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## Report for Quarter ending 31 March 2014 & Appendix 5B

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### Production at Longtom gas project impacted by electrical fault during the quarter

- Production volumes for the quarter ending 31 March 2014 were 2.17 PJ of gas and 16.70 Kbbbls of condensate produced at an average yield of 8.68bbls per MMscf
- Gas production impacted by production outage due to electrical fault at Longtom
- System availability of 79% achieved for the quarter

			Quarter Ended		Financial Year	
			31-Mar-2014	31-Mar-2013	2014YTD	2013FY
<b>Gas</b>	Production	PJ	2.17	0.25	8.27	11.30
	Sales	PJ	2.11	0.24	8.05	11.02
<b>Condensate</b>	Production	Kbbl	16.70	1.79	62.45	88.25
	Sales	Kbbl	16.13	4.23	62.79	87.46
<b>Total</b>	Revenue	A\$ m	10.37	1.35	38.99	52.00

### Initial offshore intervention program at Longtom

- As announced on 21 February 2014, production at the Longtom gas processing facility was suspended due to a fault in the offshore facilities
- An offshore intervention program commenced on 4 March 2014, with the results of the campaign identifying the electrical fault as residing within the Longtom-3 subsea facilities
- As part of the offshore intervention program the Longtom-3 well was isolated, enabling production to recommence from the Longtom-4 well on 11 March 2014

### Rectification works at Longtom-3 well

- Nexus has been developing alternative options to enable Longtom-3 production to be returned, with preliminary capex estimates of between \$3-6 million depending on the rectification option chosen
- These options have considered the financial implications under the terms of the Longtom Gas Sales Agreement (Longtom GSA) of Longtom-3 rectification works being deferred and production not being returned
- Under this scenario, the loss of revenue and associated implications under the Longtom GSA could result in a negative net present value (NPV) adjustment of approximately \$18 million. To avoid this negative NPV impact, Nexus would need to identify a source of funding to meet Longtom-3 rectification costs
- Works to determine the appropriate course of action taken are ongoing

### Merger implementation agreement (MIA) with Seven Group Holdings (SGH)

- On 31 March 2014, Nexus announced that it had entered into a MIA with SGH under which SGH (through a subsidiary) will acquire all of Nexus' shares at A\$0.02 cash per share subject to regulatory and other conditions
- On 31 March 2014, Nexus also announced that it and SGH (through a subsidiary) entered into a A\$40 million bridge facility agreement (Bridge Facility) to provide Nexus with sufficient funding to meet costs associated with Longtom, near term capital commitments, contingencies and corporate expenses of the company for the period required to complete the implementation of the MIA. Any drawdowns under the Bridge Facility require the approval of SGH

- On 11 April 2014, SGH notified Nexus that it had satisfied one of the conditions precedent under the MIA by:
  - completing the purchase of all the loan outstanding under Nexus' Senior Facility Agreement from Nomura Special Investments Singapore Pte Ltd and Merrill Lynch International, and
  - completing the purchase of more than 66.67% of the subordinated notes issued by Nexus
- Having assessed the proposal under the MIA and Bridge Facility against all other alternatives (further details of which are set out in the announcement on 31 March 2014), the Board of Nexus believes the proposal is its best prospect of delivering value to shareholders, and has determined to unanimously recommend the offer, in the absence of a superior proposal and subject to an independent expert concluding that the scheme is in the best interests of Nexus' shareholders
- The Nexus Board understands from SGH (as owners of the Bridge Facility and Senior Facility) that if the Bridge Facility and Senior Facility become repayable in circumstances where the Scheme is no longer likely to be implemented, SGH would not be likely to grant any waivers from the payment obligations that immediately arise. In these circumstances, absent a superior proposal, the Board would need to place Nexus into voluntary administration
- Full details of the Scheme of Arrangement will be contained in a Scheme booklet which is likely to be despatched to shareholders in the second week in May 2014, ahead of a shareholders' meeting currently scheduled to be held on 12 June 2014 to vote on the Scheme

#### **Other corporate matters**

- On 18 February 2014, Don Voelte tendered his resignation as Chairman and Non-Executive Director with immediate effect
- On 12 March 2014, Nexus entered into a US\$30 million settlement deed relating to legacy legal proceedings first announced in July 2011. The settlement (and Nexus' payment obligation) was conditional upon Nexus executing a binding asset or corporate sale transaction by 2 April 2014 and such a transaction completing by 31 August 2014

## **PRODUCTION ACTIVITIES**

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

Nexus sold 2.11 PJ and 16.13 Kbbbl of condensate in the March quarter, under the revised GSA terms that came into effect on 1 July 2013. An electrical fault in the Longtom subsea system caused the shut-in of production on 21 February 2014 and curtailed production for 18.5 days before production was restored from the Longtom-4 well on 11 March 2014. Testing of the subsea electrical system confirmed that the fault is isolated to the supply to the Longtom-3 well, with the majority of the system having full operational capability. The Longtom-3 well remains shut-in as a result of the electrical fault while investigations into the repair alternatives are assessed. Gas sales nominations are currently being met by the Longtom-4 well. The Longtom system availability was 79% for the quarter, compared to 93% for the financial year to date.

Plans for restoring Longtom-3 to production commenced immediately following the conclusion of the offshore campaign. The assessment so far has involved investigating the lead-time, cost, reliability, and production impacts associated with options that include re-wiring of the existing cabling, the installation of a temporary replacement cable, the installation of a permanent replacement cable, as well as variations and combinations of these options. The estimated project cost of these options varies between approximately \$3 million - \$6 million, with analysis so far confirming that this expenditure can be justified to avoid the possibility of a significantly more negative NPV impact of approximately \$18 million associated with potential lost revenue and contractual implications of having Longtom-3 remaining offline.

During the recent offshore campaign, the opportunity was taken to perform visual inspection of Longtom subsea infrastructure to confirm the gross structural integrity of the subsea equipment. The results are currently being reviewed, with previous inspections confirming no areas of specific concern. The outcomes of the recent activities and assessments are being incorporated into maintenance planning for the coming 12 – 18 months, to ensure a high level of system availability can be sustained.

As a requirement of the National Offshore Petroleum Safety and Environmental Management Authority (NOPSEMA) and in accordance with recent legislative changes, Nexus submitted a revision to the currently approved Longtom Operations Environmental Plan (EP) in the December quarter, including the development of an Oil Spill Contingency Plan. Following this submission, NOPSEMA have provided the opportunity to modify and re-submit the EP. Nexus have enhanced details of the Oil Spill Contingency Plan and also undertaken further stakeholder engagement as part of the updates to the EP. The updated EP was re-submitted to NOPSEMA in mid-April 2014.

Activities for the Longtom-4 workover and Longtom-5 development well are progressing, following the appointment of a Project Manager in December 2013. Current delivery timing guidance on long-lead items and the availability of drilling rigs in the SE Australian region indicate that the drilling of Longtom-5 is likely to be in mid-2015 calendar year, with schedules to be confirmed during front end engineering and design. The option to accelerate the re-entry of the Longtom-4 well to open a sliding sleeve to allow production from a previously perforated reservoir is being investigated as an activity that may be executed via rigless intervention as a separate, and earlier, activity to the drilling of the Longtom-5 well.

## **DEVELOPMENT ACTIVITIES**

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

The AC/RL9 five year Retention Lease was formally awarded in February 2013 and provides a clear framework for the Crux Joint Venture to meet the Federal Government's expectation of the earliest possible commercialisation of the Crux asset. Shell Development Australia (82%) is the Operator of the permit on behalf of the Joint Venture with Nexus and Osaka Gas (3%).

Year 1 of the Retention Lease concluded at the end of February 2014 with all of the technical and commercial commitments completed. Application for regulatory approval for drilling of the Auriga West prospect was deferred from Year 1 into Year 2 due to delays associated with identifying a suitable and available rig for drilling in Year 2 of the work program. By the end of the March quarter, significant

progress has been made regarding identification of a suitable rig, with the activities associated with drilling of the Auriga well currently on track for Q2 FY15.

The Year 2 work program also includes plug and abandonment activities of the Crux-2 (ST 1), Crux-3 and Crux-4 wells and follow-on appraisal studies. It is planned that the abandonment activities will follow drilling of the Auriga West exploration well using the same drilling rig.

## **APPRAISAL AND EXPLORATION ACTIVITIES**

### **Echuca Shoals**

#### **WA-377-P Gas Discovery (Nexus 100%)**

##### **Browse Basin, Western Australia**

During the March quarter, seismic data reprocessing was completed. The reprocessed seismic data is providing insights into the nature of deposition of Tithonian reservoir units over the permit. This work targets understanding of subsurface uncertainties associated with the Tithonian sands – both in terms of continuity and variable reservoir quality. The Tithonian is proven gas bearing in Echuca Shoals-1 and Fossetmaker-1. While Mashmaker remains the currently preferred drilling candidate, the interpretation of this new data will be incorporated into the resource assessment of all prospects in the permit, targeted completion in the June 2014 quarter.

As previously reported, the northern extent of the Mashmaker prospect is planned to be tested within adjoining permit WA-341-P in a well operated by Inpex during 2014. There is currently no activity reported, however monitoring will continue given the proximity to prospects in WA-377-P.

An application to NOPTA (as the relevant government regulator) to suspend Permit Year 2 of WA-377-P by 6 months with a corresponding extension to the permit term in order to complete the critical Tithonian reservoir mapping, was granted during the March quarter. Permit Year 2, which provides for drilling of an exploration well commitment will now end on 22 September 2014, with a corresponding extension to all subsequent permit years.

### **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 Petroleum Production Licence VIC/L29, Longtom infill drilling remains the priority with the Gemfish prospect, also in VIC/L29, seen as an attractive exploration opportunity. Gemfish is considered "drill ready" from a geological perspective.

During the quarter, data processing for the VIC/P54 pre-stack depth migration (PSDM) was completed by Oil Hunters in Perth. The improved imaging quality and velocity model derived from the PSDM processing will produce a more reliable assessment of the Hussar Prospect with the intention of upgrading this lead to drillable prospect status. Completion of this assessment will fulfil the studies commitment for the permit Year 4. This information will be incorporated into the resource assessment of all prospects in the permit, targeted completion in the June 2014 quarter.

As previously reported, an application for a work program variation was submitted to NOPTA to defer the Year 4 well into Year 5 (14 October 2014 – 13 October 2015) with the Year 5 geological and geophysical studies brought forward into Year 4.

## **FINANCIAL & CORPORATE**

### **Quarterly cashflow**

The 31 March 2014 quarterly cashflow report reflects:

- Cash receipts of \$11.4 million and production costs of \$5.2 million
- Administration costs of \$4 million and finance costs of \$6.3 million (which related to the quarterly interest payment on the Longtom Senior Debt Facility and the half yearly Notes interest payment in January 2014)
- Cash balance of \$4.8 million at quarter end, a decrease of \$5.3 million from 31 December 2013

## **Merger implementation agreement (MIA) with Seven Group Holdings (SGH)**

On 31 March 2014 Nexus announced that it had entered into a MIA with SGH under which it will acquire all of Nexus' shares at A\$0.02 cash per share subject to regulatory and other conditions. At the same time, Nexus announced it had entered into a A\$40 million bridge facility agreement with SGH to provide Nexus with sufficient funding to meet costs associated with Longtom, near term capital commitments, contingencies and corporate expenses of the company for the period required to complete the implementation of the MIA.

The Nexus Board understands from SGH (as owners of the Bridge Facility and Senior Facility) that if the Bridge Facility and Senior Facility become repayable in circumstances where the Scheme is no longer likely to be implemented SGH would not be likely to grant any waivers from the payment obligations that immediately arise. In these circumstances, absent a superior proposal, the Board would need to place Nexus into voluntary administration.

Nexus believes that for any third party to be able to provide Nexus with a superior proposal (either at the corporate level or for the Company's assets), the third party would need to address Nexus' funding constraints which, absent agreement with SGH, would involve repayment of the Bridge Facility, the Senior Facility and the subordinated notes.

On 11 April 2014 (post the end of the quarter), SGH notified Nexus that it had completed the purchase of more than 66.67% of the subordinated notes issued by Nexus and all of the loans outstanding under Nexus' Senior Facility Agreement, satisfying one of the conditions precedent under the MIA.

Full details of the Scheme will be contained in a Scheme booklet (which will include an independent expert's report opining on whether the Scheme is in the best interests of Nexus shareholders) which is likely to be despatched to shareholders in the second week in May 2014. Nexus considers it will be important for shareholders to read the Scheme booklet prior to making any decision with regard to their Nexus shares. The Board of Nexus unanimously recommends shareholders vote in favour of the Scheme, in the absence of a superior proposal and subject to an independent expert concluding that the Scheme is in the best interests of the Company's shareholders.

### **Other corporate matters**

On 18 February 2014, Don Voelte tendered his resignation as Chairman and Non-Executive Director with immediate effect.

On 12 March 2014 (following a mediation process), Nexus announced that it had entered into a US\$30 million settlement deed with Sedco Forex International Inc (Sedco) and Osaka Gas Crux Pty Ltd (OG) relating to legacy legal proceedings (and an associated cross claim) first announced in July 2011 with the initial claim lodged for approximately US\$67 million. The mediation process occurred with Sedco and OG during February 2014, by which time Sedco's primary claim with interest was in the total amount of approximately US\$80 million. The Settlement Deed provides for Nexus to be fully and finally released from the Dispute (without admission of liability by any party) subject to certain conditions, including payment by Nexus to Sedco of US\$30 million. The settlement with Sedco (and Nexus' payment obligation) was conditional upon Nexus executing a binding asset or corporate sale transaction by 2 April 2014 and such a transaction completing by 31 August 2014.

**Lucio Della Martina**  
Managing Director & Chief Executive Officer

**For further information please contact:**  
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# Appendix 5B

## Mining exploration entity and oil and gas exploration entity quarterly report

Introduced 01/07/96 Origin Appendix 8 Amended 01/07/97, 01/07/98, 30/09/01, 01/06/10, 17/12/10, 01/05/2013

Name of entity

Nexus Energy Limited

ABN

64 058 818 278

Quarter ended ("current quarter")

31 March 2014

### Consolidated statement of cash flows

Cash flows related to operating activities		Current quarter \$A'000	Year to date (9 months) \$A'000
1.1	Receipts from product sales and related debtors	11,442	41,881
1.2	Payments for (a) exploration & evaluation	(130)	(498)
	(b) development	(984)	(3,866)
	(c) production	(5,182)	(24,274)
	(d) administration	(4,007)	(10,222)
1.3	Dividends received		
1.4	Interest and other items of a similar nature received	29	111
1.5	Interest and other costs of finance paid	(6,311)	(13,882)
1.6	Income taxes paid		
1.7	Other (GST, FX gains/losses)	(186)	(51)
<b>Net Operating Cash Flows</b>		<b>(5,329)</b>	<b>(10,801)</b>
<b>Cash flows related to investing activities</b>			
1.8	Payment for purchases of:		
	(a) prospects		
	(b) equity investments		
	(c) other fixed assets	(1)	(4)
1.9	Proceeds from sale of:		
	(a) prospects		
	(b) equity investments		
	(c) other fixed assets	59	3,833
1.10	Loans to other entities		
1.11	Loans repaid by other entities		
1.12	Other		
<b>Net investing cash flows</b>		<b>58</b>	<b>3,829</b>
1.13	Total operating and investing cash flows (carried forward)	<b>(5,271)</b>	<b>(6,972)</b>

+ See chapter 19 for defined terms.

**Appendix 5B****Mining exploration entity and oil and gas exploration entity quarterly report**

1.13	Total operating and investing cash flows (brought forward)	(5,271)	(6,972)
	<b>Cash flows related to financing activities</b>		
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		
1.18	Dividends paid		
1.19	Other		
	<b>Net financing cash flows</b>	0	0
	<b>Net increase (decrease) in cash held</b>	(5,271)	(6,972)
1.20	Cash at beginning of quarter/year to date	10,049	11,806
1.21	Exchange rate adjustments to item 1.20	(3)	(59)
1.22	<b>Cash at end of quarter</b>	4,775	4,775

**Payments to directors of the entity, associates of the directors, 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	228
1.24	Aggregate amount of loans to the parties included in item 1.10	

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

On 10 January 2014, \$2 million was capitalised against the Longtom Senior Debt Facility in accordance with the revised Longtom Senior Debt Facility Terms as announced on 27 December 2013.

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	162,007	162,007
3.2 Credit standby arrangements		
Undrawn \$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	310
4.2 Development	1,425
4.3 Production	12,715
4.4 Administration	3,290
<b>Total</b>	<b>17,740</b>

### 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	2,360	3,239
5.2 Deposits at call	890	1,516
5.3 Bank overdraft		
5.4 Other	1,525	5,294
<b>Total: cash at end of quarter (item 1.22)</b>	<b>4,775</b>	<b>10,049</b>

### Changes in interests in mining tenements and petroleum tenements

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

+ See chapter 19 for defined terms.

## Appendix 5B

### Mining exploration entity and oil and gas 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) (cents)	Amount paid up per security (see note 3) (cents)
7.1	<b>Preference securities</b> (description)				
7.2	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3	<b>*Ordinary securities</b>	1,330,219,459	1,330,219,459		
7.4	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs				
7.5	<b>*Convertible debt securities</b> (description)				
7.6	Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7	<b>Options</b> (description and conversion factor)	696,200 4,500,000 2,522,800 3,971,100 4,255,300		Exercise price Zero Zero Zero Zero Zero	Expiry date 30 June 2014 2 April 2015 30 June 2015 30 June 2016 13 May 2016
7.8	Issued during quarter				
7.9	Exercised during quarter				
7.10	Expired during quarter				
7.11	<b>Debentures</b> (totals only)				
7.12	<b>Unsecured notes</b> (totals only)				

+ 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 5).
- 2 This statement does give a true and fair view of the matters disclosed.

Sign here: ..... Date: 30 April 2014  
 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 and petroleum 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 or petroleum 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: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Financial Reporting 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.

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### Schedule of Exploration Permits Held by Consolidated Entity At 31 March 2014

Permit	Basin	Interest %
VIC/P54	Gippsland	100
VIC/L29	Gippsland	100
AC/RL9	Browse	15
WA-377-P	Browse	100

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+ See chapter 19 for defined terms.