Nexus Energy Limited

ABN 64 058 818 278

Financial report for the half year ended
31 December 2012

CONTENTS

The Directors present their report of Nexus Energy Limited and Subsidiaries ("Group") for the half-year ended 31 December 2012.

Board of Directors

The name of directors who held office during or since the end of the half-year:

Donald Voelte	Non-Executive Chairman – appointed 11 October 2012
Lucio Della Martina	Managing Director and Chief Executive Officer – appointed Managing Director on 12 October 2012
Symon Drake-Brockman	Non-Executive Director
John Hartwell	Non-Executive Director
Michael Fowler	Non-Executive Director – Retired 31 October 2012
Ian Boserio	Non-Executive Director – Retired 31 October 2012
Michael Arnett	Non-Executive Director – Retired 31 October 2012
Steven Lowden	Non-Executive Director – Retired 31 October 2012

Review of Operations

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

During the period to 31 December 2012, Nexus sold 9.26 PJ of gas and 74.89 Kbbl of condensate, booking total revenues of $43.69 million. Production was in line with Santos Limited (Santos) nominations and system availability of 99.9% was achieved.

On 14 January 2013, production at the Patricia-Baleen gas processing facility was suspended as a result of an electrical fault. An offshore intervention program was undertaken to identify the location of the electrical fault which caused the interruption to gas production at the Longtom field. The results of the intervention program identified the fault as being within the Santos offshore facility. The results of this campaign are continuing to be assessed and a subsequent offshore program will be required to enable the return to gas production.

Longtom is a high quality asset which is well positioned to benefit from the strong demand dynamics in the East Coast. The asset has been repositioned for further development and investment with the objective of creating a high performing profitable business. A number of development opportunities have been identified and are currently being assessed against the Company's overall corporate strategy. Well designs for both the Gemfish exploration prospect and Longtom-5 are progressing and Nexus continues to explore rig availability for a Longtom-5 drilling campaign (subject to final investment decision) which is expected to commence towards the end of 2013.

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

On 23 October 2012, completion of the consolidation of interests with Shell (Operator) and Osaka Gas was achieved following receipt of Title Registration and FIRB approvals. The new integrated gas and liquids Joint Venture provides:

- The potential development of a new FLNG gas and liquids facility to process Crux gas with the opportunity to process third party gas and liquids; and
- Nexus' participation in the LNG value-chain with title to its proportionate share of LNG and liquids.

A process to divest a tranche of Nexus' interest in the Crux stake was initiated following completion on 23 October 2012. The objectives of this process are to:

- Secure the Company's funding position;
- Deleverage the balance sheet; and
- Crystallise some value from the asset for shareholders.

Expressions of interest have been received from high quality parties for both a tranche of the asset and potentially Nexus' entire equity stake.

On 19 December 2012, Nexus provided Shell with a notice to exercise the put option agreed as part of consolidation of interests transaction. The exercise of the option resulted in the sale of 2% of Nexus' participating interest in the Crux Joint Venture to Shell for a fixed consideration of $75 million. Completion occurred prior to the end of the quarter. Ownership in the Joint Venture is now as follows: Nexus 15%, Shell 82% (Operator) and Osaka Gas 3%.

On 30 January 2013, the Crux Joint Venture received an offer from the Joint Authority for the issuance of a Retention Lease for five years. The Retention Lease was granted on 20 February 2013. The Retention Lease provides a clear framework, including a detailed work program, for the Crux Joint Venture to meet the government's expectation of the earliest possible commercialisation of the Crux asset. As part of the work program the Crux Joint Venture will finalise the development concept(s) with the view to progressing to final investment decision, preserving the potential for a standalone FLNG facility. Commencing in the second half, the detailed work program includes technical studies and the drilling of a commitment well in permit year two relating to the Auriga prospect.

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

With the increased technical and commercial activity in the Browse Basin, the Echuca Shoals permit is strategically located as a potential supplier to both Central Browse and East Browse LNG. Nexus has identified three potential drilling candidates in this permit: the Mashmaker and Cooper prospects, and appraisal of the Echuca Shoals-1 gas discovery. The objective of the current technical study program is to identify the best risk/reward drilling opportunity by mid-2013 for the next commitment well to be drilled by March 2015.

During the half year to 31 December 2012, revised mapping over the Mashmaker prospect was completed providing enhanced confidence in the structural definition. Further studies to examine geological risks will be completed in March 2013. The enhanced understanding resulting from the Mashmaker studies are currently being incorporated into the Echuca Shoals and Cooper evaluations to enable a decision on the preferred drilling candidate by mid-2013.

VIC/P54 Permit (Nexus 100%)
Gippsland Basin, Victoria

Longtom's existing infrastructure, coupled with the increasing demand for gas along the East Coast, has improved the commercial attractiveness of Nexus' acreage. In Production Licence VIC/L29 the Gemfish prospect is ready to be drilled, however Longtom infill drilling will take priority. In VIC/P54 the objective is to mature the Hussar and Longtom West prospects as future drilling candidates to support further expansion of the Longtom opportunity set for 2014 and beyond. The primary geological risk for the Hussar and Longtom West prospects is structural definition which has been limited by the recognised poor to fair seismic data quality. To address the seismic data quality and hence the structural risk, reprocessing of approximately 425 sq kms data volume commenced in December 2012. Parameter testing was completed and reprocessing underway subsequent to the half year ended 31 December 2012. Once completed, this work will fulfil the VIC/P54 year 3 firm work commitments.

Rounding off of amounts

The company is of the kind referred to in ASIC Class Order 98/0100, dated 10 July 1998, and in accordance with that Class Order amounts in the directors report and the half year financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

Auditor's Independence Declaration

A copy of the auditor's independence declaration for the half year ended 31 December 2012 has been received as required under Section 307C of the Corporations Act 2001 and is included on page 4.

This Directors' Report is made in accordance with a resolution of the Board of Directors.

On behalf of the Directors:

Don Voelte AO
Non-Executive Chairman

Lucio Della Martina
Managing Director and Chief Executive Officer

Dated at Melbourne this 8th day of March 2013

Auditor's Independence Declaration

As lead auditor for the review of Nexus Energy Limited for the half year ended 31 December 2012, I declare that to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Nexus Energy Limited and the entities it controlled during the period.

Charles Christie
Partner
PricewaterhouseCoopers

Melbourne
8 March 2013

PricewaterhouseCoopers, ABN 52 780 433 757
Freshwater Place, 2 Southbank Boulevard, SOUTHBANK VIC 3006, GPO Box 1331, MELBOURNE VIC 3001
T: +61 3 8603 1000, F: +61 3 8603 1999, www.pwc.com.au

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE HALF YEAR ENDED 31 DECEMBER 2012

	Note	31 December 2012 $ 000	31 December 2011 $ 000
Sales revenue	3	43,690	53,977
Operating costs	4	(27,841)	(48,933)
Operating profit		15,849	5,044
Other revenue	3	56,334	2,933
Exploration expenditure expensed		(244)	(91)
Employee benefits expense		(2,750)	(2,337)
Depreciation and amortisation		(78)	(38)
Finance costs		(16,690)	(16,287)
Mark-to-market gain on derivative financial instruments		430	147
Net foreign currency (losses) / gains		(133)	957
Inventory write down		-	(1,903)
Restoration provision expense		(2,543)	(2,178)
Impairment of production asset		-	(162,778)
Other expenses		(4,895)	(4,967)
Profit/(loss) before income tax		45,280	(181,498)
Income tax (expense) / benefit		(13,565)	52,224
Profit/(loss) attributable to the owners of Nexus Energy Limited		31,715	(129,274)
Other comprehensive income			
Other comprehensive income for the period, net of tax		-	-
Total comprehensive profit/(loss) attributable to the owners of Nexus Energy Limited		31,715	(129,274)
Basic earnings per share (cents)		2.4	(9.7)
Diluted earnings per share (cents)		2.4	(9.7)

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2012

	Note	31 December 2012 $ 000	30 June 2012 $ 000
Current Assets			
Cash and cash equivalents	5	95,040	33,653
Trade and other receivables		6,721	7,820
Inventories		15	15
Other current assets		1,149	2,453
Total Current Assets		102,925	43,941
Non-Current Assets			
Property, plant and equipment		258	241
Deferred tax asset		109,779	123,345
Intangible assets		24	27
Exploration and evaluation assets	6	12,005	11,655
Development assets	7	219,008	233,631
Production assets	8	136,642	145,384
Other non-current assets		23,771	22,467
Total Non-Current Assets		501,487	536,750
Total Assets		604,412	580,691
Current Liabilities			
Trade and other payables	9	7,081	27,093
Borrowings	10	67,884	43,489
Total Current Liabilities		74,965	70,582
Non-Current Liabilities			
Trade and other payables	9	3,021	3,021
Derivative financial liabilities		659	1,089
Borrowings	10	144,452	167,412
Long-term provisions	11	58,344	47,476
Total Non-Current Liabilities		206,476	218,998
Total Liabilities		281,441	289,580
Net Assets		322,971	291,111
Equity			
Issued capital	12	689,594	689,594
Reserves		7,701	7,556
Retained profits/(accumulated losses)		(374,324)	(406,039)
Total Equity		322,971	291,111

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE HALF YEAR ENDED 31 DECEMBER 2012

	Issued capital $ 000	Retained profits/ (accumulated losses) $ 000	Share based payments reserve $ 000	Total equity $ 000
Balance as at 1 July 2011	688,934	(63,716)	7,681	632,899
Comprehensive Income				
Loss for the period	-	(129,274)	-	(129,274)
Other comprehensive income for the period	-	-	-	-
Total comprehensive income for the period	-	(129,274)	-	(129,274)
Transactions with owners in their capacity as owners, and other transfers				
Shares issued less transaction costs	-	-	(219)	(219)
Share based payments expense	-	-	-	-
Total transactions with owners in their capacity as owners, and other transfers	-	-	(219)	(219)
Balance as at 31 December 2011	688,934	(192,990)	7,462	503,406
Balance at 1 July 2012	689,594	(406,039)	7,556	291,111
Comprehensive Income				
Profit for the period	-	31,715	-	31,715
Other comprehensive income for the period	-	-	-	-
Total comprehensive income for the period	-	31,715	-	31,715
Transactions with owners in their capacity as owners, and other transfers				
Share based payments expense	-	-	145	145
Total transactions with owners in their capacity as owners, and other transfers	-	-	145	145
Balance as at 31 December 2012	689,594	(374,324)	7,701	322,971

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF YEAR ENDED 31 DECEMBER 2012

	Note	31 December 2012 $ 000	31 December 2011 $ 000
Cash Flows from Operating Activities			
Receipts from customers		41,120	56,012
Payments to suppliers and employees		(27,290)	(27,477)
Interest received		428	1,589
Finance costs		(10,255)	(11,133)
Net Cash provided by Operating Activities		4,003	18,991
Cash Flows from Investing Activities			
Payments for plant and equipment and intangible assets		(92)	(129)
Payments for exploration, development and production expenditure		(12,614)	(27,558)
Proceeds from part sale of interest in Crux asset		75,000	-
Proceeds from sale of casing		162	783
Net Cash Flows provided by / (used in) Investing Activities		62,456	(26,904)
Cash Flows from Financing Activities			
Payments for transaction costs arising on share issues		-	(19)
Repayment of borrowings		(5,000)	(6,000)
Net Cash Flows used in Financing Activities		(5,000)	(6,019)
Net increase / (decrease) in cash and cash equivalents held		61,459	(13,932)
Cash and cash equivalents at beginning of financial year		33,653	62,612
Effect of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies		(72)	5
Cash and cash equivalents at end of half year	5	95,040	48,685

The accompanying notes form an integral part of these financial statements.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

This condensed consolidated interim financial report for the half year reporting period ended 31 December 2012 has been prepared in accordance with Australian Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Act 2011. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 134 Interim Financial Reporting.

This condensed consolidated interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2012 and any public announcements made by Nexus Energy Limited during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The consolidated interim financial report has been prepared using the same accounting policies and methods of computation as used in the corresponding previous financial half year and annual report for the financial year ended 30 June 2012. These accounting policies are consistent with Australian Accounting standard and with International Financial Reporting Standards.

2. GOING CONCERN

On the basis of the present level of operations and after consideration of the Group's ability to:

- Sell down an interest in the Crux asset;
- Farm out an interest in exploration permits to meet future exploration commitments; and / or
- Continue to work with lenders ensuring ongoing compliance with lending facility and review events,

the Directors are of the opinion that for the next 12 month period from the date of signing the Directors Declaration the Group will have sufficient liquidity to meet their existing commitments and accordingly present these consolidated financial statements on a going concern basis.

	31 December 2012 $ 000	31 December 2011 $ 000
3. REVENUE		
Sale of gas and condensate	43,690	53,977
	43,690	53,977
Other Revenue		
Interest income on cash and cash equivalents	428	1,589
Services revenue from joint venture operations	23	189
Rental income on sub-lease	671	372
Gain on disposal of casing	162	783
Gain of part sale of Crux interest	45,799	-
Gain on settlement of obligation of Long Lead Items (LLI)	9,251	-
	56,334	2,933
4. OPERATING COSTS		
Production costs	16,027	21,595
Royalty expense	1,268	1,564
Amortisation of production asset	10,546	25,774
Total operating costs	27,841	48,933

		31 December 2012 $ 000	30 June 2012 $ 000
5. CASH AND CASH EQUIVALENTS			
Cash at bank and on hand	(a)	84,449	4,173
Bank deposits at call		3,667	23,250
Restricted bank deposits		6,924	6,230
Total cash and cash equivalents		95,040	33,653

(a) In January 2013, $60 million was used to retire debt and $15 million of the cash at bank balance was transferred into a Longtom Contingency Account.

	31 December 2012 $ 000	30 June 2012 $ 000

6. EXPLORATION AND EVALUATION ASSETS

At cost	12,005	11,655
Balance at end of period	12,005	11,655
Reconciliation		
Balance at beginning of financial year	11,655	10,140
Additions - expenditure incurred	594	1,837
Expenditure incurred expensed to the statement of comprehensive income	(244)	(322)
Balance at end of period	12,005	11,655

Exploration and evaluation expenditure carried forward relates to the areas of interest in the exploration phase for petroleum exploration permits VIC/P54 and WA-377-P (2012: VIC/P54 and WA-377-P). The expenditure is carried forward on the basis that exploration and evaluation expenditure activities in the areas have not reached a stage that permits reasonable assessment of the existence or otherwise of economically recoverable reserves and significant activity in, or in relation to, the areas is continuing.

The ultimate recovery of capitalised exploration and evaluation expenditure is dependent on the successful development and commercial exploitation or the commercial sale of the relevant areas of interest.

7. DEVELOPMENT ASSETS

At cost	300,046	314,669
Impairment of Long Lead Items	(81,038)	(81,038)
Balance at end of period	219,008	233,631
Reconciliation		
Balance at beginning of financial year	233,631	311,593
Additions - expenditure incurred	6,258	3,076
Additions - restoration asset	8,320	-
Disposals	(29,201)	-
Impairment of Long Lead Items	-	(81,038)
Balance at end of period	219,008	233,631

The development expenditure carried forward relates to the Crux asset (AC/RL9). During the half year Nexus exercised the 2% put option with Shell reducing its interest from 17% to 15%. Total proceeds received were $75 million with a gain on disposal of $45.8 million at 31 December 2012.

8. PRODUCTION ASSETS

At cost	479,246	477,442
Accumulated amortisation	(98,054)	(87,508)
Impairment	(244,550)	(244,550)
Balance at end of period	136,642	145,384
Reconciliation		
Balance at beginning of financial year	145,384	332,508
Additions - expenditure incurred	1,804	7,634
Impairment	-	(162,778)
Amortisation charge for the period	(10,546)	(31,980)
Balance at end of period	136,642	145,384

The production assets relate to the Longtom gas project (VIC/L29).

		31 December 2012 $ 000	30 June 2012 $ 000
9. TRADE AND OTHER PAYABLES			
Current (unsecured)			
Trade payables		202	659
Sundry payables and accrued expenditure	(a)	6,879	26,434
Total current trade and other payables		7,081	27,093
Non-current (unsecured)			
Deferred revenue		3,021	3,021
Total non-current trade and other payables		3,021	3,021

(a) The reduction is Sundry payables and accrued expenditure mainly relates to the close out of contractual Long Lead Items which were settled during the half year.

10. BORROWINGS

		31 December 2012 $ 000	30 June 2012 $ 000
Current			
Bank loan (secured)	(a)	35,000	10,000
Senior subordinated notes (unsecured)	(b)	32,884	33,489
Total current borrowings		67,884	43,489
Non-current			
Bank loan (secured)	(a)	42,415	71,280
Senior subordinated notes (unsecured)	(b)	102,037	96,132
Total non-current borrowings		144,452	167,412

(a) Bank Loan

During the half year ended 31 December 2012, the Company renegotiated its senior project financing facility in relation to the Company's Longtom gas asset. The facility terms include scheduled principal repayments and a final maturity in December 2014 unless repaid earlier. The Company also has a $60 million senior secured letter of credit facility that remains undrawn.

Interest on the project financing facility continues to be charged at the Reuters BBSY bid rate on the first date of the funding period (three months) plus a margin of 3.5%. Interest is payable on the last day of each funding period. A 0.5% payment in kind is capitalised and added to the principal outstanding each funding period. As part of the restructure of the facility this payment in kind is no longer required following a principal repayment in January 2013. As at 31 December 2012 the interest rate was 7.42% including the payment in kind (30 June 2012: 7.54%).

As is typical of project financing facilities, the loan is subject to review events and events of default. During the facility renegotiation period the Company received waivers in respect of commercial covenants and post restructure was compliant with its obligations to and as at 31 December 2012.

As part of the requirements of the facility the Company is required to maintain an interest reserve account equal to the amount of cash interest to be payable by the Company during the succeeding six months from the commencement of each funding period.

In January 2013, a principal repayment of $30 million was made against the Longtom facility. Refer to Note 15: Subsequent Events.

(b) Senior Subordinated Notes

The Company has two series of senior unsecured notes, the original 2013 notes issued in January 2008 and the 2017 notes arising out of the notes exchange offer completed in August 2010.

The Company has in place:
- $18.7 million (face value) of 2013 notes due in January 2013;
- $14.2 million (face value) of Tranche B 2017 Notes due in January 2013; and
- $117.6 million (face value) of Tranche A 2017 Notes with bi-annual principal repayments commencing in July 2014 with a bullet repayment in January 2017.

In January 2013, the 2013 Notes and the tranche B of the 2017 Notes which totalled $32.9 million were repaid Refer to Note 15: Subsequent Events.

The 31,844,058 Warrants issued on 15 January 2008 (as part of original 2013 Notes issue) provided the option to subscribe for one Nexus Energy Limited share at an exercise price of $2.02. The Warrants expired (unexercised) on 15 January 2013. Refer to Note 15: Subsequent Events.

	31 December 2012 $ 000	30 June 2012 $ 000
11. PROVISIONS		
Long-term		
Employee benefits	134	129
Restoration provision	58,210	47,347
Total long-term provisions	58,344	47,476

Restoration provision

The restoration provision represents the Group's estimated present value of costs relating to future site restoration, removal and rehabilitation activities. The significant movement in the restoration provision is the result of a review of the provision post completion of the Crux transaction with Shell and Osaka Gas in October 2012.

	31 December 2012 Number	30 June 2012 Number	31 December 2012 $	30 June 2012 $
12. ISSUED CAPITAL				
Share capital				
Ordinary shares, fully paid	1,329,821,159	1,329,821,159	670,833,204	670,833,204
Other equity securities				
Value of warrants – senior subordinated notes (unsecured)			19,305,120	19,305,120
Deferred tax liability on transaction costs			233,394	233,394
Transaction costs incurred in issuing equity instruments			(777,980)	(777,980)
			18,760,534	18,760,534
			689,593,738	689,593,738

There was no movement in issued capital during the half year ended 31 December 2012. Warrants which were issued along with the Subordinated Notes in January 2008 expired unexercised on 15 January 2013.

	31 December 2012 $ 000	30 June 2012 $ 000
13. COMMITMENTS		
(a) Operating lease rental commitments		
Non-cancellable operating lease rentals not provided for in the financial statements and payable:		
Not later than 1 year	1,588	1,574
Later than 1 year but not later than 5 years	6,836	6,733
Later than 5 years	2,068	2,968
Total operating lease rental commitments	10,492	11,275

The Company has a photocopier lease with a primary 3-year term that expires during February 2015.

The Company has an office lease for Level 8 Freshwater Place Southbank with a 10-year term that expires in January 2019.

The Company has an office lease for Level 23 530 Collins Street Melbourne with an 8-year term that expires in February 2019.

	31 December 2012 $ 000	30 June 2012 $ 000
Non-cancellable operating lease rentals not provided for in the financial statements and receivable:		
Not later than 1 year	999	980
Later than 1 year but not later than 5 years	4,414	4,328
Later than 5 years	1,318	1,906
Total operating lease rental commitments	6,731	7,214

The company has sub-let level 8 Freshwater Place Southbank to a third party expiring in January 2019.

(b) Exploration expenditure commitments

Exploration expenditure commitments are estimates for work commitments pursuant to the award of petroleum exploration permits VIC/P54 and WA-377-P. (2012: VIC/P54 and WA-377-P)

	31 December 2012 $ 000	30 June 2012 $ 000
Not later than 1 year	550	1,050
Later than 1 year but not later than 5 years	40,300	40,300
Later than 5 years	-	-
Total exploration expenditure commitments	40,850	41,350

Estimates for future exploration expenditure commitments are based on estimated well and seismic costs which will change as actual drilling location and seismic surveys are organised and are determined in current dollars on an undiscounted basis.

14. SEGMENT REPORTING

Identification of reportable segments

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Board of Directors (chief operating decision makers) in assessing performance and determining the allocation of resources. The operating segments identified by management are based on assets in production, development and exploration.

Types of products and services by segment

(a) Production
The production segment relates to the sale of gas and condensate. At 31 December 2012, the Longtom asset is reported in this segment which has a sale agreement with Santos for the sale of gas and condensate.

(b) *Development*
The development segment holds assets which have confirmed resources and are currently in development phase. At 31 December 2012, the Crux asset is reported in this segment.

(c) *Exploration*
The exploration segment holds assets which are currently in exploration and evaluation phase. At 31 December 2012, the Echuca Shoals asset and VIC/P54 is reported in this segment.

Basis of accounting for purposes of reporting by operating segments

Accounting policies adopted
Unless stated otherwise, all amounts reported to the Board of Directors as the chief decision maker with respect to operating segments are determined in accordance with accounting policies that are consistent to those adopted in the annual financial statements of the Group.

Inter-segment transactions
An internally determined transfer price is set for all inter-entity sales. This price is re-set quarterly and is based on what would be realised in the event the sale was made to an external party at arm's length. All such transactions are eliminated on consolidation for the Group's financial statements.

Corporate charges are allocated to reporting segments based on the segments' activity within the Group. The Board of Directors believes this is representative of likely consumption of head office expenditure that should be used in assessing segment performance and cost recoveries.

Inter-segment loans payable and receivable are initially recognised at the consideration received net of transaction costs. If inter-segment loans receivable and payable are not on commercial terms, these are not adjusted to fair value based on market interest rates. This policy represents a departure from that applied to the statutory financial statements.

Segment assets
Where an asset is used across multiple segments, the asset is allocated to the segment that receives the majority of economic value from the asset. In the majority of instances, segment assets are clearly identifiable on the basis of their nature and physical location.

Segment liabilities
Liabilities are allocated to segments where there is direct nexus between the incurrence of the liability and the operations of the segment. Borrowings (with the exception of asset specific project financing) and tax liabilities are generally considered to relate to the Group as a whole and are not allocated. Segment liabilities include trade and other payables and certain direct borrowings.

Unallocated items
The following items of revenue, expense, assets and liabilities are not allocated to operating segments as they are not considered part of the core operations of any segment:

- derivatives;
- net gains / (losses) on disposal of available-for-sale investments;
- impairment of assets and other non-recurring items of revenue or expense;
- income tax expense;
- deferred tax assets and liabilities;
- current tax liabilities;
- other financial liabilities;
- intangible assets;
- general and administration expenditure;
- net foreign currency gains / (losses);
- share issues and related expenses; and
- retirement benefit obligations.

14. SEGMENT REPORTING (Continued)

Segment Performance

Half Year Ended 31 December 2012	**Production $ 000**	**Development $ 000**	**Exploration $ 000**	**Other $ 000**	**Total $ 000**
Revenue					
Sale of gas and condensate	43,690	-	-	-	43,690
Gain of part sale of Crux interest	-	45,799	-	-	45,799
Total segment revenue	43,690	45,799	-	-	89,489
Reconciliation of segment revenue to group revenue					
Total group revenue	43,690	45,984	-	-	89,674
Segment operating profit / (loss) before tax	15,849	45,984	(244)	-	61,589
Reconciliation of segment result to group net profit / (loss) before tax					
Amounts not included in segment result but reviewed by the Board:					
• Depreciation and amortisation	-	-	-	(78)	(78)
• Finance costs	(5,476)	-	-	(11,214)	(16,690)
• Restoration expense	(1,003)	(1,540)	-	-	(2,543)
• Mark-to-market adjustment on derivative financial instruments	430	-	-	-	430
• Gain on settlement of obligations of Long Lead Items	-	9,251	-	-	9,251
Unallocated items:					
• Interest and other revenue					1,099
• Employee benefits expense					(2,750)
• Foreign exchange movements					(133)
• Other					(4,895)
Net profit before tax					45,280

Segment Performance

Half Year Ended 31 December 2011	**Production $ 000**	**Development $ 000**	**Exploration $ 0000**	**Other $ 000**	**Total $ 000**
Revenue					
Sale of gas and condensate	53,977	-	-	-	53,977
Total segment revenue	53,977	-	-	-	53,977
Reconciliation of segment revenue to group revenue					
Total group revenue	53,977	975	-	-	54,952
Segment operating profit / (loss) before tax	5,044	973	(91)	-	5,926
Reconciliation of segment result to group net profit / (loss) before tax					
Amounts not included in segment result but reviewed by the Board:					
• Depreciation and amortisation	-	-	-	(38)	(38)
• Inventory write downs	-	(1,903)	-	-	(1,903)
• Finance costs	(5,910)	-	-	(10,377)	(16,287)
• Restoration expense	(1,830)	(347)	-	-	(2,178)
• Mark-to-market adjustment on derivative financial instruments	147	-	-	-	147
• Impairment of production asset	(162,778)	-	-	-	(162,778)
Unallocated items:					
• Interest and other revenue					1,960
• Employee benefits expense					(2,337)
• Foreign exchange movements					957
• Other					(4,967)
Net loss before tax					(181,498)

14. SEGMENT REPORTING (Continued)

Segment Assets

Half Year Ended 31 December 2012	**Production $ 000**	**Development $ 000**	**Exploration $ 000**	**Total $ 000**
Segment assets	167,702	219,024	12,010	398,736
Segment assets increased for the period:				
• Capitalised costs	1,804	14,578	594	16,976
Reconciliation of segment assets to group assets				
Unallocated items:				
• Other assets				95,873
• Deferred tax assets				109,779
• Intangibles				24
Total group assets				604,412

Segment Assets

Year Ended 30 June 2012	**Production $ 000**	**Development $ 000**	**Exploration $ 000**	**Total $ 000**
Segment assets	175,713	235,144	11,660	422,517
Segment assets increased for the period:				
• Capitalised costs	7,634	3,076	1,836	12,546
Reconciliation of segment assets to group assets				
Unallocated items:				
• Other assets				34,802
• Deferred tax assets				123,344
• Intangibles				27
Total group assets				580,691

15. SUBSEQUENT EVENTS

Financial Report

The financial report was authorised for issue on 8th March 2013.

Crux Development Asset

In January 2013, the Crux Joint Venture received an offer from the Joint Authority for the issuance of a Retention Lease for five years. The retention lease was granted on 20 February 2013. The retention lease provides a clear framework, including a detailed work program, for the Crux Joint Venture to meet the government's expectation of the earliest possible commercialisation of the Crux asset. As part of the work program the Crux Joint Venture will finalise the development concept(s) with the view to progressing to final investment decision. The detailed work program includes technical studies with a commitment well in permit year two which relates to the Auriga prospect.

Longtom Operational Update

On 14 January 2013, production at the Patricia-Baleen gas processing facility was suspended as a result of an electrical fault. An offshore intervention program was undertaken to identify the location of the electrical fault which caused the interruption to gas production at the Longtom field. The results of the offshore intervention identified the fault as being within the Santos offshore facility. The results of this campaign are continuing to be assessed and a subsequent offshore program will be required to enable the return to gas production.

Debt Retirement

In January 2013, the 2013 Notes and the tranche B of the 2017 Notes which totalled $32.9 million were repaid. A principal repayment was also made on the Longtom facility totaling $30 million.

Warrants

The 31,844,058 Warrants issued on 15 January 2008 (as part of original 2013 Notes issue) provided the option to subscribe for one Nexus Energy Limited share at an exercise price of $2.02. The Warrants expired (unexercised) on 15 January 2013.

16. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

Letter of credit provided by subsidiaries
The subsidiaries Nexus Energy Aust. NL and Nexus Energy VICP54 Pty Ltd have entered into an agreement to supply raw gas to Santos Offshore Pty Ltd (Santos). As security for the supply of raw gas, Santos has access to a letter of credit capped at $60,000,000 (2012: $60,000,000). The letter of credit has been provided on behalf of the Group by BOS International (Australia) Limited. Should the subsidiaries not meet their obligations under the agreement to supply raw gas, Santos may at this time have access to draw on the letter of credit. The letter of credit amortises on agreed formula once cumulative production from the Longtom facility exceeds 82.5PJ down to a nil balance after 150PJ has been produced.

Joint venture arrangements
In accordance with normal oil and gas industry practice, the Group has entered into joint venture operations with other parties for the purpose of exploring and developing its permit interests. If a participant to a joint venture operation defaults and does not contribute its share of joint venture operation obligations, then the other joint venturers are liable to meet those obligations. In this event, the interest in the permit held by the defaulting participant may be redistributed to the remaining joint venturers. At the date of this report no participant in joint venture operations had defaulted.

Bank Guarantee
Nexus Energy Limited as parent entity has provided a cash backed bank guarantee of $728,563 to Australand in relation to the leased offices at Level 8 Freshwater Place Southbank. A bank guarantee of $271,188 is also in place for the leased offices at Level 23 530 Collins Street. These bank guarantees will be in place for the term of the leases.

Sedco Forex International
On 6 July 2011, Sedco Forex International Inc (Sedco) issued Federal Court proceedings against Nexus Energy Limited (Nexus) and its wholly owned subsidiary, Nexus Energy WA Pty Ltd (NEWA). Sedco seeks damages against NEWA based on an alleged breach and repudiation of a contract relating to the charter of the Transocean Legend drilling rig and has lodged a claim for the amount of US$67,173,680. Sedco also claims against Nexus and NEWA based on alleged misleading and deceptive conduct. Nexus and NEWA strenuously deny the claims by Sedco. The information currently available indicates that Sedco was not itself able to perform the contract and was not therefore entitled to terminate it. Prior to termination, Nexus expressed concerns about the Transocean Legend's maintenance and safety. Nexus and NEWA consider that Sedco unlawfully terminated the contract so it could use the Transocean Legend to fulfil another contract. Nexus and NEWA are vigorously defending Sedco's claim.

DIRECTOR'S DECLARATION

FOR THE HALF YEAR ENDED 31 DECEMBER 2012

In the Directors opinion:

(a) The financial statements and notes as set out on pages 5 to 17, are in accordance with the Corporations Act 2001 including:

i. Complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements, and

ii. Giving a true and fair view of the consolidated entity's financial position as at 31 December 2012 and of its performance for the half year ended on that date, and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.

Don Voelte AO	Lucio Della Martina
Non-Executive Chairman	Managing Director and Chief Executive Officer

Dated at Melbourne this 8th day of March 2013

Independent auditor's review report to the members of Nexus Energy Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Nexus Energy Limited, which comprises the condensed statement of financial position as at 31 December 2012, the condensed statement of comprehensive income, condensed statement of changes in equity and condensed statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration for the Nexus Energy Limited Group ("the consolidated entity"). The consolidated entity comprises both Nexus Energy Limited ("the Company") and the entities it controlled during that half-year.

Directors' responsibility for the half-year financial report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2012 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Nexus Energy Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

PricewaterhouseCoopers, ABN 52 780 433 757
Freshwater Place, 2 Southbank Boulevard, SOUTHBANK VIC 3006, GPO Box 1331, MELBOURNE VIC 3001
T: +61 3 8603 1000, F: +61 3 8603 1999, www.pwc.com.au

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Nexus Energy Limited is not in accordance with the *Corporations Act 2001* including:

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2012 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

PricewaterhouseCoopers

Charles Christie
Partner

8 March 2013

GLOSSARY OF TERMS

$ or cents	units of Australian currency
AIFRS	Australian International Financial Reporting Standards
appraisal well	a well drilled to evaluate the size or quality of a hydrocarbon discovery
ASX	Australian Securities Exchange
bbl	barrel of oil or condensate (equivalent to 159 litres)
capex	capital expenditure
condensate	light hydrocarbon compounds that condense into liquid at surface temperatures and pressures, generally produced with natural gas
exploration	the process of identifying prospective hydrocarbon regions and structures, mainly by reference to regional and specific geochemical, geological and geophysical surveys
FID	final investment decision
FLNG	floating liquefied natural gas
Joint Authority	decision making body responsible for the administration of the Offshore Petroleum Act 2006, comprised of the relevant State/Territory Minister and the Commonwealth Minister
km	kilometre
km^2	square kilometres
LNG	liquefied natural gas
Nexus, Nexus Energy and company	Nexus Energy Limited
operator	one of the companies in a joint venture which has been appointed to carry out all operations on behalf of the other joint venture participant/s
Osaka Gas	Osaka Gas Pty Ltd
permit	a hydrocarbon tenement, lease, licence or block
PJ	petajoules
risk	an expression of uncertainty relating to the presence of principal geological factors controlling hydrocarbon accumulation
scf	standard cubic feet of gas
seismic survey	a type of geophysical survey where the travel times of artificially created seismic waves are measured as they are reflected in a near-vertical sense back to the surface from subsurface boundaries. This data is typically used to determine the depths to the tops of stratigraphic units and in making subsurface structural contour maps and ultimately in delineating prospective structures.
Santos	Santos Limited
Shell	Shell Development (Australia) Pty Ltd
US$	United States dollars