



## Market Update

### Longtom Reserves Update

- Independent assessment of 2P (Proved + Probable) reserves at 137 PJs (excluding the 32 PJs produced to 31 December 2011), with additional 2C Contingent resources assessed at 102 PJs
- Sufficient 2P reserves exist to meet gas contract obligations
- Board prudently impair Longtom asset with write down to \$148 million as a base value case
- Nexus intends to drill Gemfish (200 Bcf success volume target) in pursuit of East Coast gas supply strategy

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Nexus Energy Limited (**Nexus**) advises that a full and detailed internal review of the Longtom field reserves has been completed. In parallel to the internal review process an independent review has also been carried out by Gaffney, Cline & Associates (**GCA**).

The Longtom reserves review was undertaken after production data from the existing Longtom-3 and Longtom-4 producing wells indicated the field is more complex than originally thought. As outlined in Nexus' 2011 Annual General Meeting presentation, extensive geological and geophysical studies have been conducted over the last 18 months. This work has demonstrated that the geological model underpinning the last 2009 reserves report (pre-production) is no longer valid and that reservoir compartmentalisation has impacted recoverable gas reserves.

A preliminary report, issued by GCA on 14 March 2012, has revised the important Proved and Probable (2P) reserves to 137 PJs. On a like for like comparison, the pre-production 2009 reserves has reduced from 350PJs to 170 PJs, after taking into account the 32 PJs produced to 31 December 2011.

The changes (refer table below) result from a lower original gas-in-place volume, a lower average recovery factor and a significant reclassification of 1P, 2P and 3P reserves to 'Contingent resources' categories. Future development plans may access Contingent resources if encouraged by production data, information from future development wells and potentially a side-track from the Gemfish-1 exploration well.

Nexus confirms that the current 2P (Proven + Probable) reserves, as our base case, are sufficient to satisfy Nexus' obligations under the Longtom Gas Sales Agreement (**GSA**) and in particular the delivery obligations to the Santos owned Patricia-Baleen plant.

Building on the enhanced understanding of the field, the current development plan includes a modified (previously planned) Longtom-5 infill well and a new Longtom-6 well.

It is estimated that as a result of the update to the development plan and 2P reserves, an asset impairment in the order of \$163 million will be reflected in the half year accounts to 31 December 2011 with the carrying value of the Longtom asset reduced to approximately \$148 million.

Importantly, the updated reserves position does not include any resources attributable to the Gemfish (previously Longtom South) prospect. The Gemfish prospect, while located in the same VIC/L29 licence area, is distinct from the developed Longtom field both in its reservoir target and structural setting. Gemfish is mapped within a fault terrace immediately south of, and separate from, the Longtom field. The primary reservoir target at Gemfish is the Golden Beach Sub group sands proven productive in fields such as Kipper, currently being developed by Esso/BHP/Santos. Nexus' estimated mean success target for Gemfish is about 200 Bcf at the Golden Beach level. Nexus believes that Gemfish should provide a good opportunity to delineate additional hydrocarbon volumes in the future as part of the company's ongoing Gippsland gas strategy.

Executive Director Ian Boserio said, "This reserves update is the result of extensive seismic processing, remapping and modelling and I commend the Nexus team on their excellent work. Whilst it is disappointing that reservoir complexities attributable to our two producing wells have produced a downgrade to reserves in part of the Longtom field, it is nonetheless pleasing that the recent work has resulted in a field development plan that meets our gas contract obligations. Furthermore, maturation of the adjacent Gemfish prospect is a real bonus. Success at Gemfish would provide gas outside our current contract and access to potentially higher future gas prices."

A summary is provided below of the revisions to the Longtom Field gas volumes, as estimated by GCA, compared to the last 2009 Reserves report completed prior to the start of production.

<b>RESERVES (SALES GAS PJ)</b>			
<b>Effective Date</b>	<b>Proved</b>	<b>Proved + Probable</b>	<b>Proved + Probable + Possible</b>
Reserves as at 1 October 2009 (Pre-Production)	282	350	350
Updated "Reserves" Comparison as at 31 December 2011 (Pre-Production)	124	170 <sup>1</sup>	214 <sup>1</sup>
Adjusted for Actual Production to 31 December 2011 (Cumulative)	32	32 <sup>1</sup>	32 <sup>1</sup>
Updated Reserves as at 31 December 2011 (Remaining)	92	137 <sup>1</sup>	181 <sup>1</sup>

Note 1: Numbers may not add due up due to "rounding".

<b>CONTINGENT RESOURCES (SALES GAS PJ)</b>			
<b>Effective Date</b>	<b>1C</b>	<b>2C</b>	<b>3C</b>
1 October 2009	0	71	95
31 December 2011	68	102	152

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The reserves information in this release in relation to the Longtom gas project has been compiled by Stephen Lane, Principal Advisor, who is a full time employee of Gaffney Cline & Associates (GCA). GCA is an independent international energy advisory group of over 50 years' standing. A substantial part of GCA's work involves the technical evaluation of petroleum properties and the provision of independent valuation of assets for inclusion in company or stock exchange statutory documentation. The GCA Report was prepared in accordance with the SPE-PRMS guidelines and, in preparing the report, GCA maintained strict independence in accordance with the Valmin Code issued by the Australasian Institute of Mining and Metallurgy. Stephen Lane consents to the inclusion in this announcement of information in relation to Longtom reserves in the form and context in which it appears.