
Shareholder Queries Independent Expert Report clarification

Nexus Energy Limited (ASX:NXS) (**Nexus**) refers to the proposed scheme of arrangement announced on 31 March 2014 under which Seven Group Holdings Limited (**Seven**) will acquire, through its wholly owned subsidiary SGH Energy (No 2) Pty Limited, all of the shares in Nexus (**Scheme**).

As released on 7 May 2014, the Scheme Booklet contained an independent expert report prepared by Deloitte Corporate Finance Pty Limited (Deloitte) that was commissioned by Nexus. Following the release of the Scheme Booklet there have been two shareholder queries received in relation to the valuation of the Crux asset in the independent expert report. In response to these queries, Deloitte has provided the attached statement to provide clarification.

Shareholders should read the Scheme Booklet in full as it contains important information in relation to the Scheme and will assist shareholders in making an informed decision on how to deal with their Nexus shares, including as to whether or not to vote in favour of the Scheme. The Scheme Booklet contains information on how to vote at the Scheme Meeting. If shareholders are in any doubt as to how to deal with the Scheme Booklet, they should consult their financial, legal or other professional adviser.

If you have any queries with respect to voting or the Scheme in general, please call the Shareholder Information Line on: 1300 856 028 within Australia or +61 2 8022 7909 outside Australia, or visit the Scheme website at www.nexusenergyscheme.com.

Lucio Della Martina
Managing Director & Chief Executive Officer

For further information please contact:
Susan Robutti
Chief Financial Officer & Company Secretary

The Directors
Nexus Energy Limited
Level 23
530 Collins Street
Melbourne VIC 3000

11 May 2014

Dear Directors

Re: Shareholder query

On 31 March 2014, Nexus Energy Limited (Nexus or the Company) announced that it had entered into a conditional merger implementation agreement with Seven Group Holdings Limited (SGH or the Bidder) (Conditional MIA) under which SGH will acquire all the Company's shares via a scheme of arrangement (the Proposed Scheme).

Deloitte Corporate Finance (Deloitte) was requested by the Directors of Nexus to provide an Independent Expert's Report advising whether, in our opinion, the Proposed Scheme is in the best of Shareholders.

We understand Nexus has received queries from shareholders in regard to the fair market value of Nexus, in particular the Crux Project, as set out in our Independent Expert's Report provided to Shareholders on 7 May 2014.

Based on the queries received, we have set out below further clarification as to our adopted value range of the Crux Project.

Valuation of the Crux Project

The value of Nexus' interest in the Crux project has been estimated using the discounted cash flow methodology, which estimates the market value of an asset by discounting the future cash flows to their net present value, using an appropriate discount rate.

As set out in Section 5.2.3 of our Independent Expert's Report, we have adopted a value range for the Crux project of AUD 160 million to AUD 200 million. Our selected value range for Crux is exclusive of additional resources associated with the Crux Project (AC/RL9), which have been captured elsewhere in our valuation (Section 5.5, Valuation of exploration assets). Deloitte REA has estimated the value of the additional resources to be in the range of AUD 1.10 million to AUD 9.90 million.

In addition to the cash flows captured within our analysis of the Crux project, Nexus is responsible for 85% of the abandonment costs relating to the Crux-2/ST-1, Crux-3 and Crux-4 wells, incurred prior to the formation of the Crux JV, which are expected to be incurred in 2015. As these costs were incurred prior to the formation of the Crux JV, we have treated these costs separately as a surplus liability in our valuation.

In determining the reasonableness of our selected value range for the Crux Project, we had regard to the value implied by our valuation of Nexus on an AUD/GJ basis and comparing this to the ratio implied by share trading in comparable listed companies and recent comparable transactions (Section 5.9 of our report). We also considered the book value of Crux (set out in Section 5.2.3 of our Independent Expert's Report). In addition we were aware of offers arising from the sale process undertaken by the Company (as set out in the advantages of the Proposed Scheme discussion of our Independent Expert's Report).

11/05/2014

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Book value of Crux

We had regard to the book value of the Crux project (reported as the development asset (AC/RL9) on the balance sheet). The following table sets out a breakdown of the relevant assets and liabilities on the balance sheet as at 31 December 2013.

Table 1

Balance sheet asset/liability	31-Dec-13	Additional comments
Development assets	44.6	Plug and abandonment capitalised costs relating to Crux-2/ST-1, Crux-3 and Crux-4 wells. Once these wells are abandoned (expected to occur in 2015) these wells will no longer be classified as economic.
	202.8	We have used this value as a cross-check to our selected value of the Crux Project. The book value is an estimate by the Company based on the future cash flows expected to be derived from the field.
	247.4	Book value as at 31 December 2013
Long term provisions	44.6	Plug and abandonment relating to Crux-2/ST-1, Crux-3 and Crux-4 wells. We have treated this as a surplus liability.
	41.9	This includes other future abandonment costs relating to Longtom
	86.5	Book value as at 31 December 2013

Source: Deloitte Corporate Finance analysis

As at 31 December 2013, the development asset was recorded at AUD 247 million. This balance is inclusive of plug and abandonment costs of approximately AUD 45 million, resulting in a net balance of AUD 202 million.

We compared the book value of Crux (AUD 202.4 million (excluding plug and abandonment capitalised costs)) to our calculated value range of AUD 161.1 million to AUD 209.9 million (inclusive of additional resources associated with the Crux Project).

There is no duplication of the plug and abandonment costs in undertaking this comparison, as when the abandonment costs are incurred by Nexus, the cash balance of the company will decrease and the provision will be reduced to nil (we have treated this as a surplus liability).

We have set out below additional information on this treatment, as set out in our Independent Expert's Report. As set out in Section 5.6 of our Independent Expert's Report:

“Nexus is responsible for 85% of abandonment costs relating to the Crux-2/ST-1, Crux-3 and Crux-4 wells, incurred prior to the formation of the Crux JV, which is estimated at AUD 45 million. The plugging and abandonment obligation is based on estimates provided by Shell as operator of the joint venture.”

As set out in the table above, this commitment has been recorded in the books of account as a liability of AUD 45 million and a deferred cost (Rehabilitation Asset) of AUD 45 million. The liability represents a commitment of the company, which we have recognised as a surplus liability.

As set out in section 5.2.3 of our Independent Expert's Report:

“We have adopted a value range for the Crux project of AUD 160 million to AUD 200 million.

Our selected value range is exclusive of additional resources associated with the Crux Project (AC/RL9), which have not been captured within our modelling (refer to Section 5.5). Deloitte REA has estimated this to be in the range of AUD 1.10 million to AUD 9.90 million.

In determining the reasonableness of our selected value range for the Crux Project, we have had regard to the book value of the Crux project (reported as the development asset (AC/RL9) on the balance sheet).

As at 31 December 2013, the development asset was recorded at AUD 247 million. This balance is inclusive of plug and abandonment costs of approximately AUD 45 million, resulting in a net balance of AUD 202 million, which is within the range of our selected value (including value associated with additional resources). We have treated the plug and abandonment costs as a surplus liability (refer to Section 5.6).”

As stated, our valuation of Crux above does not incorporate the liability of AUD 45 million or the deferred cost (Rehabilitation Asset) of AUD 45 million. On this basis we have excluded the deferred cost (Rehabilitation Asset) from our comparison to our value range. We have separately taken account of the liability of AUD 45 million as a surplus liability as mentioned above.

Sale process offers

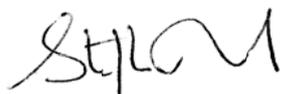
As set out in our advantages of the Proposed Scheme discussion, the Company has undertaken a divestment process, working with several investment banks, which did not result in any reasonable offers for Longtom, Crux or the entire company, other than the offer from SGH. It is difficult to attract interest in the most significant asset of Nexus, Crux, as Shell and Osaka Gas have a pre-emptive right to acquire Nexus' 15% interest in the asset, which is a significant deterrent for potential investors, as any offer made for the asset may result in Shell taking up its pre-emptive right to acquire the asset.

The Board has outlined a detailed summary of the options they have considered in regards to meeting the capital and funding requirements, in an ASX announcement on 31 March 2014 and section 4.3 of the Scheme Booklet. This section of the Scheme Booklet contains further detail of the offers the Company has received in regards to Crux.

For our further analysis in respect of the Proposed Scheme, please refer to our Independent Expert's Report, attached as Annexure 4 of the Scheme Booklet provided to Shareholders on 7 May 2014.

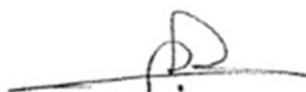
Yours faithfully

DELOITTE CORPORATE FINANCE PTY LIMITED



Stephen Reid

Director



Robin Polson

Director