Agreement (GSA).

The HOA provides a revised production profile and pricing structure for a remaining aggregate contract quantity of 83PJ of gas for the period to 31 December 2018. You've previously indicated that the HOA enhances the value of Longtom. What was the rationale for the HOA and what are its key value enhancing features for Longtom?

MD and CEO Lucio Della Martina

In the middle of last year, with the anticipated tightening of the East Australia gas supply post 2015, we saw an opportunity to work on a proposal that would improve the value of the Longtom supply chain for us as well as for Santos.

The new HOA (subject to satisfaction of conditions comes into effect on 1 July 2013) will achieve this objective. For Nexus shareholders the key benefit will be an enhancement of Longtom's value. This is driven by:

- An increase in the net cash flow generated by Longtom over the contract term through to the end of CY2018;
- A superior production profile with accelerated production and revised pricing structure between FY2015 and FY2018;
- An optimised development program that includes the workover of Longtom 4 (to access additional gas producing sands) and the drilling of Longtom 5; and
- A commercial framework which provides the option for Nexus to supply additional gas volumes.

We believe the amended GSA will reposition Longtom as an attractive producer and supplier of gas into the tightening East Australia gas market. Furthermore, funding requirements for Longtom in the short term have been substantially reduced through the deferral of Longtom 5.

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What is the impact of the HOA on Nexus' financial position? Will Nexus be required to raise equity?

MD and CEO Lucio Della Martina

In the short term (i.e. during the next 12 months) we do not see any need to raise equity to fund our business. Thereafter, we are focusing on asset divestments to meet the medium term funding requirements.

As the Longtom GSA underpins the Longtom debt facility Nexus has initiated discussions with its financier to consent to the terms of the HOA. Further, Nexus has commenced discussions to revise the current financing arrangements. With the improved commercial HOA terms and deferral of Longtom 5 we are positioned to negotiate improved financing arrangements.

At the end of May 2013, Nexus had cash of \$20m. Cash generation has recommenced with the start-up of Longtom and it is expected that this will be supplemented with proceeds of approximately \$6m to be received from the partial sale of the long lead items associated with the former Crux liquids project. With regards system outages, it is important to note that standard remedies exist under the GSA to address default by either party.

As I have emphasised, an important outcome of the HOA was the deferral of Longtom 5 to the end of CY2014. Although, we will start making minor commitments by the end of this year, the majority of the capital expenditure occurs through the drilling and completion phase towards the end of the 2014 calendar year.

In the medium term, capital expenditure requirements are thus driven by Longtom 5 and less so by the Crux work program.

The medium term obligations that relate to Crux are determined by Nexus' 15% capital contribution to the gross \$123m joint venture five year work program. This program includes the drilling of the Auriga prospect in the 2014 calendar year with potential plug and abandonment activities associated with the Crux 3 and 4 wells.

So how do we meet these medium term funding requirements? We now have three outstanding assets in Crux, Echuca Shoals and Longtom with material equity positions held in each of them. This provides Nexus with the unique opportunity to divest a tranche or tranches of these assets to fund the medium term activities and further debt retirement.

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What is the impact of your Longtom strategic review process on the Crux sale process and on Nexus' future strategy?

MD and CEO Lucio Della Martina

Following the HOA announcement on 14 May 2013, we are now in a position to undertake a strategic review of Longtom which includes a partial divestment. This will influence both Nexus' strategy and any decision with respect to the optimum asset portfolio balance.

The Crux sale process, targeting a partial divestment, has been underway for some time and Nexus has received interest from a range of global and regional companies, particularly after the Retention Lease award in February this year. Furthermore, the proximity of Echuca Shoals to Crux, the complementarities between the two assets and Nexus's (100%) equity position has unsurprisingly also drawn interest in Echuca Shoals through the Crux process.

The HOA opens up the opportunity to pursue a dual-track divestment process at both Crux and Longtom, with a view to delivering the most value-accretive option for our shareholders.

Interestingly, we have observed that the market appetite for producing assets in Australia is strengthening. Although the strategic review of Longtom has only just commenced, we have already experienced a high level of interest given this appetite and the current and anticipated tightening demand in the East Australian gas market.

We are conscious of the potential value upside that Crux, Echuca Shoals and Longtom offer in the near term (in particular Crux through the drilling of Auriga), and Nexus will of course only execute a sell-down of any of these assets for appropriate value.

So we now have two processes underway and given current progress and momentum we are working towards making a decision regarding the optimisation of our assets and portfolio balance in the third quarter of the 2013 calendar year. This will position Nexus to provide maximum shareholder value accretion over the near-to-medium term.

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The HOA is subject to certain conditions, one of which is that Nexus obtain funding for the work program required to satisfy the supply requirements of the HOA, including drilling the Longtom-5 well and the workover of Longtom-4. What is your level of confidence that Nexus will be able to secure funding by the deadline of 30 June?

MD and CEO Lucio Della Martina

The condition in the HOA with respect to funding is for Nexus' benefit, and is one in which we have the ability to waive. So in practical terms, there has never been a requirement to secure funding for the Longtom work program before 30 June 2013. It is our intention to waive the funding condition with the funding requirements for Longtom 5 being addressed under the medium term funding strategy.

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The HOA also provides contractual arrangements for additional production (in excess of the 83PJ) from the Longtom area to be processed through Santos' Patricia-Baleen processing plant if further quantities are available for sale prior to 31 December 2018. What is the potential upside and would additional production require significant additional investment?

MD and CEO Lucio Della Martina

Based on the Longtom April 2012 reserves report, the HOA gas supply requirements will be fulfilled by Longtom 4 workover and the drilling of Longtom 5 and accordingly, Longtom 6 will no longer be required to meet the revised contractual quantities.

The HOA, in addition to providing for an optimised development plan, also provides a commercial framework for additional volumes that may be delivered prior to 31 December 2018, including the Gemfish prospect and Longtom 6, to be processed through Santos' Patricia-Baleen processing plant. As part of the Longtom strategic review we will be considering these future development opportunities.

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How do you regard the Longtom field going forward from today?

MD and CEO Lucio Della Martina

We have a sound understanding of the subsurface, our reservoir models are accurately forecasting production performance and the new HOA, together with the findings and learnings of the recent intervention and maintenance campaigns and improvements to the operating offshore system, result in a strong and robust business case for Longtom 5.

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You provided the market with your strategic direction back in August 2012 once you had settled in. You have had an eventful year. Are you planning a market update at any time?

MD and CEO Lucio Della Martina

Yes we have had a very productive year and since August we have:

- Concluded the Crux deal with Shell and Osaka Gas and subsequently sold 2% of Crux to Shell for \$75m (thereby reducing our gearing);
- Concluded the Longtom HOA with Santos; and
- Targeted and remain on track to reduce our corporate costs by 30%; and
- Rejuvenated the Nexus Board with Don Voelte appointed as Chairman in October last year.

A strategic update is thus timely and is planned for Wednesday, 5 June 2013.

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Thank you Lucio.

For more information about Nexus Energy, visit www.nexusenergy.com.au or call Lucio Della Martina on (+61 3) 9660 2500

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