
Nexus Energy Half Year Results Announcement

Nexus Energy (ASX: NXS) (Nexus or Company) today announces results for the six month period ended 31 December 2013. Nexus' securities continue to be in Voluntary Suspension.

Solid operating performance, results impacted by non-recurring, non-cash items

- Longtom gas nominations met and system availability of 100% achieved
- Production of 6.1PJ Gas, down 46% in accordance with Santos nominations under the revised Gas Sales Agreement (GSA)
- Revenue from operations of \$28.6 million, down 35% (1H13: \$43.7 million)
- Longtom operating profit \$5.3 million, down 66% (1H13: \$15.8 million)
- Reported Net Loss before Tax of \$38.0 million* (1H13: Net Profit before Tax of \$45.3 million*)
- Reported Net Loss after Tax of \$150.1 million** (1H13: Net Profit after Tax of \$31.7 million)

* 1H14 includes a \$22.2 million non-recurring, non-cash charge relating to the impairment of the Longtom asset and a gain on disposal of Long Lead Items of \$3.8 million. 1H13 included a gain of \$45.8 million relating to sale of 2% of Crux and a gain on settlement of Long Lead Items of \$9.3 million

** 1H14 includes a \$112.1 million write-off of non-cash, deferred tax assets relating to carried forward tax losses

Longtom offshore intervention progressing (Post half year end)

- 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, the campaign identified the electrical fault as being within the Longtom-3 well
- 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 (with current nominations to Santos being met)
- Nexus has now begun the process of defining the required scope of work and timing for a future campaign to enable production at Longtom-3 to be returned

Funding review

- Revisions to the Longtom Senior Debt Facility (Longtom SDF) agreed with new lenders Nomura and Merrill Lynch following the exit by BOS International (Australia) Limited of all its non-core Australian operations
- Nexus has pursued a range of options to support future growth, including asset divestments, whole of company proposals, recapitalisation of the Company and refinancing of existing debt facilities
- Nexus is in active discussions with its advisors and potential financiers. The Company is presently considering a number of proposals to meet its various near and medium term capital and existing finance commitments
- The Company also continues to explore opportunities for a potential corporate or asset solution, however there is no certainty this will eventuate and as such discussions with financiers remain the priority

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

"The operating performance of Longtom in the half year to 31 December 2013 was in line with expectations, with gas nominations met in full under the terms of the gas sales agreement with Santos.

Nexus is progressing discussions with financiers as a priority in order to meet the Company's various finance commitments."

FINANCIAL REVIEW

Profit & Loss

Revenue for the period totalled \$28.6 million which reflected lower production in line with the GSA. Operating profit decreased to \$5.3 million, reflecting lower revenues and amortisation charges of \$10.5 million.

For the period ended 31 December 2013, reported net loss after tax of \$150.1 million compared with a reported net profit after tax for 1H13 of \$31.7 million. The 1H14 reported result includes \$138.4 million of non-cash, non-recurring items, representing a \$112.1 million charge relating to the derecognition of deferred tax assets and \$26.3 million of charges relating to the deferral of Longtom-5. The 1H13 result included a gain of \$45.8 million relating to the sale of a 2% interest in Crux, and a gain on settlement of obligations for long lead items of \$9.3 million.

Balance Sheet

The income tax expense figure of \$112.1 million represents the derecognition of deferred tax assets relating to carried forward tax losses and asset tax base. This approach is in compliance with AASB112. The Directors' continue to believe in the significant underlying value of the Group's asset and in particular the Crux asset.

An impairment review was undertaken during the period. As noted above, following the deferral of the Longtom-5 well, a non-cash impairment charge of \$22.2 million was applied against the valuation of the Longtom asset and a \$4.1 million non-cash provision was raised against prepaid tolling fees.

Discussions with Santos continue regarding the recovery of the Longtom processed gas take or pay receivable which remains unpaid. At period-end, a \$14.1 million doubtful debt provision was recognised with the corresponding entry applied against the Unearned Revenue liability.

Bi-annual principal repayments under the Company's Notes commence in July 2014. This, together with the Longtom senior debt facility maturing in December 2014, has resulted in debt previously classified as non-current in 1H13 being classified as current in 1H14.

The continuing viability of Nexus and its ability to continue as a going concern and meet its debt and commitments as they fall due, are dependent upon the Company being successful in generating sufficient future cash flow to meet debt repayments and other obligations. The Board still expects to achieve this through one or more of the following events occurring:

- Sell down of an interest in the Crux or Longtom asset;
- Farm out of an interest in exploration permits to meet future exploration commitments;
- Recapitalise the Company through the issue of new equity;
- Refinance the existing debt facility with existing lenders or new lenders; and/or
- Continue to work with lenders ensuring ongoing compliance with lending facility and review events.

UPDATE ON STRATEGIC AND FUNDING REVIEW PROCESSES

As announced on 27 December 2013, Nexus entered into revised terms for its Longtom Senior Debt Facility (Longtom SDF) which provided for a review event requiring either a debt refinance or Nexus executing a binding agreement by 2 April 2014 with a third party that will retire the outstanding Longtom SDF amount (\$44.4 million) and fully cashback the undrawn million letter of credit (\$60 million), by 1 July 2014.

Nexus advised in its announcement on 20 February 2014 that it was focused on progressing options related to a recapitalisation of the Company and/or a refinancing of existing debt facilities. Nexus has been working with, and continues to work with, its lenders and advisers to progress potential solutions. The Company continues to explore opportunities for a potential corporate or asset solution, however there is no certainty this will eventuate and as such discussions with financiers remain the priority.

In order to support these development plans and to meet Nexus' contractual obligations, and in the context of the deferral in net cash flows associated with the Longtom suspension, the Company is in discussions and developing term sheets with its financiers in order to meet the Company's various near and medium term finance requirements.

The Longtom senior debt financiers have permitted Nexus to access reserved funds during the period of the Longtom suspension.

REVIEW OF OPERATIONS

Production

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

The revised Gas Sales Agreement (GSA) with Santos came into effect on 1 July 2013. The GSA realigns the production profile with the period when demand is expected to peak and supply is forecast to be constrained in the Australian East Coast gas market.

During the period to 31 December 2013, Nexus sold 5.94PJ of gas and 46.66 Kbbbl of condensate, booking total revenues of \$28.6 million. Gas and condensate production for the period met nominations, with Longtom system availability of 100% achieved.

Activities for the Longtom-4 workover and Longtom-5 development well were progressed during the period, with 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 south east Australian region indicate that the drilling of Longtom-5 is likely to be in the 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.

As a requirement of the National Offshore Petroleum Safety and Environmental Management Authority (NOPSEMA), Nexus revised its currently approved Longtom Operations Environmental Plan in accordance with recent legislative changes, including the development of an Oil Spill Contingency Plan. The documentation has been submitted to NOPSEMA for review and approval, and this is currently an ongoing process.

On 21 February 2014, production at Longtom was suspended due to a fault in the offshore facilities. An offshore intervention program in March 2014 determined the location of the electrical fault as being within the Longtom-3 subsea facilities. As part of the offshore intervention program the Longtom-3 well was isolated, enabling production to recommence from Longtom-4 on 11 March 2014. Nexus has now begun the process of defining the required scope of work and timing for a future campaign to enable production at Longtom-3 to be returned.

Development

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.

During the period, Shell, as Crux Joint Venture Operator, notified the members of the Joint Venture that the timing of drilling of the Auriga well had been deferred to Q2 FY15 (previously targeted for Q4 FY14) subject to rig availability.

Planning activities associated with the Retention Lease Year 2 work program were undertaken during the period. The Year 2 work program includes the drilling of the Auriga exploration well, plug and abandonment activities of the Crux-2 (ST 1), Crux-3 and Crux-4 wells and follow-on appraisal studies.

The Crux Joint Venture submitted the AC/RL9 Oil Spill Contingency Plan and the Environment Plan to NOPSEMA during the first half. These submissions are in preparation for the drilling of the Auriga-1 exploration well and the abandonment activities.

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

Nexus technical studies during the first half assessed the three identified drilling candidates within the permit and concluded that the Mashmaker exploration prospect is the best candidate for the next well to be drilled on the permit. 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. Activity in WA-341-P will be monitored given its impact on WA-377-P.

During the period to 31 December 2013, a new seismic project was initiated working with UK based Geo Teric. Further reprocessing of the seismic data using Geo Teric software and work flow was well advanced by the end of the period. This is a different approach to earlier seismic based projects as it focuses on various seismic attributes within the basic data. Working with the attribute data, the project targets 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 has continued into the third quarter and will be incorporated into the assessment of all prospects in the permit.

**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, viewed as an attractive exploration opportunity. Gemfish is considered "drill ready" from a geological perspective.

During the period to 31 December 2013, an application for a work program variation was submitted to NOPTA (as the relevant government regulator) 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. The variation was approved on 30 August 2013. Data processing for the VIC/P54 pre-stack depth migration (PSDM) commenced during the period using Oil Hunters in Perth and is expected to be completed during the third quarter. The PSDM project aims primarily to improve the seismic imaging quality over the Hussar structure and upgrade this lead to drillable prospect status.

OTHER CORPORATE MATTERS

The Nexus Board of Directors received notification on 18 February 2014 that Don Voelte, Chairman and Non Executive Director, had tendered his resignation with immediate effect. Mr Voelte, who is also CEO and Managing Director of Seven Group Holdings (SGH), informed the Board that his position on the Board of Nexus was no longer appropriate given SGH's strategic focus on opportunities in the oil and gas sector.

On 12 March 2014, Nexus announced that it has entered into a settlement deed to fully release the Company from a 2011 legacy dispute with Sedco Forex International Inc. (Sedco) and associated cross claim from Osaka Gas Crux Pty Ltd (OG). Sedco initially lodged a claim for approximately US\$67 million. A 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 parties have now entered into a settlement deed that was subject to certain conditions, including payment by Nexus to Sedco of US\$30 million. The settlement and payment obligation is conditional upon Nexus executing a binding asset or corporate sale transaction by 2 April 2014 and such a transaction completing by 31 August 2014.

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