ASX Announcement

11 April 2014

Longtom Operational Update,
Update on the Proposed Acquisition of Nexus by Seven Group Holdings Limited and Continuation of Suspension

Longtom Operational Update

Nexus Energy Limited (**Nexus** or **Company)** refers to its announcement on 21 February 2014 in relation to the halting of production at the Longtom gas processing facility and to the subsequent request for suspension pending an announcement to the market regarding the implications of the Longtom shutdown. At the time of the original announcement, the cause of the production halt was unknown, as was the work that would be required to rectify the problem along with the time and costs that would be involved in carrying out that work.

On 12 March 2014, the Company issued a Longtom operational update that advised of the return to gas production from the Longtom-4 well, and the identification of the electrical fault as being contained within the Longtom-3 subsea facilities. At that time, however, further investigations were required to ascertain the cause of the electrical fault and determine the work necessary to rectify the fault, the time and costs that would be involved and whether it would be viable to carry out the rectification work compared to continuing with reduced production from Longtom-4 alone.

In relation to the Longtom-3 subsea facilities, Nexus has been developing alternative options to enable Longtom-3 production to be returned. These options include a standalone offshore campaign (with limited scope), around October 2014 and an offshore campaign (with full rectification scope), integrated with the proposed Longtom-5 subsea work program in mid 2015. In assessing the options, Nexus considered the scope of work and the availability of suitable vessels and equipment specific to the scope of work for each particular option over the short to medium term and a range of potential scenarios of the type of work required. It then compared this to a scenario where the rectification works are not undertaken and the financial implications under the terms of the Longtom Gas Sales Agreement of Longtom-3 not being returned to production. Preliminary capex estimates are in the order of $3 to $6 million depending on the option chosen. The option chosen will be dependent on the final cost estimates, risk profile of the associated work program together with the timing of first production.

In the event that Nexus does not carry out any rectification works at Longtom-3, the loss of revenue and associated implications under the Longtom Gas Sales Agreement would result in a negative net present value (NPV) adjustment of approximately $18 million, taken against the carrying value of the asset as at 1 January 2014. In calculating the NPV impact, the same underlying assumptions used as part of the 31 December 2013 Half Year Review Financial Statements have been applied. In order to avoid this negative NPV impact, Nexus would need to identify a source of funding to meet the costs of Longtom-3 rectification works.

As announced on 31 March 2014, Nexus has entered into a A$40 million four-month Bridge Facility agreement with Seven Group Holdings Limited (**SGH**). Nexus entered into that agreement in conjunction with the conditional Merger Implementation Agreement (**MIA**) to provide funding to meet costs associated with the Longtom project, near term capital commitments, contingencies and corporate expenses for the period anticipated to be required to complete the implementation of the Scheme of Arrangement (**Scheme**). Any drawdowns under the Bridge Facility require the approval of SGH.

Based on the current timetable for the Scheme, the rectification works will not need to be undertaken until after completion of the Scheme. However, Nexus (subject to the approval of SGH) may need to make commitments in respect of the Longtom rectification works. Absent the proposed acquisition of Nexus by SGH, Nexus anticipates that it would not have sufficient funds for the rectification works, in which case the financial impact on Nexus would be a negative NPV adjustment of approximately $18 million, as set out above.

Update on Proposed Acquisition of Nexus by Seven Group Holdings Limited

As previously announced and noted above, the Company has entered into a conditional MIA (in relation to the proposed acquisition by SGH of all of the issued shares in Nexus by way of a Scheme and a Bridge Facility (pursuant to which SGH may provide funding required by Nexus in the period prior to implementation of the Scheme). Nexus requires the Bridge Facility to provide essential funding to enable Nexus to continue as a going concern in the period prior to completion of the Scheme.

Upon receiving a proposal from SGH in relation to the acquisition of all of the issued shares in Nexus and the provision of bridging finance, the Board assessed the merits of the proposal against all other remaining alternatives, further details of which are set out in the Company's announcement to the market on 31 March 2014. The Board concluded that the proposal from SGH represented the best prospect of delivering value to shareholders.

As announced today SGH (through a subsidiary company) has 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.

A summary of the terms of the MIA and Bridge Facility are set out in the announcement dated 31 March 2014. Nexus would like to draw shareholders' attention to the following:

- SGH has provided a four-month Bridge Facility, under which funding may be made available to Nexus as part of SGH's proposal to acquire all of the issued shares in Nexus.
- Nexus understands that SGH's intention in providing bridge funding is to enable Nexus to continue to operate between now and completion of the Scheme. Provided it remains satisfied that the Scheme is likely to be implemented, SGH will provide funding support under the Bridge Facility to meet necessary Longtom and corporate expenses. In the period prior to completion of the Scheme, Nexus will need to apply to SGH for approval to drawdown funds under the Bridge Facility and of the expenses to be paid for by those drawdowns.
- If at any time the MIA is terminated or SGH determines that the Scheme can no longer be implemented due to some action or inaction on the part of Nexus then SGH can call for immediate repayment of amounts outstanding under the Bridge Facility and the Senior Facility. Further if the Directors of Nexus change their recommendation, including if the independent expert determines that the Scheme is not in the best interests of the Company or there is a superior proposal or if shareholders reject the proposed Scheme, then amounts outstanding under the Bridge Facility and Senior Facility would become immediately repayable. If payment is not made, SGH would be entitled to enforce the security relating to the Bridge Facility and the Senior Facility.
- The Nexus Board understands 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.

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.

Continuation of Suspension

ASX Listing Rule 12.2 provides that an entity's financial condition (including operating results) must, in ASX's opinion, be adequate to warrant the continued quotation of its securities and its continued listing. Nexus' financial position depends on the support of SGH in accordance with the terms of the Bridge Facility, the conditional MIA remaining in force and ultimately on the outcome of the Scheme. Shareholders should refer to the announcement made on 31 March 2014 and the summary above for details of the terms of the Bridge Facility, conditional MIA and their implications on Nexus' financial position.

Accordingly, and in light of the Company's current difficult financial condition and the requirements of ASX Listing Rule 12.2, the suspension of trading in Nexus' securities will continue in the current circumstances.

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