



20 September 2007

The Manager, Companies  
Australian Stock Exchange

**Nexus Energy Limited**  
**Financial Statements for the year ended 30 June 2007**

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Please find attached the financial statutory accounts.

Yours sincerely

**Susan Robutti**  
**Company Secretary**



**2007**

**NEXUS ENERGY LIMITED**

ABN 64 058 818 278

**DIRECTORS' REPORT, DIRECTORS' DECLARATION AND  
FINANCIAL REPORT**

For the Financial Year Ended 30 June 2007

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## **DIRECTORS' REPORT**

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

The Directors present their report together with the Financial Report of Nexus Energy Limited ("the Company") and subsidiaries for the financial year ended 30 June 2007 and the independent audit report thereon.

### **Board of Directors**

The Directors of the Company have been in office since the start of the financial year to the date of this report unless otherwise stated:

**MR MICHAEL FOWLER** B.Bus (Acc), ASIA

**Chairman and Non-Executive Director**

**Member of the Audit and Remuneration Committees**

Michael Fowler has been a founding Director of Nexus since the company listed on the ASX in September 2000 and was appointed Interim Chairman on 7 August 2007 following the resignation of Neil Philip. Mr Fowler has extensive experience in the financial services sector and began his career working for second tier chartered accounting firms in Melbourne. He then joined a private family investment group in the mid 1990s and then furthered his career by joining their board. Mr Fowler left that group to start the Treasury Group of Companies in 1999, a funds management company, in conjunction with the Victor Smorgon Group. That business grew to have some \$1.2 billion of funds under management and was taken over by an ASX 200 financial services company in early 2004. Mr Fowler has recently established the Maximum Capital Group of Companies which specialises in property finance and related investment products and services.

**MR IAN TCHACOS** B.Mech.Eng. Grad. Dip. Chem. Eng.

**Managing Director**

Ian Tchacos was appointed CEO of Nexus on 15 July 2002. He was subsequently appointed Managing Director on 24 November 2004. Mr Tchacos has a proven management track record in a range of junior and mid sized oil companies including Amalgamated Scottish Oil Limited (Managing Director), Hardy Oil and Gas PLC (Petroleum Engineering and Business Development Manager), Emperor Bay Petroleum Pty Ltd (Business Development and Planning Director) and Bond Corporation Ltd (Energy Division – New Ventures Manager and Operations Engineer).

**MR ALASTAIR HAYDOCK** B.Sc (Hons)

**Non-Executive Director**

**Member of the Audit and Remuneration Committee**

Alastair Haydock was appointed to the Board of Nexus on 26 July 2001. Currently a petroleum management consultant, Mr Haydock has advised a number of clients in a broad range of petroleum projects encompassing exploration, production, legal, commercial and marketing. Mr Haydock has previously held positions with Petroz NL (Exploration Manager), Santos Limited (Manager - Queensland Exploration and Development), Laurel Bay Petroleum Limited (General Manager) and Occidental Petroleum (Manager - Petroleum Joint Ventures).

**MR NEIL FERGUSON** B.Sc (Mech. Eng.)

**Appointed 17 May 2007**

**Non-Executive Director**

**Member of the Audit and Remuneration Committee**

Neil Ferguson was appointed to the Board of Nexus on 17 May 2007. Mr Ferguson is a former BHP Billiton Petroleum Senior Executive with 35 years experience in executing major offshore oil and gas projects. He has held senior engineering and management positions with British Petroleum, Royal Dutch Shell, Mobil, Woodside and BHP Billiton Petroleum. Mr Ferguson's last position was Vice President of BHP Petroleum's Liverpool Bay business unit in the UK. In his career at BHP Petroleum, Mr Ferguson was involved at a senior level in a number of the Timor Sea developments including the Jabiru, Challis, Skua and Elang Kakatua fields.

**MR NEIL PHILIP** LLB (Hons)

**Resigned 7 August 2007**

**Chairman and Non-Executive Director**

Neil Philip is a founding shareholder of Nexus and was Chairman since the Company listed on the ASX during September 2000 until his resignation on 7 August 2007. Mr Philip is the Chairman of the Northern Territory Government owned multi-utility, the Power and Water Corporation having originally been appointed during April 2000. Mr Philip is a member of the Northern Territory Government established Onshore Gas Task Force formed to facilitate onshore gas development in the Northern Territory. Mr Philip is a former partner of National law firm Clayton Utz, having established the Darwin office of that firm. Mr Philip is a founding shareholder and Executive Director of Philip & Mitaros Projects Pty Ltd, one of the largest property developers in the Northern Territory.

**MR ROBERT BOYSON** B.Sc

**Resigned 4 April 2007**

**Non-Executive Director**

Robert Boyson was appointed to the Board of Nexus on 10 September 2002 and resigned on 4 April 2007. Mr Boyson is Managing Director of Boyson Consulting Pty Ltd which specialises in consulting services to the petroleum industry. Prior to the establishment of his consulting business, Mr Boyson held a succession of key senior international executive positions, with BHP Petroleum and General Manager at Northern Australia Business Unit, British National Oil Corporation and Royal Dutch Shell.

## DIRECTORS' REPORT

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

### Company Secretary

Susan Robutti was appointed Company Secretary on 13 October 2006. Ms Robutti is a Chartered Accountant with extensive financial experience, having previously held the role of Financial Controller and Company Secretary with the Treasury Group of Companies. Ms Robutti was also involved with the listing of Nexus in 2001 and was Company Secretary at that time.

### Directors' Meetings

The number of Directors' meetings (including meetings of committees of Directors) and number of meetings attended by each of the Directors of the Company during the financial year were:

Director	Board meetings		Audit Committee meetings		Remuneration Committee meetings	
	A	B	A	B	A	B
Mr Michael Fowler	15	13	3	3	3	3
Mr Ian Tchacos	15	15	1	1	-	-
Mr Alastair Haydock	15	15	-	-	3	3
Mr Neil Ferguson	2	2	-	-	-	-
Mr Neil Philip	15	14	3	3	-	-
Mr Robert Boyson	13	12	2	1	-	-

A – Number of meetings held during the time the Director held office during the financial year.

B – Number of meetings attended.

### Principal Activities

The principal activities of the Company during the course of the financial year were the investment in energy related projects.

There were no other significant changes in the nature of the activities of the Company during the financial year other than disclosed in the Financial Report.

### Operating Results

The consolidated profit of the Group for the financial year ended 30 June 2007 was \$35,845,497 (2006: loss \$7,383,251).

### Financial Position

The net assets of the Group have increased by \$110,971,717 from 30 June 2006 to \$190,249,250 as at 30 June 2007. This increase has largely resulted from the following factors:

- Proceeds from share issues raising \$72,314,286;
- Proceeds from the sale of 100% of the rights to the natural gas in Crux field (AC/P23 Permit) raising \$51,921,080;
- Project financing arrangements secured for the Longtom development project with \$38,046,536 drawn to 30 June 2007;
- Exploration expenditure incurred for the financial year ended 30 June 2007 totalled \$165,222,383;
- Development expenditure incurred for the financial year ended 30 June 2007 totalled \$12,959,593; and
- The net profit for the financial year ended 30 June 2007 amounted to \$35,845,497.
- The directors believe the group is in a strong and stable financial position to expand and grow its current operations.

## **DIRECTORS' REPORT**

### FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

#### **Significant Changes in State of Affairs**

The following significant changes in the state of affairs of the Company occurred during the financial year:

- Sale of 100% of the rights to the natural gas in the Crux field for approximately \$52 million in October 2006;
- Farm-in Agreement was signed with Shell Development Australia Ltd to jointly commence the appraisal of the Echuca Shoals gas discovery in January 2007;
- Nexus, along with operator Shell Development Australia Ltd, accepted the award of exploration permit AC/P41 in the Browse Basin in March 2007;
- Notice was provided to joint ventures partners withdrawing from the exploration permit Vic/P39(v) in April 2007; and
- Commercial status of the Longtom project was completed in April 2007.

Share Issue transactions were as follows:

- 24,408,349 ordinary shares were issued via a Share Purchase plan at \$0.62 each that raised \$15,133,176 in July 2006;
- 36,840,000 ordinary shares were issued via an Institutional Placement at \$0.80 each that raised \$29,472,000 in March 2007;
- 24,024,169 ordinary shares were issued via a Share Purchase plan at \$0.80 each that raised \$19,219,335 in May 2007; and
- 12,542,500 unlisted options were exercised that raised \$8,489,775 between 3 July 2006 and 28 June 2007.

#### **Future Developments, Prospects and Business Strategies**

Disclosure of information regarding likely developments in the operations of the Group in future years and the expected results of those operations are likely to result in unreasonable prejudice to the Group. Accordingly, this information has been omitted from this Directors' Report.

#### **Review of Operations**

##### ***LONGTOM SOLE RISK APPRAISAL PROGRAM (NEXUS 100%)***

The Longtom-3 well was spudded in July 2006. In September 2006 the company achieved the final appraisal objective of the Longtom-3 well with outstanding gas flows recorded during a second production test.

Recent work on the permit has focused on updating geological and reservoir simulation models based on the results of the Longtom-3 well. All major equipment and service contracts were secured for the development and the field development plan was optimised and resource volumes defined prior to the Financial Investment Decision ("FID"), which was made in April 2007.

An independent audit by international consulting firm Gaffney, Cline and Associates ("GCA") confirmed a best resource estimate of 435 petajoules (PJ) of saleable gas and 5.2 million barrels of condensate in the Longtom gas/condensate field.

Commerciality of the Longtom project was declared in April 2007, and following the FID, Nexus subsequently booked contracted reserves of 350 Petajoules (PJ) of gas and 4 million barrels of condensate.

Project financing arrangements for the Longtom project was secured with the Bank of Scotland International (Australia) Limited. Nexus commenced drawing on its project financing facilities in June 2007, which comprised a short term bridge facility and longer term senior debt facility. The project finance facilities are secured against the Longtom gas project assets with a duration of approximately nine years with interest and principal repayments in line with current market rates.

In September 2007, the Company received a "Notice of intention to grant a Production Licence for Petroleum VIC/L29" from the Designated Authority for and on behalf of the Commonwealth – Victoria Offshore Petroleum Joint Authority in response to the submission of Development Plan for the Longtom gas project (submitted in June 2007).

##### ***VIC/P56 (Nexus 80%)***

The Culverin and Scimitar exploration prospects were drilled in the financial year ended 30 June 2006. The well was abandoned as only a non-commercial oil column was encountered. Further studies have been undertaken to review the remaining prospectivity in the permit.

Nexus' interest in the permit increased to 80% in the September 2006 quarter as a result of the withdrawal of Seoul City Gas and Korea National Oil Corporation.

## **DIRECTORS' REPORT**

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

### ***VIC/P39(v) (Nexus 0%)***

The Galloway-1 exploration well work was drilled and funded by Tap Oil and Santos in July and August 2006, to earn an interest in the permit. No hydrocarbons were encountered and the well was plugged and abandoned. In April 2007, Nexus provided notice to the Joint Ventures withdrawing from the permit.

### ***VIC/P49(v) (Nexus 80%)***

Nexus' interest in the permit increased to 80% in the September 2006 quarter as a result of the withdrawal of Seoul City Gas and Korea National Oil Corporation.

Acquisition of 1,700 km of 2D seismic data was completed in July 2007 with the majority of the data designed to define the large leads, Tiger and Leopard, which have been identified on regional seismic lines in the deep water part of the basin. As part of the survey, seismic data was also acquired over a possible extension of the Basker oil field into the VIC/P49 permit.

### ***NT/P66 (Nexus 100%)***

The NT/P66 permit is a large block situated in the Bonaparte Gulf in the Northern Territory close to existing gas discoveries at Blacktip, Penguin, Tern, Petrel and Fishburn.

A rig contract with a drilling contractor has been signed to drill a well in the permit to complete its primary term work programme. A suspension and extension of the year two permit term until 28 March 2008 has been granted. The company is also progressing a farm-out campaign for the permit.

### ***WA-368-P (Nexus 50%)***

The permit contains an existing oil discovery at Gage Roads confirming the potential for oil in the permit. Nexus has identified a large structure on existing 2D seismic data. A 300 km<sup>2</sup> Catalina 3D seismic survey was completed in February 2007 and interpretation of this data is underway.

### ***AC/P23 – Crux (Nexus 85%)***

The Crux field in exploration permit AC/P23, in the Browse basin offshore Western Australia was acquired by Nexus in January 2006. In August 2007, Nexus' wholly owned subsidiary, Nexus Energy WA Pty Ltd, executed a Sale and Purchase Agreement in relation to a 15% interest in the Crux liquids project with leading Japanese energy supplier Osaka Gas Co., Ltd and its wholly owned subsidiary, Osaka Gas Crux Pty Ltd. Nexus' currently holds an 85% interest and operatorship of the Crux liquids project and over any other liquid hydrocarbons in the AC/P23 permit.

The Crux-2 appraisal well was spudded on 30 December 2006. Crux-2 encountered a gross gas column of 70m with 26m of good quality sandstones in the Jurassic aged Plover formation. A sidetrack well, Crux-2 ST1, was initiated on 20 February 2007.

The Crux-2 ST1 encountered a 158m gross gas column which had the same pressure characteristics as the gas columns seen in both the Crux-1 and Crux-2 wells, indicating that all three wells had intersected a single accumulation. Drilling operations on the Crux-2 ST1 well were completed in April 2007 following the successful suspension of the well as a future injector/producer for a Crux liquids project.

The Crux-2 ST1 confirmed a higher liquids content within the Crux field with samples recovered indicating a condensate gas ratio of 35 barrels per million standard cubic feet of reservoir gas. The field was re-mapped following the completion of Crux-2 ST1 and the potentially recoverable contingent resource re-estimated. Nexus' most recent best estimate of the range of contingent resources in the field is 65 million barrels of condensate.

FEED of a gas condensate recycling project (Crux liquids project) continued with internationally recognised consulting firm Mustang Engineering and was completed in February 2007.

Nexus has secured the Sedco 703 drilling rig for two appraisal wells on the Crux field currently scheduled for the March 2008 quarter. The appraisal drilling and engineering on the Crux field in the Browse basin of the Timor Sea is continuing with the aim of reaching FID for the Crux liquids project by the end of the 2008 financial year.

### ***WA-377-P – Echuca Shoals (Nexus 66%)***

The exploration permit WA-377-P located in the Browse basin was awarded to a subsidiary of Nexus (100%) on 7 March 2006. The permit contains the Echuca Shoals gas discovery, located in close proximity to the giant Ichthys gas field, which is currently the focus of a proposed LNG development.

Reprocessing of the Adele 3D seismic survey was completed in February 2007 with additional inversion processing being completed in May 2007.

## DIRECTORS' REPORT

### FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

In July 2007, Nexus completed a Farm-in Agreement with Shell Development Australia Pty Ltd ("Shell") to jointly commence the appraisal of the Echuca Shoals gas discovery. Under the Farm-in Agreement Shell is required to provide funding of up to US\$60 million in a combination of cash (US\$5 million) and contributions toward the drilling of two appraisal wells (US\$55 million) to earn a 34% interest in the entire permit.

Fossetmaker-1 was spudded on 6 August 2007, being approximately 7 kilometres ENE of the Echuca Shoals-1 discovery well and was drilled to evaluate the possible eastern extension of the Echuca Shoals field. Gas shows were recorded during drilling over a section of sandstones equivalent in age to the sandstones encountered in the Echuca Shoals-1 well. Wire line logs indicate a 10 metre gas interval at a depth just below the 70 metre main gas column seen in the Echuca shoals gas well.

The well was plugged prior to releasing the rig and was drilled at no cost to Nexus pursuant to the Farm-in agreement with Shell Developments (Australia) Pty Ltd. A reassessment of the Echuca Shoals resource potential following a complete technical evaluation incorporating the results of the Fossetmaker-1 will now be undertaken.

#### **AC/P41 (Nexus 50%)**

Nexus, along with operator Shell Development Australia Ltd, accepted the award of exploration permit AC/P41 in the Browse Basin in March 2007. The AC/P41 permit surrounds Nexus' Crux gas condensate field and is 200 kilometres off the Kimberley coast of Western Australia in the northern part of the Browse Basin.

Acquisition of the 500km<sup>2</sup> Octantis 3D survey was completed in July 2007 and processing of the data is underway.

#### **New ventures**

The Company continued to appraise a number of producing oil and gas assets during the financial year.

#### **Corporate**

During the financial year, the Company successfully completed \$72,314,286 in new capital raisings:

- \$8,489,775 in exercise of various options;
- \$29,472,000 placed with sophisticated and institutional investors; and
- \$34,352,511 via share purchase plans.

The capital raisings via the placements to institutional investors have again helped to strengthen the Company's shareholder base with the introduction of several new institutions to the Company's share register.

#### **Dividends**

No dividend has been paid or declared by the Company to members since the end of the previous financial year.

#### **Options**

At 30 June 2007, 13,966,500 options (30 June 2006: 7,210,000 options) were outstanding as part of the Nexus Energy Limited Employee Share Option Plan and other Plan. Details of the Nexus Energy Limited Employee Share Option Plan and other plan are disclosed in Note 30 to the Financial Report.

At the date of this report, the unissued ordinary shares of Nexus Energy Limited under option are as follows:

Grant date	Date of expiry	Exercise price	Number under option
14 September 2006	31 December 2007	\$0.77	500,000
14 September 2006	31 October 2007	\$0.87	5,847,100
30 November 2006	31 October 2007	\$0.87	4,466,000
21 November 2006	31 December 2007	\$1.36	199,400
21 November 2006	31 December 2007	\$1.46	410,300
14 September 2006	6 October 2008	\$1.10	1,000,000
14 September 2006	6 April 2009	\$1.50	500,000
			<u>12,922,800</u>

No person entitled to exercise the option had or has any right by virtue of the option to participate in any share issue of any other body corporate. After 30 June 2007, 1,043,700 ordinary shares were issued upon the exercise of options with an exercise price of \$0.87 raising proceeds of \$908,019.

## DIRECTORS' REPORT

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

During the financial year ended 30 June 2007, the following ordinary shares of Nexus Energy Limited were issued on the exercise of options granted under the Nexus Energy Limited Employee Share Option Plan and other Plan. No amounts are unpaid on any of the shares.

Grant date	Exercise price	Number of shares issued
28 December 2005	\$0.50	1,060,000
23 August 2005	\$0.55	2,000,000
2 November 2005	\$0.55	3,500,000
10 February 2006	\$0.75	3,250,000
14 September 2006	\$0.77	250,000
14 September 2006	\$0.87	982,500
23 December 2005	\$0.90	500,000
23 December 2005	\$1.00	1,000,000
		<u>12,542,500</u>

### Events Subsequent to Balance Date

Since the end of the financial year, the significant events referred to in Note 35 to the Financial Report have occurred.

Except for the matters referred to in Note 35, there has not been any matter or circumstance that has arisen since the end of the financial year, that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations or the state of affairs of the Group, in financial years subsequent to 30 June 2007.

### Remuneration Report

This report details the nature and amount of remuneration for each Director of Nexus Energy Limited, and the other key management personnel. This section of the Directors' Report is prepared in accordance with Section 300A of the Corporations Act 2001. Where appropriate, information which is included in other parts of the Financial Report is included in this report by reference.

#### Remuneration policy

The remuneration policy of Nexus Energy Limited has been designed to align Director and other key management personnel objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long-term incentives based on key performance areas affecting the Group's financial results. The Board of Nexus Energy Limited believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best executives and directors to run and manage the Group, as well as create goal congruence between Directors, other key management personnel and shareholders.

The Board's policy for determining the nature and amount of remuneration for Board members and other key management personnel of the Group is as follows:

- The remuneration policy, setting the terms and conditions for the Executive Directors and other senior executives, was developed by the Remuneration Committee and approved by the Board after seeking professional advice from an independent external consultant;
- The executive remuneration structure is based on a number of factors, including length of service, particular experience of the individual concerned and overall performance of the Company. It also involves a balance between fixed remuneration, and equity-based remuneration (within thresholds set by the Board) and termination payments;
- The Remuneration Committee reviews executive packages annually by reference to the Group's performance, executive performance and comparable information from industry sectors; and
- All executives are eligible to participate in the Employee Share Option Plan (set out in Note 29 to the Financial Report).

The Executive Director and other key management personnel receive a superannuation guarantee contribution required by the government, which is currently 9%, and do not receive other retirement benefits. Some individuals, however, have chosen to sacrifice part of their salary to increase payments towards superannuation.

All remuneration paid to Directors and other key management personnel is valued at the cost to the Company and expensed. Options are valued using the option pricing model.

The Board policy is to remunerate Non-Executive Directors at market rates for time, commitment and responsibilities. The Remuneration Committee determines payments to Non-Executive Directors and reviews their remuneration annually, based on market price, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to Non-Executive Directors is subject to approval by shareholders at the Annual General Meeting. Fees for Non-Executive Directors are not linked to the performance of the Group. However, to align Directors' interests with shareholders interests, the Directors are encouraged to hold shares in the Company. Non-Executive Directors are not provided with retirement benefits other than statutory superannuation and do not receive bonus payments.

## DIRECTORS' REPORT

### FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

The Company has been an oil and gas exploration company since August 2001 and as such has not paid any dividends. The Companies earnings have not been included in the assessment of the remuneration of Directors or other key management personnel. The Company has tried to link performance based remuneration with the increased changes in the share price in the Company and the resultant increase in shareholder wealth. The share price of the Company since the current management team was put in place in 2002 has grown from \$0.03 to a current share price of \$1.31 on 18 September 2007. The share price for the 2007 financial year increased from \$0.62 to \$1.23 on 30 June 2007.

The Key Management Personnel of Nexus Energy Limited include the Directors (as listed above) and the following senior executives, which are also the five highest remunerated executives of the Company:

Name	Position	Employer	Term
Mr Philip Smith	Exploration Manager	Nexus Energy Limited	Under negotiation
Mr Keith Edwards	Engineering and Business Development Manager	Nexus Energy Limited	4 October 2007
Mr Edward Munks	Commercial Manager	Nexus Energy Limited	Resigned 13 October 2006
Mr Brendan Brown	Corporate Finance and Business Development Manager	Nexus Energy Limited	7 November 2008
Mr Charles Sim	Engineering Manager	Nexus Energy Limited	1 March 2009

All of the above persons were also Key Management Personnel during the previous financial year, except for Mr Brendan Brown who commenced employment with the company on 6 October 2006 and Mr Charles Sims who commenced employment with the Company on 7 November 2005. Mr Edward Munks resigned from the company during the year and his last day of employment was 13 October 2006.

#### Employment contracts

The Company may terminate the Managing Director's contract by giving three months notice in writing and paying the equivalent of 12 months of the base salary. The Company may terminate the key management personnel's contracts by giving one months notice in writing and paying the equivalent of one months base salary, except for the Engineering key management personnel who will receive three month's base salary payment. However, should the Engineering key management personnel be terminated on the grounds of non-performance, incapacity or misconduct they will be paid the equivalent of one months salary. The Company may terminate the two other key management personnel by giving one months notice in writing.

#### Details of remuneration for the financial year ended 30 June 2007

Details of the remuneration of the Directors and the other key management personnel of Nexus Energy Limited and the Group are set out in the following tables:

Year	Salary, fees & commissions \$	Primary	Cash bonus \$	Post Employment	Equity	Other	Total \$	
		Superannuation contributions \$		Superannuation \$	Fair value of share options \$	Other \$		
<b>Executive Director</b>								
Mr Ian Tchacos	<b>2007</b>	<b>367,500</b>	<b>33,075</b>	-	-	<b>1,026,180</b>	-	<b>1,426,755</b>
	2006	268,425	24,158	-	-	233,800	-	526,383
<b>Non-Executive Directors</b>								
Mr Michael Fowler	<b>2007</b>	<b>9,556</b>	<b>860</b>	-	-	<b>412,236</b>	-	<b>422,652</b>
	2006	22,936	2,064	-	-	-	-	25,000
Mr Alastair Haydock	<b>2007</b>	-	<b>10,416</b>	-	-	<b>412,236</b>	-	<b>422,652</b>
	2006	-	25,000	-	-	-	-	25,000
Mr Neil Ferguson (Appointed 17 May 2007)	<b>2007</b>	-	-	-	-	-	-	-
Mr Neil Philip (Resigned 7 August 2007)	<b>2007</b>	<b>64,220</b>	<b>5,778</b>	-	-	<b>412,236</b>	-	<b>482,234</b>
	2006	41,284	3,716	-	-	-	-	45,000
Mr Robert Boyson (Resigned 4 April 2007)	<b>2007</b>	-	<b>10,416</b>	-	-	<b>412,236</b>	-	<b>422,652</b>
	2006	-	25,000	-	-	-	30,000	55,000
	<b>2007</b>	<b>441,276</b>	<b>60,545</b>	-	-	<b>2,675,124</b>	-	<b>3,176,945</b>
	2006	332,645	79,938	-	-	233,800	30,000	676,383

**DIRECTORS' REPORT**  
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

		Primary		Post Employment	Equity	Other	
Year	Salary, fees & commissions \$	Superannuation contributions \$	Cash bonus \$	Superannuation \$	Fair value of share options \$	Other \$	Total \$
<b>Other key management personnel</b>							
Mr Philip Smith	2007	240,825	21,674	-	43,423	-	305,922
	2006	183,410	16,507	-	122,100	-	322,017
Mr Keith Edwards	2007	240,825	21,674	-	43,423	-	305,922
	2006	218,654	19,128	-	61,050	-	298,832
Mr Edward Munks (Resigned 13 October 2006)	2007	63,387	5,705	-	-	-	69,092
	2006	145,451	13,091	-	122,100	-	280,642
Mr Brendan Brown (Commenced 6 October 2006)	2007	180,619	16,256	-	124,123	-	320,998
	2006	61,301	10,595	-	-	87,267	159,163
	<b>2007</b>	<b>1,023,046</b>	<b>92,074</b>	-	<b>255,675</b>	<b>14,065</b>	<b>1,384,860</b>
	2006	608,816	59,321	-	305,250	87,267	1,060,654

Amounts disclosed for remuneration of Directors and other key management personnel exclude insurance premiums paid by the Company in respect of directors' and officers' liability insurance contracts as the contracts do not specify premiums paid in respect of individual Directors and officers. Information relating to insurance contracts is set out in this Directors' Report.

In accordance with AASB 2 'Share Based Payments', the Company has calculated the fair value of each option at grant date during the financial year using the binomial model for option pricing that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option. The value of options is allocated equally over the period from grant date to vesting date, and the amount is included in the remuneration tables above.

Details of options over ordinary shares in the Company provided as remuneration to each Director of Nexus Energy Limited and each of the other key management personnel of the Group are set out below:

	Granted Number	Grant Date	Vested number	Fair value per option at grant date \$	Exercise Price \$	First exercise date	Last exercise date
<b>Executive Director</b>							
Mr Ian Tchacos	1,800,000	30-Nov-06	1,800,000	0.5701	0.87	30-Nov-06	31-Oct-07
<b>Non-Executive Directors</b>							
Mr Michael Fowler	742,500	30-Nov-06	742,500	0.5552	0.87	30-Nov-06	31-Oct-07
Mr Alastair Haydock	742,500	30-Nov-06	742,500	0.5552	0.87	30-Nov-06	31-Oct-07
Mr Neil Ferguson	-	30-Nov-06	-	-	-	-	-
Mr Neil Philip	742,500	30-Nov-06	742,500	0.5552	0.87	30-Nov-06	31-Oct-07
Mr Robert Boyson	742,500	30-Nov-06	742,500	0.5552	0.87	30-Nov-06	31-Oct-07

**DIRECTORS' REPORT**  
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

	Granted Number	Grant Date	Vested number	Fair value per option at grant date \$	Exercise price \$	First exercise date	Last exercise date
<b>Other key management personnel</b>							
Mr Philip Smith	472,500	14-Sep-06	472,500	0.0313	0.87	29-Sep-06	31-Oct-07
	472,500	14-Sep-06	472,500	0.0606	0.87	29-Sep-06	31-Oct-07
Mr Keith Edwards	472,500	14-Sep-06	472,500	0.0313	0.87	29-Sep-06	31-Oct-07
	472,500	14-Sep-06	472,500	0.0606	0.87	29-Sep-06	31-Oct-07
Mr Brendan Brown	472,500	14-Sep-06	472,500	0.0313	0.87	6-Oct-06	31-Oct-07
	472,500	14-Sep-06	472,500	0.0606	0.87	6-Oct-06	31-Oct-07
	1,000,000	14-Sep-06	1,000,000	0.0630	1.10	6-Oct-06	6-Oct-08
	500,000	14-Sep-06	500,000	0.0354	1.50	6-Oct-06	6-Apr-09
Mr Charles Sim	492,200	14-Sep-06	492,200	0.0313	0.87	29-Sep-06	31-Oct-07
	500,000	14-Sep-06	500,000	0.0586	0.77	29-Sep-06	31-Dec-07

	Granted number	Value of options included as part of remuneration \$	Total remuneration represented by options	Options exercised \$	Options expired \$	Total \$
<b>Executive Director</b>						
Mr Ian Tchacos	1,800,000	1,026,180	72%	-	-	1,026,180
<b>Non-Executive Directors</b>						
Mr Michael Fowler	742,500	412,236	98%	-	-	412,236
Mr Alastair Haydock	742,500	412,236	98%	168,781	-	581,017
Mr Neil Ferguson	-	-	-	-	-	-
Mr Neil Philip	742,500	412,236	485%	-	-	412,236
Mr Robert Boyson	742,500	412,236	98%	-	-	412,236
<b>Other key management personnel</b>						
Mr Philip Smith	945,000	43,423	14%	-	-	43,423
Mr Keith Edwards	945,000	43,423	14%	-	-	43,423
Mr Brendan Brown	945,000	43,423	14%	-	-	43,423
	1,000,000	63,000	20%	-	-	63,000
	500,000	17,700	6%	-	-	17,700
Mr Charles Sim	492,200	15,406	4%	-	-	15,406
	500,000	29,300	8%	-	-	29,300

## DIRECTORS' REPORT

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

### Options over Ordinary Shares

Details of the Nexus Energy Limited Employee Share Option Plan are set out in Note 30 to the Financial Report.

A general meeting of shareholders was held on 28 August 2007 that approved the granting of options over unissued ordinary shares to any of the Directors in lieu of fees for the 2008 financial year as follows:

	Granted number	Grant date	Vested number	Exercise Price \$
<b>Executive Director</b>				
Mr Ian Tchacos	764,600	28-Aug-07	764,600	1.62
<b>Non-Executive Directors</b>				
Mr Michael Fowler	382,300	28-Aug-07	382,300	1.62
Mr Alastair Haydock	382,300	28-Aug-07	382,300	1.62
Mr Neil Ferguson	382,300	28-Aug-07	382,300	1.62

During the financial year, 10,097,200 share options (2006: 5,500,000) were issued to Directors and other key management personnel. The movement of share options held by Directors and other key management personnel during the financial year is as follows:

	Balance 1/7/06	Granted as remuneration	Options exercised in 2007	Net change Other	Balance 30/6/07	Total vested 30/6/07	Total exercisable 30/6/07	Total unexercisable 30/6/07
<b>Executive Director</b>								
Mr Ian Tchacos	2,000,000	1,800,000	(2,000,000)	-	1,800,000	1,800,000	1,800,000	-
<b>Non- Executive Directors</b>								
Mr Michael Fowler	-	742,500	-	-	742,500	742,500	742,500	-
Mr Alastair Haydock	-	742,500	(304,000)	-	438,500	438,500	438,500	-
Mr Neil Ferguson <sup>(2)</sup>	-	-	-	-	-	-	-	-
Mr Neil Philip	-	742,500	-	-	742,500	742,500	742,500	-
Mr Robert Boyson <sup>(1)</sup>	-	742,500	-	(742,500)	-	-	-	-
<b>Other key management personnel</b>								
Mr Philip Smith	1,000,000	945,000	(1,000,000)	-	945,000	945,000	945,000	-
Mr Keith Edwards	500,000	945,000	(500,000)	-	945,000	945,000	945,000	-
Mr Edward Munks <sup>(3)</sup>	1,000,000	-	(1,000,000)	-	-	-	-	-
Mr Brendan Brown <sup>(4)</sup>	1,000,000	2,445,000	(1,000,000)	-	2,445,000	2,445,000	2,445,000	-
Mr Charles Sim	-	992,200	-	-	992,900	992,900	992,900	-
	5,500,000	10,097,200	(5,804,000)	(742,500)	9,051,400	9,051,400	9,051,400	-

<sup>(1)</sup> Mr Robert Boyson resigned on 4 April 2007, transactions detailed in the above table cover the period 1 July 2006 to 4 April 2007.

<sup>(2)</sup> Mr Neil Ferguson was appointed on 17 May 2007, transactions detailed in the above table cover the period 17 May 2007 to 30 June 2007.

<sup>(3)</sup> Mr Edward Munks resigned from the company on 13 October 2006, transactions detailed in the above table cover the period 1 July 2006 to 13 October 2006.

<sup>(4)</sup> Mr Brendan Brown commenced with the company on 6 October 2006, transactions detailed in the above table cover the period 6 October 2006 to 30 June 2007

## DIRECTORS' REPORT

### FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

In accordance with Section 300A of the Corporations Act, the table below shows the value of options exercised by the Directors and other key management personnel during the financial year (calculated at the date of exercise):

	Grant date of option	Number of shares issued	Paid per share \$	Unpaid per share \$	Value at date of exercise \$
<b>Executive Director</b>					
Mr Ian Tchacos	30-Sep-04	2,000,000	0.55	-	0.48
<b>Non-Executive Directors</b>					
Mr Michael Fowler	-	-	-	-	-
Mr Alastair Haydock	30-Nov-06	274,000	0.87	-	0.35
Mr Alastair Haydock	30-Nov-06	30,000	0.87	-	0.37
Mr Neil Ferguson	-	-	-	-	-
Mr Neil Philip	-	-	-	-	-
Mr Robert Boyson	-	-	-	-	-
<b>Other key management personnel</b>					
Mr Philip Smith	23-Aug-05	1,000,000	0.55	-	0.48
Mr Keith Edwards	23-Aug-05	500,000	0.55	-	0.79
Mr Edward Munks <sup>(1)</sup>	23-Aug-05	1,000,000	0.55	-	0.21
Mr Brendan Brown <sup>(2)</sup>	10-Feb-06	1,000,000	0.75	-	0.29
		5,804,000			

<sup>(1)</sup> Mr Edward Munks resigned from the company on 13 October 2006, transactions detailed in the above table cover the period 1 July 2006 to 13 October 2006.

<sup>(2)</sup> Mr Brendan Brown commenced with the company on 6 October 2006, transactions detailed in the above table cover the period 6 October 2006 to 30 June 2007.

## Shareholdings

Number of ordinary shares held by Directors and other key management personnel as at 30 June 2007:

	Balance 1/07/06	Received as remuneration	Options exercised	Shares purchased	Shares sold	Other	Balance 30/06/07
<b>Executive Director</b>							
Mr Ian Tchacos	3,708,518	-	2,000,000	14,250	(985,000)	-	4,737,768
<b>Non-Executive Directors</b>							
Mr Michael Fowler	1,995,184	-	-	387,327	-	-	2,382,511
Mr Alastair Haydock	886,891	-	304,000	14,250	-	-	1,205,141
Mr Neil Ferguson <sup>(2)</sup>	-	-	-	100,000	-	-	100,000
Mr Neil Philip	5,450,000	-	-	14,250	(645,000)	-	4,819,250
Mr Robert Boyson <sup>(1)</sup>	2,276,500	-	-	-	(500,000)	(1,776,500)	-
	14,317,093	-	2,304,000	530,077	(2,130,000)	(1,776,500)	13,244,670

## DIRECTORS' REPORT

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

	Balance 1/07/06	Received as remuneration	Options exercised	Shares purchased	Shares sold	Other	Balance 30/06/07
<b>Other key management personnel</b>							
Mr Philip Smith	2,050,000	-	1,000,000	6,250	(556,250)	-	2,500,000
Mr Keith Edwards	904,466	-	500,000	31,250	(811,000)	-	624,716
Mr Edward Munks <sup>(3)</sup>	1,260,000	-	1,000,000	-	(720,000)	(1,540,000)	-
Mr Brendan Brown <sup>(4)</sup>	139,259	-	1,000,000	14,250	(1,000,000)	-	153,509
Mr Charles Sim	1,000	-	-	6,250	-	-	7,250
	4,354,725	-	3,500,000	58,000	(3,087,250)	(1,540,000)	3,285,475

<sup>(1)</sup> Mr Robert Boyson resigned on 4 April 2007, transactions detailed in the above table cover the period 1 July 2006 to 4 April 2007.

<sup>(2)</sup> Mr Neil Ferguson was appointed on 17 May 2007, transactions detailed in the above table cover the period 17 May 2007 to 30 June 2007.

<sup>(3)</sup> Mr Edward Munks resigned from the company on 13 October 2006, transactions detailed in the above table cover the period 1 July 2006 to 13 October 2006.

<sup>(4)</sup> Mr Brendan Brown commenced on 6 October 2006, transactions detailed in the above table cover the period 6 October 2006 to 30 June 2007.

### Directors' Interests

The relevant interest of each Director in the shares, debentures, interests in registered schemes and rights or options over such instruments issued by the Company, as notified by the Directors to ASX in accordance with Section 205G(1) of the Corporations Act 2001, at the date of this report is as follows:

	Ordinary Shares	Options over ordinary shares
<b>Directors</b>		
Mr Michael Fowler	2,382,511	742,500
Mr Ian Tchacos	4,637,768	1,800,000
Mr Alastair Haydock	1,205,141	438,500
Mr Neil Ferguson	100,000	-
	8,325,420	2,981,000

### Indemnification of Directors and Officers

An indemnity agreement has been entered into between an insurance company and the current Directors of the Company named earlier in this Directors' Report and with other key management personnel of the Company, directors and secretaries of all subsidiaries. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The Company has not, during or since the end of the financial year, indemnified or agreed to indemnify an auditor of the Company or of any related body corporate against a liability incurred as such by an auditor.

### Proceedings on Behalf of Company

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

The Company was not a party to any such proceedings during the financial year.

## **DIRECTORS' REPORT**

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

### **Environmental Regulation**

The Group is subject to a range of environmental laws and regulations with the most significant being:

- The Petroleum (submerged lands) Act 1967; and
- Environment Protection and Biodiversity Conservation Act 1999.

The Board believes that the Company has adequate systems in place for the management of its environmental requirements and is not aware of any breach of those environmental requirements as they apply to the Company and Group.

No circumstances arose during the financial year which resulted in an incident to be reported under environmental legislation.

### **Statutory Auditors**

Moore Stephens continues to act in its capacity as the statutory auditor of Nexus Energy Limited in accordance with Section 327 of the Corporations Act 2001.

No officer of the Company has previously belonged to an audit practice auditing the Company during the financial year.

### **Non-Audit Services**

During the financial year, Nexus incurred to Moore Stephens the amount of \$23,071 for non-audit services relating to fees associated with preparation of Nexus income tax returns and the provision of tax advice.

The Directors have considered the position and, in accordance with advice received from the Audit Committee, are satisfied that the provision of these services is compatible with the standards of auditor independence imposed by the Corporations Act 2001. The services were subject to terms and conditions of engagement to ensure that auditor independence was not compromised.

### **Auditor's Independence Declaration**

A copy of the auditors' independence declaration for the financial year ended 30 June 2007 has been received as required under Section 307C of the Corporations Act 2001 and is included on page 15.

This Directors' Report is made in accordance with a resolution of the Board of Directors made pursuant to Section 298(2) of the Corporations Act 2001.

On behalf of the Directors:



Michael Fowler  
Chairman and Non-executive Director

Dated Melbourne this 20th day of September 2007

**AUDITOR'S INDEPENDENCE DECLARATION  
UNDER SECTION 307C OF THE CORPORATIONS ACT 2001 TO THE DIRECTORS OF  
NEXUS ENERGY LIMITED**

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2007 there have been:

- (i) No contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- (ii) No contraventions of any applicable code of professional conduct in relation to the audit.



MOORE STEPHENS  
Chartered Accountants



Kevin W Neville  
Partner

Melbourne, 18 September 2007

## STATEMENT OF CORPORATE GOVERNANCE PRINCIPLES

**THE BOARD OF THE COMPANY IS DEDICATED TO ACHIEVING THE HIGHEST STANDARDS OF ETHICAL BEHAVIOUR AND CORPORATE GOVERNANCE. TO MEET THIS AIM, THE COMPANY HAS ADOPTED CORPORATE GOVERNANCE POLICIES AND PRACTICES BASED UPON THE PRINCIPLES SET OUT IN THE ASX CORPORATE GOVERNANCE PRINCIPLES AND RECOMMENDATIONS (“ASX RECOMMENDATIONS”).**

### Laying solid foundations for Management

The Board is responsible for the strategic direction of the Company, the identification and monitoring of corporate goals and policies, overseeing the Company’s management and regularly reviewing performance. The Directors focus is to act in the best interests of shareholders and other stakeholders.

The Board operates in accordance with the Company’s Constitution and Board Charter that describe the Board’s composition, functions and responsibilities and identify authorities reserved for the Board and those that are delegated to management.

### Structuring the Board to add value

#### *Board Composition*

As at the date of this report, the Board is comprised of four directors being one Executive Director, Mr Ian Tchacos (Managing Director), and three Non-Executive Directors, Mr Michael Fowler (Chairman), Mr Alastair Haydock and Mr Neil Ferguson.

Details of background, experience and professional skills of each Director are set out in the Directors’ Report. Under the Company’s Constitution, there must be a minimum of three to a maximum of twelve Directors.

In addition, a Director (other than the Managing Director) may not retain office for more than three years without submitting themselves for re-election. In effect, one third of Directors in office (with the exclusion of the Managing Director) retire by rotation at the annual general meeting. Those retiring Directors must seek re-election by the shareholders.

The Board usually meets on a monthly basis and, where appropriate, hears presentations from other key management personnel who may be questioned directly by Board members on any matter including operational and commercial issues. The Directors also meet on a regular basis independently of other key management personnel.

The shareholders may, by resolution at a general meeting, remove or replace a Director.

#### *Independence of Directors*

All Non-Executive Directors of the Company, including the Chairman, are considered independent. The independence of Directors is assessed pursuant to the Company’s Policy on Independence of Directors which is based upon ASX Recommendations. The independence of Directors is assessed on both a qualitative and quantitative basis.

Based on the assessment of independence of Directors conducted by the Board, three directors are independent and the Managing Director is not. Therefore, the Company satisfies the ASX Recommendation that the majority of Directors be independent.

#### *Independent advice*

Directors may, with the reasonable approval of the Chairman, obtain independent professional advice, at the Company’s cost, in relation to their position while acting as a Director of the Company.

#### *Remuneration Committee*

The Board has established a Remuneration Committee, which comprises Mr Alastair Haydock, Mr Neil Ferguson and Mr Michael Fowler. The Committee assists the Board in evaluating the performance of Directors and other key management personnel. The Committee is responsible for reviewing information and making recommendations to the Board for the remuneration of the Directors and other key management personnel. The Committee also considers management’s recommendations with respect to staff salaries, bonuses and individual annual reviews.

# STATEMENT OF CORPORATE GOVERNANCE PRINCIPLES

## Promoting ethical and responsible decision making

The Company is committed to the principles of efficiency, honesty and fairness in undertaking its activities and seeks to maintain the highest standard of integrity.

The Company has adopted a Directors' Code of Conduct to guide Directors in relation to the standards that are expected of them. The Company has also adopted a Business Code of Conduct which establishes ethical standards for the Company, and includes obligations to comply with all relevant laws and regulations that govern Nexus' business.

In addition, the Board has adopted a Share Trading Policy that regulates dealing by Directors and employees in shares and other securities issued by the Company. The Policy seeks to ensure that Directors and employees are aware of the legal restrictions on trading in Company shares and other securities while in possession of unpublished price-sensitive information and establishes a procedure for trading by Directors and employees which is consistent with legal requirements in Australia.

### *Conflict of interest*

Directors are required to keep the Board apprised of any potential conflicts of interest they may have with the interests of the Company.

## Safeguarding integrity in Financial Reporting

The Board has established an Audit Committee to oversee the Company's financial reporting processes and ensure it meets its reporting obligations. The Chairman of the Audit Committee, Mr Neil Ferguson is an independent Non-Executive Director who is not Chairman of the Board.

The Audit Committee comprises Mr Neil Ferguson, Mr Alastair Haydock and Mr Michael Fowler. It is the policy of the Board that the majority of members of the Audit Committee be independent Non-Executive Directors and at least one member of the Audit Committee must have a background in financial reporting, accounting or auditing.

The Audit Committee reviews the Company's published financial information to ensure its accuracy, completeness and timeliness.

The Audit Committee's function also includes reviewing the Company's accounting policies, overseeing the effectiveness and independence of the external audit and considering risk management and compliance issues.

The Managing Director and Financial Controller have stated in writing to the Board for the financial year ended 30 June 2007, the Financial Report present a materially true and fair view and complies with relevant Australian Accounting Standards.

## Timely and balanced disclosure

The Company is committed to open, prompt and regular communication with the market. Under ASX Listing Rules, the company has an obligation to inform the market of information that may have a material effect on the price or value of the Company's securities. To meet these obligations, the Board has adopted a Communications Strategy which contains policies and procedures designed to ensure compliance with the disclosure obligations.

## Respecting the rights of shareholders

The Board has a primary responsibility to its shareholders. The maintenance of active channels of communication with shareholders forms an integral part of this responsibility. The Company is committed to effective communication with shareholders and other stakeholders and this is included in the Company's Communication Strategy.

The Board aims to ensure that shareholders are informed of all major developments affecting the Company in a timely fashion through announcements to ASX. These announcements can be obtained in the ASX Releases section at the Company's website. The Company's website also contains a range of other Company information including presentations, reports and the Company's Corporate Governance Charters, Codes and Policies.

In addition, information relating to the Company's activities, operations and financial affairs is communicated via the distribution of the Annual Report, the lodging of the Annual Financial Report and the half yearly Financial Report with the ASIC and the ASX and the distribution of notices to all shareholders informing them of shareholder meetings.

## **STATEMENT OF CORPORATE GOVERNANCE PRINCIPLES**

The Company's Communication Strategy encourages shareholder participation at general meetings and provides for shareholder questions in all meetings. The Company's auditors attend the Annual General Meeting. Shareholders are invited to submit written questions to the auditors (via the Company) concerning the Auditors' Report or the conduct of the Company's audit, no later than five business days before the Annual General Meeting. A list of these written questions will be made available to members at the Annual General Meeting. Shareholders can also ask questions of the auditors at the Annual General Meeting.

### **Recognising and managing risk**

The Company understands the need for an effective system of risk assessment, management and internal control. To this end, the Board has developed and adopted an appropriate Business Risk Management Policy. This policy is founded on a system of risk management, internal compliance and control systems which, in all material respects, implements the policies adopted by the Board.

### **Encouraging enhanced performance**

The Remuneration Committee is responsible for ensuring performance evaluation of the Directors and other key management personnel.

### **Fair and responsible remuneration**

The Company is aware that fair remuneration is essential for attracting and retaining talented and motivated Directors and employees who will enhance the Company's performance. The Company is also aware that remuneration should be responsible and that there should be a clear relationship between performance and remuneration. Further information on remuneration can be found in the Remuneration Report included as part of the Directors' Report.

### **Recognising the legitimate interests of stakeholders**

The Board recognises that it has a responsibility to shareholders, employees, clients and the community as a whole and is committed to corporate practices that reflect these responsibilities. The Company requires that Key Management Personnel and employees of the Company act in a manner that reflects the highest of standards of behaviour and professionalism. It emphasises the need for honesty and integrity in all areas and in particular, in relation to legal compliance, record keeping, conflicts of interest and confidentiality.

The Directors' Code of Conduct is used to guide Directors in relation to the standards expected of them by the Company.

The Company's Business Code of Conduct establishes a commitment to business and corporate ethics and recognition of the interests of shareholders.

### **Health, Safety, Environment and the Community**

The Company is committed to adhering to high standards of health, safety, environment and community performance. The Company has adopted a Health, Safety, Environment and Community Policy to achieve this commitment.

# FINANCIAL STATEMENTS

## INCOME STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

	Notes	Consolidated		Company	
		2007 \$	2006 \$	2007 \$	2006 \$
Revenue	2	52,540,963	1,026,643	5,170,947	2,289,406
Other income	2	6,207,979	30,901	10,057,631	11,754,431
Impairment losses		-	-	(346,955)	(359,083)
Exploration and evaluation expenditure expensed or written off		(1,825,826)	(1,162,349)	-	-
Finance costs		(824,871)	(341,241)	(10,185)	(6,709)
Consulting fees		(632,229)	(141,626)	(571,396)	(137,546)
Employee benefits expense		(4,918,248)	(1,584,673)	(7,526,815)	(2,967,784)
Share based payments - other		-	(201,694)	-	(201,694)
Depreciation and amortisation expense		(326,592)	(203,491)	(326,592)	(203,491)
Travel and accommodation expenses		(298,259)	(236,850)	(298,259)	(218,400)
Property costs		(256,945)	(106,493)	(256,945)	(106,493)
Professional fees		(1,037,951)	(154,411)	(613,342)	(143,199)
Share registry and listing fees		(376,880)	(175,738)	(374,685)	(170,781)
Corporate promotion and annual report		(67,408)	(69,316)	(67,408)	(69,316)
Computer support costs		(190,175)	(77,459)	(185,175)	(77,459)
Accounting and taxation fees		(109,230)	(63,955)	(108,240)	(60,105)
Takeover defence costs		(276,983)	(3,227,679)	(276,983)	(3,227,679)
Net foreign currency losses		-	(85,099)	(853,780)	-
Other expenses		(920,219)	(608,721)	(1,076,940)	(728,249)
<b>Profit/(Loss) before income tax</b>	3	<b>46,687,126</b>	<b>(7,383,251)</b>	<b>2,334,878</b>	<b>5,365,849</b>
Income tax revenue/(expense)	4	(10,841,629)	-	3,726,208	-
<b>Profit/(Loss) Attributable to Members of the Parent Entity</b>		<b>35,845,497</b>	<b>(7,383,251)</b>	<b>6,061,086</b>	<b>5,365,849</b>
		<b>Cents</b>	<b>Cents</b>		
Basic profit/(loss) per share	7	8.90	(2.70)		
Diluted profit/(loss) per share	7	8.87	refer note (a)		

(a) Diluted loss per share was not disclosed as the amount did not materially reflect a less favourable result than basic loss per share.

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

# FINANCIAL STATEMENTS

## BALANCE SHEETS

AS AT 30 JUNE 2007

	Notes	Consolidated		Company	
		2007	2006	2007	2006
		\$	\$	\$	\$
<b>Current Assets</b>					
Cash and cash equivalents	8	41,132,571	42,463,855	32,785,382	41,588,347
Trade and other receivables	9	10,787,015	3,427,528	6,354,043	8,544,751
Inventories	10	8,677,544	9,849,675	-	-
Non-current assets classified as held for sale	11	-	21,104,212	-	-
Other financial assets	17	11,789,672	-	11,789,672	-
Other assets	12	710,948	217,852	142,410	212,851
<b>Total current assets</b>		<b>73,097,750</b>	<b>77,063,122</b>	<b>51,071,507</b>	<b>50,345,949</b>
<b>Non-Current Assets</b>					
Trade and other receivables	9	-	-	66,939,358	33,004,338
Property, plant and equipment	13	399,863	100,044	399,863	100,044
Deferred tax asset	4	-	-	51,681,307	-
Intangible assets	14	177,322	233,748	177,322	233,748
Exploration and evaluation expenditure carried forward	15	147,255,103	24,378,384	-	-
Development expenditure	16	75,340,893	-	-	-
Other financial assets	17	-	16,306	5,370,829	19,438
<b>Total non-current assets</b>		<b>223,173,181</b>	<b>24,728,482</b>	<b>124,568,679</b>	<b>33,357,568</b>
<b>Total assets</b>		<b>296,270,931</b>	<b>101,791,604</b>	<b>175,640,186</b>	<b>83,703,517</b>
<b>Current Liabilities</b>					
Trade and other payables	18	42,101,457	15,472,142	1,664,008	4,557,416
Short-term borrowings	19	38,052,726	7,005,967	6,190	5,967
Other financial liabilities	20	12,258,405	-	12,258,405	-
<b>Total current liabilities</b>		<b>92,412,588</b>	<b>22,478,109</b>	<b>13,928,603</b>	<b>4,563,383</b>
<b>Non-Current Liabilities</b>					
Trade and other payables	18	-	-	1,321,576	-
Long-term borrowings	19	9,519	-	9,519	-
Long-term provisions	21	4,264,010	35,962	89,010	35,962
Deferred tax liability	4	9,335,564	-	-	-
<b>Total non-current liabilities</b>		<b>13,609,093</b>	<b>35,962</b>	<b>1,420,105</b>	<b>35,962</b>
<b>Total liabilities</b>		<b>106,021,681</b>	<b>22,514,071</b>	<b>15,348,708</b>	<b>4,599,345</b>
<b>Net Assets</b>		<b>190,249,250</b>	<b>79,277,533</b>	<b>160,291,478</b>	<b>79,104,172</b>
<b>Equity</b>					
Issued capital	22	176,358,593	103,190,754	176,358,593	103,190,754
Retained profits/ (accumulated losses)		10,652,166	(25,193,331)	(19,305,606)	(25,366,692)
Share based payments reserve		3,238,491	1,280,110	3,238,491	1,280,110
<b>Total Equity</b>		<b>190,249,250</b>	<b>79,277,533</b>	<b>160,291,478</b>	<b>79,104,172</b>

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

# FINANCIAL STATEMENTS

## STATEMENT OF CHANGES IN EQUITY FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

	Consolidated			
	Issued capital \$	Retained profits/ (accumulated losses) \$	Share based payments reserve \$	Total Equity \$
<b>Balance as at 1 July 2005</b>	42,108,349	(17,810,080)	508,274	24,806,543
Shares issued during the previous financial year	63,291,952	-	(134,955)	63,156,997
Transaction costs arising on share issues	(2,209,547)	-	-	(2,209,547)
Loss attributable to members of the parent entity	-	(7,383,251)	-	(7,383,251)
Share based payments	-	-	906,791	906,791
<b>Balance as at 30 June 2006</b>	<b>103,190,754</b>	<b>(25,193,331)</b>	<b>1,280,110</b>	<b>79,277,533</b>
Shares issued during the financial year	73,603,963	-	(1,289,676)	72,314,287
Transaction costs arising on share issues	(1,942,189)	-	-	(1,942,189)
Deferred tax credit	1,506,065	-	-	1,506,065
Profit attributable to members of the parent entity	-	35,845,497	-	35,845,497
Share based payments	-	-	3,248,057	3,248,057
<b>Balance as at 30 June 2007</b>	<b>176,358,593</b>	<b>10,652,166</b>	<b>3,238,491</b>	<b>190,249,250</b>

	Company			
	Issued capital \$	Retained profits/ (accumulated losses) \$	Share based payments reserve \$	Total Equity \$
<b>Balance as at 1 July 2005</b>	42,108,349	(30,732,541)	508,274	11,884,082
Shares issued during the previous financial year	63,291,952	-	(134,955)	63,156,997
Transaction costs arising on share issues	(2,209,547)	-	-	(2,209,547)
Profit attributable to members of the parent entity	-	5,365,849	-	5,365,849
Share based payments	-	-	906,791	906,791
<b>Balance as at 30 June 2006</b>	<b>103,190,754</b>	<b>(25,366,692)</b>	<b>1,280,110</b>	<b>79,104,172</b>
Shares issued during the financial year	73,603,963	-	(1,289,676)	72,314,287
Transaction costs arising on share issues	(1,942,189)	-	-	(1,942,189)
Deferred tax credit	1,506,065	-	-	1,506,065
Profit attributable to members of the parent entity	-	6,061,086	-	6,061,086
Share based payments	-	-	3,248,057	3,248,057
<b>Balance as at 30 June 2007</b>	<b>176,358,593</b>	<b>(19,305,606)</b>	<b>3,238,491</b>	<b>160,291,478</b>

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

# FINANCIAL STATEMENTS

## CASH FLOW STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

	Notes	Consolidated		Company	
		2007	2006	2007	2006
		\$	\$	\$	\$
<b>Cash Flows From Operating Activities</b>					
Receipts from customers		22,500,607	4,185,434	3,154,005	1,442,295
Payments to suppliers and employees		(28,970,086)	(9,275,486)	(10,365,784)	(7,533,951)
Interest received		2,684,614	746,874	2,261,256	681,373
Interest paid and other costs of finance paid		(851,576)	(315,313)	(7,916)	(6,709)
<b>Net cash provided by (used in) operating activities</b>	29 (a)	<b>(4,636,441)</b>	<b>(4,658,491)</b>	<b>(4,958,439)</b>	<b>(5,416,992)</b>
<b>Cash Flows From Investing Activities</b>					
Payments for plant and equipment and intangible assets		(579,863)	(173,595)	(579,864)	(173,595)
Proceeds from disposal of plant and equipment		1,313	909	1,313	909
Payments for exploration and evaluation expenditure		(150,865,501)	(33,474,313)	-	-
Recoupment of exploration and evaluation expenditure on farm-out		3,330,000	1,807,008	-	-
Proceeds from sale of gas rights		51,921,080	-	-	-
Payments for operated joint venture exploration expenditure		(7,979,662)	(23,557,887)	(1,430,275)	(11,185,054)
Reimbursement for operated joint venture exploration expenditure		7,028,099	24,583,303	300,716	12,487,753
Reimbursement of funds from Charles Darwin University		-	30,000	-	-
Provision of funds to subsidiaries		-	-	(160,766,371)	(33,151,516)
Reimbursement of funds from subsidiaries		-	-	88,758,095	7,900,768
<b>Net cash flows provided by (used in) investing activities</b>		<b>(97,144,534)</b>	<b>(30,784,575)</b>	<b>(73,716,386)</b>	<b>(24,120,735)</b>
<b>Cash Flows From Financing Activities</b>					
Proceeds from issue of shares		72,161,783	61,309,502	72,161,783	61,309,502
Payments for transaction costs arising on share issues		(1,957,658)	(2,194,090)	(1,957,336)	(2,194,090)
Proceeds from borrowings (net of establishment fee)		38,046,536	6,650,000	-	-
Repayment of borrowings		(7,000,000)	-	-	-
Finance lease repayments		(13,346)	(5,568)	(13,346)	(5,568)
<b>Net cash flows provided by (used in) financing activities</b>		<b>101,237,315</b>	<b>65,759,844</b>	<b>70,191,101</b>	<b>59,109,844</b>
Net increase in cash held		(543,660)	30,316,778	(8,483,724)	29,572,117
Cash at beginning of financial year		42,463,855	11,890,014	41,588,347	11,746,568
Effect of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies		(787,624)	257,063	(319,241)	269,662
<b>Cash at End of Financial Year</b>	8	<b>41,132,571</b>	<b>42,463,855</b>	<b>32,785,382</b>	<b>41,588,347</b>

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

# FINANCIAL STATEMENTS

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# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

### 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The financial report is a general purpose financial report that has been prepared in accordance with the requirements of the Corporations Act 2001, relevant Australian Accounting Standards, Urgent Issues Group Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board.

The financial report includes separate financial statements for Nexus Energy Limited ("Company") as an individual entity and the Group consisting of Nexus Energy Limited and its subsidiaries.

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards ("AIFRS"). Compliance with AIFRS ensures that the financial statements and notes of the Company and the Group comply with International Financial Reporting Standards ("IFRS").

Nexus Energy Limited is a publicly listed company limited by shares and is listed in Australia on the ASX. It is incorporated and domiciled in Australia.

The registered office of Nexus Energy Limited and the principal place of business is:

134 Little Lonsdale Street  
Melbourne Victoria 3000

The following is a summary of the material accounting policies adopted by the Group in the preparation of this financial report. The accounting policies have been consistently applied, unless otherwise stated.

#### Reporting Basis and Convention

The financial report has been prepared on an accrual basis and is based on historical costs modified, when relevant, by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied.

#### (a) Principles of Consolidation

The consolidated financial statements comprise the financial statements of Nexus Energy Limited and its subsidiaries (the "Group").

A subsidiary is any entity controlled by Nexus Energy Limited whereby Nexus Energy Limited has the power to control the financial and operating policies of an entity so as to obtain benefits from its activities.

All subsidiaries have a June financial year-end.

All inter-company balances and transactions between subsidiaries in the Group, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistencies with those policies applied by the Company.

Where subsidiaries have entered or left the Group during the period, their operating results have been included/excluded from the date control was obtained or until the date control ceased.

#### (b) Comparative Figures

When required by Australian Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

#### (c) Income Taxes

##### Current tax

The charge for current income tax expense is based on the profit or loss for the period adjusted for any non-assessable or disallowable items. It is calculated using tax rates that have been enacted or are substantively enacted at the balance sheet date.

##### Deferred tax

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

### 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (c) Income Taxes (Continued)

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the Group will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by law.

#### Tax consolidation

Nexus Energy Limited and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under the Tax Consolidation Regime from 1 July 2003. The tax consolidated group has entered into a tax funding agreement whereby each company in the group contributes to the income tax payable in proportion to their contribution to the net profit before tax of the tax consolidated group. In addition, the agreement provides for the allocation of income tax liabilities between entities.

In addition to its own current and deferred tax amounts, Nexus Energy Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group. UIG1052(12)(b) Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the Group.

#### (d) Cash and Cash Equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts, when relevant, are shown within short-term borrowings in current liabilities on the balance sheet.

#### (e) Receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Trade receivables are generally due for settlement within 30 days.

Collectibility of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial. The amount of the provision is recognised in the income statement in other expenses.

Inter-entity receivables between wholly owned companies within the Group have no fixed terms of repayments and are payable on call.

#### (f) Inventories

Inventories are measured at the lower of cost and net realisable value.

The cost of casing and oilfield inventory includes direct materials, direct labour and transportation costs relating to oilfield activities.

#### (g) Property, Plant and Equipment

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses.

#### Plant and equipment

Plant and equipment are measured on the cost basis less depreciation and, when relevant, impairment losses.

The carrying amount of plant and equipment is reviewed annually by the Directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

The cost of plant and equipment constructed within the Group includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

#### Depreciation

The depreciable amount of all plant and equipment is depreciated on a straight-line basis over their estimated useful lives to the Group commencing from the month following their acquisition. Leasehold improvements are depreciated over the shorter of either the unexpired portion of the lease or the estimated useful lives of the improvements.

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

### 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (g) Property, Plant and Equipment (Continued)

The depreciation rates used for each class of depreciable assets are:

Class of property, plant and equipment	Depreciation rates
Leasehold improvements	20%
Plant and equipment	25-50%

Asset residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the net carrying amount. These gains and losses are included in the income statement. When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained profits/ (accumulated losses).

#### (h) Intangibles

##### Computer software

Computer software is recognised at cost of acquisition. Computer software costs have a finite life and are carried at cost less accumulated amortisation and any impairment losses. Computer software costs are amortised over their useful life ranging from 2 to 3 years.

#### (i) Exploration and Evaluation Expenditure

Exploration and evaluation expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are only carried forward on the balance sheet where rights to tenure are current and to the extent that costs are expected to be recouped through either the successful development of the area or where activities in the area have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves and active and significant exploration activity in, or in relation to, the area is continuing.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

Accumulated costs in relation to an abandoned area are written off in full in the income statement during the period in which the decision to abandon the area is made.

Proceeds on sale or farm-out of an area within an exploration area of interest are offset against the carrying value of the particular area involved. Where the total carrying value of an area has been recouped in this manner, the balance of the proceeds is brought to account in the income statement.

Where the technical and commercial feasibility of a particular area of interest has been demonstrated the accumulated exploration and evaluation expenditure is reclassified to development expenditure.

#### (j) Development Expenditure

Development costs are recognised at cost less any impairment losses and are accumulated in respect of each separate area of interest. Development costs related to an area of interest are carried forward to the extent that they are expected to be recouped either through sale or successful exploitation of the area of interest. When production commences the accumulated costs are transferred to producing areas of interest.

When an area of interest is abandoned or the Directors decide that it is not commercial, any accumulated cost in respect of that area is written off in the financial period the decision is made. Each area of interest is reviewed at the end of each accounting period and accumulated cost written off to the extent that they will not be recoverable in the future. Impairment of assets is discussed in Note 1(p).

Amortisation is not charged on costs carried forward in respect of areas of interest in the development phase until production commences. When production commences, carried forward exploration and development costs are amortised on a units of production basis over the life of economically recoverable reserves.

#### (k) Investments in Associates

Investments in associate companies are recognised in the consolidated financial statements by applying the equity method of accounting where significant influence is exercised over an investee. Significant influence exists where the investor has the power to participate in the financial and operating policy decisions of the investee but does not have control or joint control over those policies. The equity method of accounting recognises the Group's share of post acquisition reserves of its associates.

#### (l) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

### 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (m) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

#### (n) Provisions

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date.

Provision for restoration is recognised when there is a legal or constructive obligation to do so. A corresponding restoration asset amount (included in exploration and evaluation expenditure carried forward) of an amount equivalent to the provision is also created. The amount recognised is the estimated cost of restoration, discounted to its net present value and is reassessed each year in accordance with local conditions and requirements. Changes in the estimates of restoration cost estimates are dealt with prospectively by recording an adjustment to the provision and a corresponding adjustment to the restoration asset. The unwinding of the discount on the restoration provision is included in the income statement.

#### (o) Leases

Leases of plant and equipment where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership that are transferred to entities in the Group are classified as finance leases.

Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over their estimated useful lives where it is likely that the Group will obtain ownership of the asset or over the term of the lease.

Operating leases are not capitalised. Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

#### (p) Impairment of Assets

At each balance sheet date, the Group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication of impairment exists, the Group makes an estimate of recoverable amount, being the higher of the asset's fair value less costs to sell and value in use. Where the carrying amount of the asset exceeds its recoverable amount any excess is expensed to the income statement.

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

#### (q) Interests in Joint Venture Operations

The proportionate interests in the assets, liabilities and expenses of a joint venture operation have been incorporated in the consolidated financial statements under the appropriate headings.

#### (r) Financial Guarantees

Financial guarantee contracts are measured at their fair values initially and subsequently measured at the higher of:

- the amount of obligation under the contract, as determined in accordance with AASB 137: Provisions, Contingent Liabilities and Contingent Assets; or
- the amount recognised initially less cumulative amortisation recognised in accordance with revenue recognition policies.

The fair value of financial guarantee contracts has been assessed using a probability weighted discounted cash flow approach. The probability has been based on:

- the likelihood of the guaranteed party defaulting in a year period;
- the proportion of the exposure that is not expected to be recovered due to the guaranteed party defaulting; and
- the maximum loss exposed if the guaranteed party were to default.

Changes in the accounting policy during the year for the group are described in detail in Note 34.

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

### 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (s) Financial Instruments

##### Recognition

Financial instruments are initially measured at fair value on trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below.

##### Financial assets at fair value through the income statement

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by Management and within the requirement of AASB 139 'Recognition and Measurement of Financial Instruments'. Derivatives are also recognised as held for trading unless they are designated as hedges. Realised and recognised gains and losses arising from changes in the fair value of these assets are included in the income statement in the period in which they arise.

##### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method.

##### Held-to-maturity investments

These investments have fixed maturities, and it is the Group's intention to hold these investments to maturity. Any held-to-maturity investments held by the Group are stated at amortised cost using the effective interest rate method.

##### Available-for-sale financial assets

Available-for-sale financial assets include any financial assets not included in the above categories. Available-for-sale financial assets are reflected at fair value. Unrealised gains and losses arising from changes in fair value are taken directly to equity.

##### Financial liabilities

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

##### Derivative instruments

Derivative instruments are measured at fair value. Gains and losses arising from changes in fair value are taken to the income statement unless they are designated as hedges.

##### Fair value

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

##### Impairment

At each balance sheet date, the Group assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether impairment has arisen. Impairment losses are recognised in the income statement.

#### (t) Foreign Currency Transactions and Balances

##### Functional and presentation currency

The functional currency of each of the Group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the Company's functional and presentation currency.

##### Transaction and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the balance sheet date exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in the income statement, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity, otherwise the exchange difference is recognised in the income statement.

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

### 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (u) Revenue

##### Sales

Revenue from the sale of goods is recognised upon the delivery of goods to the buyer and all significant risks and rewards of ownership have been transferred.

Revenue from the rendering of a service is recognised upon the delivery of the service. All revenue is stated net of the amount of goods and services tax.

##### Interest

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

##### Dividends

Dividend revenue is recognised when the right to receive a dividend has been established. Dividends received from associates are accounted for in accordance with the equity method of accounting.

#### (v) Employee Benefits

##### Wages and salaries, leave entitlements

An accrual is made for the Group's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs.

Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits. In calculating the present value of future cash outflows in respect of long service leave, the probability of long service leave being taken is based on experience of employee departures and periods of service.

##### Share based payments

Share based compensation benefits are provided to employees via the Nexus Energy Limited Employee Share Option Plan.

The fair value of options granted is recognised as a share based payments expense with a corresponding increase in equity (the share base payments reserve). The fair value is measured at grant date and recognised over the period during which the individual become unconditionally entitled to the options. Upon the exercise of options, the balance of the share base payments reserve relating to those options is transferred to issued capital.

#### (w) Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in the income statement in the period in which they are incurred.

#### (x) Goods and Services Tax ("GST")

Revenues, expenses, commitments and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office ("ATO"). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or equity or as part of an item of expense.

Receivables and payables in the balance sheet are shown inclusive of GST.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the balance sheet.

Cash flows are included in the cash flow statement on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

#### (y) Going Concern

On the basis of the Group's present level of operations, the Directors are of the opinion that for the next 12-month period from the date of signing the Directors' Declaration the Group and Company both have the ability to:

- i. farm-out interests in permits for a carry in order to meet future exploration expenditure commitments;
- ii. raise additional capital through the issue of additional new ordinary shares to meet working capital requirements and shortfalls in exploration expenditure commitments; and
- iii. raise project finance via debt funding.

**NOTES TO THE FINANCIAL STATEMENTS**  
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

	Notes	Consolidated		Company	
		2007	2006	2007	2006
		\$	\$	\$	\$
<b>2. REVENUE</b>					
Gain on sale of gas rights		49,606,000	-	-	-
Interest income		2,691,915	747,473	2,252,002	681,972
Services revenue from subsidiaries	32(b)	-	-	2,276,023	1,216,513
Services revenue from joint venture operations		243,048	279,170	642,922	390,921
<b>Total revenue</b>		<b>52,540,963</b>	<b>1,026,643</b>	<b>5,170,947</b>	<b>2,289,406</b>
Gain / (Loss) on disposal of plant and equipment		-	568	-	568
Gain on farm-out of area of interest		5,938,940	-	-	-
Net foreign currency gains		269,039	-	-	262,817
Reversal of impairment losses for non-current receivables and investments:					
- subsidiaries		-	-	10,057,631	11,490,713
- unsecured loans – Charles Darwin University		-	30,000	-	-
Other income		-	333	-	333
<b>Other income</b>		<b>6,207,979</b>	<b>30,901</b>	<b>10,057,631</b>	<b>11,754,431</b>
<b>3. PROFIT/LOSS FOR FINANCIAL YEAR BEFORE INCOME TAX</b>					
Profit/loss before income tax includes the following specific expenses:					
Impairment losses for non-current receivables:					
- subsidiaries		-	-	346,955	359,083
Exploration and evaluation expenditure expensed		1,825,826	1,162,349	-	-
Finance costs:					
- interest expense on bank loan		630,520	331,862	-	-
- other finance costs		194,351	9,379	10,185	6,709
Depreciation of plant and equipment and amortisation of software		326,592	203,491	326,592	203,491
Rental expense on operating leases – minimum lease payments		202,699	84,521	202,699	84,521
Net foreign currency losses		-	85,099	853,780	-

**NOTES TO THE FINANCIAL STATEMENTS**  
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

	Consolidated		Company	
	2007	2006	2007	2006
	\$	\$	\$	\$
<b>4. INCOME TAX</b>				
<b>(a) Income tax recognised in profit and loss</b>				
Tax expense/(income) comprises:				
Current tax	-	-	-	-
Deferred tax	15,118,510	-	(1,138,311)	-
Recognition of temporary differences and tax losses not previously brought to account	(4,276,881)	-	(2,587,897)	-
	<b>10,841,629</b>	<b>-</b>	<b>(3,726,208)</b>	<b>-</b>
The prima facie tax on profit/(loss) before income tax is reconciled to income tax as follows:				
Prima facie tax payable on the profit/(loss) before income tax calculated at the Australian tax rate of 30% (2006: 30%)	14,006,138	(2,214,975)	700,464	1,609,755
Add tax effect of:				
Share based payments expense	974,417	272,037	974,417	272,037
Impairment losses for non-current receivables	-	-	-	107,725
Other Non deductible items	137,955	-	100,011	-
Tax losses and temporary differences not recognised	-	1,974,759	-	1,472,893
Less tax effect of:				
Recognition of temporary differences and tax losses not previously brought to account	(4,276,881)	-	(2,587,897)	-
Reversal of impairment losses for non-current receivables	-	-	(2,913,203)	(3,447,214)
Other items	-	(31,821)	-	(15,196)
Income tax expense/(income)	<b>10,841,629</b>	<b>-</b>	<b>(3,726,208)</b>	<b>-</b>
<b>(b) Income tax recognised directly in equity</b>				
Aggregate current and deferred tax arising in the reporting period and not recognised in net profit and or loss but directly debited or credited to equity:				
<i>Current tax</i>				
Equity raising costs	530,778	-	530,778	-
Deferred tax	-	-	-	-
Unclaimed equity raising	975,287	-	975,287	-
	<b>1,506,065</b>	<b>-</b>	<b>1,506,065</b>	<b>-</b>

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

### 4. INCOME TAX (Continued)

#### (c) Deferred tax balances

Deferred tax balances arise from the following:

2007	Consolidated			
	Opening balance \$	Charged to income \$	Charged to equity \$	Closing balance \$
<i>Temporary differences</i>				
Exploration and evaluation expenditure	-	(62,108,657)	-	(62,108,657)
Accrued Income	-	(1,767,409)	-	(1,767,409)
Provisions and accruals	-	3,336,207	-	3,336,207
Unclaimed takeover costs	-	698,584	-	698,584
Unclaimed equity raising costs	-	-	975,287	975,287
Other	-	(86,832)	-	(86,832)
	-	(59,928,107)	975,287	(58,952,820)
<i>Unused tax losses and credits</i>				
Tax losses	-	49,617,256	-	49,617,256
	-	49,617,256	-	49,617,256
	-	(10,310,851)	975,287	(9,335,564)
Presented in the balance sheet as follows:				
Deferred tax asset (liability)				<b>(9,335,564)</b>

2007	Company				
	Opening balance \$	Tax losses transferred from consolidated entities \$	Charged to income \$	Charged to equity \$	Closing balance \$
<i>Temporary differences</i>					
Provisions and accruals	-	-	153,786	-	153,786
Unclaimed takeover costs	-	-	698,584	-	698,584
Unclaimed equity raising costs	-	-	-	975,287	975,287
Other	-	-	236,394	-	236,394
	-	-	1,088,764	975,287	2,064,051
<i>Unused tax losses and credits</i>					
Tax losses	-	49,086,478	530,778	-	49,617,256
	-	49,086,478	530,778	-	49,617,256
	-	49,086,478	1,619,542	975,287	51,681,307
Presented in the balance sheet as follows:					
Deferred tax asset (liability)					<b>51,681,307</b>

**NOTES TO THE FINANCIAL STATEMENTS**  
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

	Consolidated		Company	
	2007	2006	2007	2006
	\$	\$	\$	\$
<b>4. INCOME TAX (Continued)</b>				
<b>(d) Unrecognised deferred tax assets</b>				
A deferred tax asset has not been recognised on the balance as the benefits of which will only be realised if the conditions for deductibility set out in Note 1(c) occur:				
- Unrecognised temporary differences relating to deferred tax assets	-	1,712,580	-	1,582,723
- Unrecognised temporary differences relating to deferred tax liabilities	-	(13,745,438)	-	(80,548)
- Tax losses:				
- operating losses	-	17,312,971	-	17,312,971
- capital losses	-	179,982	-	179,982
Potential net tax benefit at Australian tax rate of 30%	-	5,460,095	-	18,995,128

**(e) Tax consolidation**

Nexus Energy Limited and its wholly-owned Australian subsidiaries are a tax consolidated group. Nexus Energy Limited is the head entity within the tax consolidated group. The tax consolidated group has entered into a tax funding agreement whereby each company in the group contributes to the income tax payable in proportion to their contribution to the net profit before tax of the tax consolidated group. In addition, the agreement provides for the allocation of income tax liabilities between entities, should the head entity default on its obligations.

**5. AUDITORS' REMUNERATION**

Remuneration of the auditor of Nexus Energy Limited for:

Auditing or reviewing the financial report	<b>99,500</b>	72,000	<b>94,500</b>	70,000
Taxation services	<b>23,073</b>	60,561	<b>23,073</b>	61,561
Other non-audit services	-	6,750	-	6,750
<b>Total auditors' remuneration</b>	<b>122,573</b>	139,311	<b>117,573</b>	138,311

**6. DIVIDENDS**

There were no ordinary dividends declared or paid during the financial year by the Company (2006: \$Nil).

**Dividend franking account**

Balance of franking account	-	-	-	-
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**NOTES TO THE FINANCIAL STATEMENTS**  
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

	Consolidated		Company	
	2007	2006	2007	2006
	\$	\$	\$	\$
<b>7. EARNINGS PER SHARE</b>				
Profit/(loss) used to calculate basic and dilutive profit/(loss) per share	<b>35,845,497</b>	(7,383,251)		
(a) Basic profit/(loss) per share (cents)	<b>8.90</b>	(2.70)		
(b) Diluted profit/(loss) per share (cents)	<b>8.87</b>	refer note (i)		
(i) Diluted profit/(loss) per share was not disclosed as the amount did not materially reflect a less favourable result than basic loss per share.				
Weighted average number of ordinary shares outstanding during the financial year used in calculating basic profit/loss per share:	<b>402,921,918</b>	273,353,906		
Weighted average number of options outstanding:	<b>1,018,469</b>	6,757,945		
Weighted average number of ordinary shares outstanding during the financial year used in calculating diluted profit/(loss) per share:	<b>403,940,387</b>	280,111,851		

**Potential ordinary shares**

Options outstanding at the end of the financial year are considered to be potential ordinary shares and have been included in the determination of diluted profit/loss per share to the extent to which they are dilutive. The options have not been included in the determination of basic profit/loss per share.

**8. CASH AND CASH EQUIVALENTS**

Cash at bank and on hand	<b>8,597,566</b>	10,168,052	<b>250,376</b>	9,292,544
Bank deposits at call	<b>32,535,005</b>	32,295,803	<b>32,535,006</b>	32,295,803
Total cash and cash equivalents	<b>41,132,571</b>	42,463,855	<b>32,785,382</b>	41,588,347

**(a) Cash at bank and on hand**

Cash at bank and on hand balance had an interest rate of 3.90% as at 30 June 2007 (30 June 2006: 4.25%). The non-interest bearing amounts are disclosed at Note 25.

**(b) Bank deposits at call**

The weighted average interest rate on bank deposits as at 30 June 2007 was 6.24% (30 June 2006: 5.65%); these deposits have a maturity of less than 30 days.

**(c) Effective interest rates**

Information concerning the Group's exposure to interest rate changes on cash and cash equivalents is set out in Note 25.

**NOTES TO THE FINANCIAL STATEMENTS**  
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

	Consolidated		Company	
	2007	2006	2007	2006
	\$	\$	\$	\$
<b>9. TRADE AND OTHER RECEIVABLES</b>				
<i>Current</i>				
Trade debtors	6,549,432	484,682	-	-
Other receivables	4,237,583	2,942,846	227,430	1,313,444
Amounts receivable from subsidiaries:				
Nexus Energy Aust. NL	-	-	3,476,633	2,780,482
Nexus Energy WA Pty Ltd	-	-	1,386,932	483,913
Nexus Energy VICP54 Pty Ltd	-	-	1,263,048	3,966,912
Total current trade and other receivables	10,787,015	3,427,528	6,354,043	8,544,751
<i>Non-current</i>				
Unsecured loans – Charles Darwin University	265,833	265,833	-	-
Less: provision for impairment	(265,833)	(265,833)	-	-
Amounts receivable from subsidiaries:				
Nexus Energy Aust. NL	-	-	23,093,387	21,979,056
Less: provision for impairment	-	-	-	(4,328,445)
Nexus Energy Services Pty Ltd	-	-	13,828,034	1,055,512
Less: provision for impairment	-	-	(340,078)	-
Nexus Energy WA Pty Ltd	-	-	3,778,038	6,577,638
Less: provision for impairment	-	-	-	(359,083)
Nexus Energy VICP54 Pty Ltd	-	-	23,317,410	8,079,660
Nexus IT Investments Pty Ltd	-	-	258,530	258,858
Less: provision for impairment	-	-	(258,530)	(258,858)
Nexus Energy Corporate Pty Ltd	-	-	152,805	-
Less: provision for impairment	-	-	(1,959)	-
Nexus Energy ACP41 Pty Ltd	-	-	3,111,721	-
Nexus Energy (Timor Sea) Pty Ltd	-	-	2,842	-
Less: provision for impairment	-	-	(2,842)	-
Total non-current trade and other receivables	-	-	66,939,358	33,004,338

**(a) Trade debtors**

Trade debtors are recognised initially at fair value and are due for settlement no more than 30 days from the date of recognition. Collectibility of trade debtors is reviewed on an ongoing basis.

**(b) Impairment loss and reversal of impairment losses for non-current receivables**

An impairment review was performed, as at 30 June 2007, to compare the net asset position (total assets less total liabilities) of Nexus Energy Limited's subsidiaries with the value of the amount of non-current receivables from each subsidiary at that date. Impairment losses were recognised when the net asset position of the subsidiary was less than the carrying amount of the receivable, up to and including the amount of the net asset position. Impairment losses recognised in previous financial years were reversed when the net asset position of the subsidiary was greater than the carrying amount of the receivable, up to and including the amount of the net asset position. It should be noted that there is no impact on consolidation, as the non-current receivables with subsidiaries are eliminated on consolidation and are reflected only in the financial statements of Nexus Energy Limited.

Impairment losses for non-current receivables recognised as expense during the financial year ended 30 June 2007 amounted to \$344,879 (2006: \$359,083) for the Company. The expense has been included in 'impairment losses' in the income statement.

Reversal of impairment losses for non-current receivables recognised as income during the financial year ended 30 June 2007 amounted to \$nil (2006: \$30,000) for the Group and \$4,687,857 (2006: \$11,490,713) for the Company. The income has been included in 'reversal of impairment losses for non-current receivables' in 'other income' in the income statement.

**(c) Effective interest rates and credit risk**

Information concerning the Group's exposure to interest rate changes and credit risk on both current and non-current receivables is set out in Note 25.

**NOTES TO THE FINANCIAL STATEMENTS**  
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

	Consolidated		Company	
	2007	2006	2007	2006
	\$	\$	\$	\$
<b>10. INVENTORIES</b>				
<i>Current</i>				
Casing and oilfield inventory, at cost	8,687,575	9,849,675	-	-
Less: provision for obsolescence	(10,031)	-	-	-
<b>Total current inventories</b>	<b>8,677,544</b>	<b>9,849,675</b>	<b>-</b>	<b>-</b>
<b>11. NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE</b>				
Exploration and evaluation expenditure carried forward	-	21,104,212	-	-
<b>Total non-current assets classified as held for sale</b>	<b>-</b>	<b>21,104,212</b>	<b>-</b>	<b>-</b>
<b>12. OTHER ASSETS</b>				
<i>Current</i>				
Prepayments	710,948	217,852	142,410	212,851
<b>Total current other assets</b>	<b>710,948</b>	<b>217,852</b>	<b>142,410</b>	<b>212,851</b>
<b>13. PROPERTY, PLANT AND EQUIPMENT</b>				
<i>Plant and equipment</i>				
At cost	553,640	242,045	553,640	242,045
Accumulated depreciation	(257,358)	(146,232)	(257,358)	(146,232)
<b>Total plant and equipment</b>	<b>296,282</b>	<b>95,813</b>	<b>296,282</b>	<b>95,813</b>
<i>Leasehold improvements</i>				
At cost	109,132	43,031	109,132	43,031
Accumulated depreciation	(5,551)	(38,800)	(5,551)	(38,800)
<b>Total leasehold improvements</b>	<b>103,581</b>	<b>4,231</b>	<b>103,581</b>	<b>4,231</b>
<b>Total property, plant and equipment, at net book value</b>	<b>399,863</b>	<b>100,044</b>	<b>399,863</b>	<b>100,044</b>
<b>Reconciliations</b>				
Reconciliations of the carrying amounts for each class of property, plant and equipment are set out below:				
<i>Plant and equipment</i>				
Balance at beginning of financial year	95,813	81,113	95,813	81,113
Additions	340,365	79,562	340,365	79,562
Disposals	(3,045)	(341)	(3,045)	(341)
Depreciation expense	(136,851)	(64,521)	(136,851)	(64,521)
<b>Net carrying amount at end of financial year</b>	<b>296,282</b>	<b>95,813</b>	<b>296,282</b>	<b>95,813</b>

**NOTES TO THE FINANCIAL STATEMENTS**  
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

	Notes	Consolidated		Company	
		2007	2006	2007	2006
		\$	\$	\$	\$
<b>13. PROPERTY, PLANT AND EQUIPMENT (Continued)</b>					
<b>Reconciliations (Continued)</b>					
<i>Leasehold improvements</i>					
Balance at beginning of financial year		4,231	28,827	4,231	28,827
Additions		109,132	-	109,132	-
Disposals		-	-	-	-
Depreciation expense		(9,782)	(24,596)	(9,782)	(24,596)
Net carrying amount at end of financial year		<b>103,581</b>	4,231	<b>103,581</b>	4,231

**14. INTANGIBLE ASSETS**

*Computer software*

At cost		570,055	448,516	570,055	448,516
Accumulated amortisation		(392,733)	(214,768)	(392,733)	(214,768)
Total intangibles, at net book value		<b>177,322</b>	233,748	<b>177,322</b>	233,748

**Reconciliation**

Reconciliation of the carrying amount for computer software is set out below:

Balance at beginning of financial year		233,748	205,070	233,748	205,070
Additions		125,527	143,052	125,527	143,052
Disposals		(1,994)	-	(1,994)	-
Amortisation expense		(179,959)	(114,374)	(179,959)	(114,374)
Net carrying amount at end of financial year		<b>177,322</b>	233,748	<b>177,322</b>	233,748

Intangible assets have finite lives. The amortisation expense for intangible assets is included under depreciation and amortisation expense per the income statement.

**15. EXPLORATION AND EVALUATION EXPENDITURE CARRIED FORWARD**

Balance at beginning of financial year		24,378,384	14,315,200	-	-
Expenditure incurred		165,222,383	34,166,753	-	-
Financing costs incurred (refer note (a) below)		3,516,339	350,000	-	-
Transfer from/ reclassification of current asset classified as held for sale		21,104,212	-	-	-
Transfer/ reclassification of current asset classified as held for sale	11	-	(21,104,212)	-	-
Transfer to development expenditure	16	(62,381,300)	-	-	-
Recoupment on farm-out		(3,330,000)	(2,187,008)	-	-
Expenditure incurred expensed to income statement		(1,254,915)	(1,162,349)	-	-
Total exploration and evaluation expenditure carried forward (refer note b)		<b>147,255,103</b>	24,378,384	-	-

**NOTES TO THE FINANCIAL STATEMENTS**  
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

	Notes	Consolidated		Company	
		2007	2006	2007	2006
		\$	\$	\$	\$
<b>15. EXPLORATION AND EVALUATION EXPENDITURE CARRIED FORWARD (Continued)</b>					
Tangible		5,551,620	414,358	-	-
Intangible		141,703,483	23,964,026	-	-
<p>(a) The capitalisation rate used in the allocation of financing costs was 8.99% (2006: \$nil). The current year costs were directly attributable to the Longtom Sole Risk appraisal program and the subsequent Longtom Sole Risk development project. These costs are therefore, included in the transfer to development expenditure amount disclosed above.</p> <p>(b) Exploration and evaluation expenditure carried forward relates to the areas of interest in the exploration phase for petroleum exploration permits AC/P23, AC/P41, VIC/P54, Longtom Sole Risk appraisal program (VIC/P54), VIC/P49, VIC/P56, WA-368-P, WA-377-P and NT/P66 (2006: AC/P23, VIC/P54, Longtom Sole Risk appraisal program (VIC/P54), VIC/P39(v), VIC/P49, VIC/P56, WA-368-P, WA-377-P and NT/P66). 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 active and significant activity in, or in relation, to the areas is continuing.</p> <p>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.</p>					
<b>16. DEVELOPMENT EXPENDITURE</b>					
Balance at beginning of financial year		-	-	-	-
Expenditure incurred		12,959,593	-	-	-
Transfer from exploration expenditure	15	62,381,300	-	-	-
Total development expenditure carried forward		75,340,893	-	-	-
<p>The development expenditure carried forward relates to the Longtom Sole Risk development project. The expenditure is carried forward to the extent that it is expected to be recouped either through sale or successful exploitation of the area of interest. When production commences the accumulated costs are transferred to producing areas of interest.</p>					
<b>17. OTHER FINANCIAL ASSETS</b>					
<i>Current</i>					
Foreign currency forward contracts carried at fair value through profit and loss		11,789,672	-	11,789,672	-
Total current other financial assets		11,789,672	-	11,789,672	-
<i>Non-current</i>					
Investment in subsidiary companies, at cost	23	-	-	5,372,906	5,372,906
Provision for impairment	23	-	-	(2,077)	(5,369,774)
		-	-	5,370,829	3,132
Security deposit		-	16,306	-	16,306
Total non-current other financial assets		-	16,306	5,370,829	19,438
<b>(a) Effective interest rates and credit risk</b>					
<p>Information concerning the Group's exposure to interest rate changes and credit risk on the security deposit is set out in Note 25.</p>					

**NOTES TO THE FINANCIAL STATEMENTS**  
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

	Notes	Consolidated		Company	
		2007	2006	2007	2006
		\$	\$	\$	\$
<b>18. TRADE AND OTHER PAYABLES</b>					
<i>Current (unsecured)</i>					
Trade payables		<b>30,848,587</b>	9,827,354	<b>500,247</b>	892,542
Sundry payables and accrued expenditure		<b>11,252,870</b>	5,632,788	<b>1,163,761</b>	3,652,874
Amount payable to a Director related entity	32 (d)	-	12,000	-	12,000
Total current trade and other payables		<b>42,101,457</b>	15,472,142	<b>1,664,008</b>	4,557,416
<i>Non-current</i>					
Amounts payable to subsidiaries of ultimate parent entity		-	-	<b>1,321,576</b>	-
Total non-current trade and other payables		-	-	<b>1,321,576</b>	-

**(a) Effective interest rates**

Information concerning the Group's exposure to interest rate changes on trade and other payables is set out in Note 25.

**19. BORROWINGS**

<i>Short-term</i>					
Bank loan (secured) (refer note (a) below)		<b>38,046,536</b>	7,000,000	-	-
Finance lease liability (unsecured)	28 (c)	<b>6,190</b>	5,967	<b>6,190</b>	5,967
Total short-term borrowings		<b>38,052,726</b>	7,005,967	<b>6,190</b>	5,967
<i>Long-term</i>					
Finance lease liability (unsecured)	28 (c)	<b>9,519</b>	-	<b>9,519</b>	-
Total long-term borrowings		<b>9,519</b>	-	<b>9,519</b>	-

(a) Two Credit Advance facilities totalling \$50,000,000 with BOS International (Australia) Limited where in place at 30 June 2007.

The first facility provides maximum borrowings of up to \$30,000,000 and expires on 31 October 2007. Interest is charged on each drawdown at the average bid rate on the Reuters BBSY page on the first date of the period, plus a margin of 2.5%. As at 30 June 2007 \$28,313,158 was drawn down on this facility and the interest rate was 8.87%-9.04%.

The second facility provides maximum borrowings of up to \$20,000,000 and expires on 31 October 2007. Interest is charged on each drawdown at the average bid rate on the Reuters BBSY page on the first date of the period, plus a margin of 3.5%. As at 30 June 2007 \$9,733,378 was drawn down on this facility and the interest rate was 10.17%.

The Group has provided the following as security to BOS International (Australia) Limited:

(i) fixed and floating charge over the assets of Nexus Energy Aust. NL, Nexus Energy VIC/P54 Pty Ltd and Nexus Energy Corporate Pty Ltd.

(ii) mortgage of shares granted by the Company over all of its shares in Nexus Energy Aust. NL, Nexus Energy VIC/P54 WA Pty Ltd and Nexus Energy Corporate Pty Ltd.

The carrying amount of assets given as security as at 30 June 2007 was \$120,667,118.

The covenants within the Cash Advance facilities require that the Group maintain a minimum cash balance of \$10,000,000.

(b) Information concerning the Group's exposure to interest rate changes on borrowings is set out in Note 25.



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

### 22. ISSUED CAPITAL (Continued)

#### (b) Movements in ordinary share capital

Date	Details	Notes	Number of shares	Issue price	\$
30 June 2006	Balance		360,705,459		103,190,754
03 July 2006	Exercise of options	(c)	1,060,000	\$0.5000	530,000
28 July 2006	Share purchase plan	(d)	24,408,349	\$0.6200	15,133,176
21 September 2006	Exercise of options	(c)	1,050,000	\$0.5500	577,500
25 September 2006	Exercise of options	(c)	500,000	\$0.5500	275,000
29 September 2006	Exercise of options	(c)	320,000	\$0.5500	176,000
09 October 2006	Exercise of options	(c)	100,000	\$0.7700	77,000
11 October 2006	Exercise of options	(c)	10,000	\$0.8700	8,700
13 October 2006	Exercise of options	(c)	83,700	\$0.8700	72,819
16 October 2006	Exercise of options	(c)	2,000,000	\$0.5500	1,100,000
17 October 2006	Exercise of options	(c)	130,000	\$0.5500	71,500
17 October 2006	Exercise of options	(c)	530,000	\$0.7500	397,500
23 October 2006	Exercise of options	(c)	500,000	\$0.5500	275,000
27 October 2006	Exercise of options	(c)	1,000,000	\$0.5500	550,000
31 October 2006	Exercise of options	(c)	45,000	\$0.8700	39,150
01 November 2006	Exercise of options	(c)	125,000	\$0.7500	93,750
20 November 2006	Exercise of options	(c)	246,100	\$0.8700	214,107
27 November 2006	Exercise of options	(c)	500,000	\$0.9000	450,000
11 December 2006	Exercise of options	(c)	220,000	\$1.0000	220,000
12 December 2006	Exercise of options	(c)	280,000	\$1.0000	280,000
27 December 2006	Exercise of options	(c)	500,000	\$1.0000	500,000
28 March 2007	Institutional Placement	(d)	36,840,000	\$0.8000	29,472,000
23 April 2007	Exercise of options	(c)	93,700	\$0.8700	81,519
24 April 2007	Exercise of options	(c)	1,195,000	\$0.7500	896,250
30 April 2007	Exercise of options	(c)	1,400,000	\$0.7500	1,050,000
30 April 2007	Exercise of options	(c)	150,000	\$0.7700	115,500
18 May 2007	Share Purchase Plan	(d)	24,024,169	\$0.8000	19,219,335
27 June 2007	Exercise of options	(c)	474,000	\$0.8700	412,380
28 June 2007	Exercise of options	(c)	30,000	\$0.8700	26,100
	Add: Transfer from share based payments reserve				1,289,677
	Add: Deferred tax credit balance recognised directly in equity				1,506,065
	Less: Transaction costs arising on share issues				(1,942,189)
<b>30 June 2007</b>	<b>Closing balance</b>		<b>458,520,477</b>		<b>176,358,593</b>

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

### 22. ISSUED CAPITAL (Continued)

#### (c) Employee share option plan and other options

Information relating to the Nexus Energy Limited Employee Share Option Plan and other options, including details of options granted, exercised, forfeited and expired during the financial year and options outstanding at the end of the financial year, is set out in Note 30.

#### (d) Ordinary shares issued

The funds raised by the share purchase plan on 28 July 2006 were planned to provide general working capital funding for the Group to accelerate its appraisal programs and evaluate any discoveries from its drilling program.

The purpose of the institutional placement on 28 March 2007 was to raise funds for the AC/P23 Crux-2 Side Track-1 well and provide associated ongoing working capital.

The purpose of the share purchase plan on 18 May 2007 was to advance the appraisal of the AC/P23 Crux liquid project, provide contingent funding of an Echuca Shoals well (WA-377-P) and associated ongoing working capital.

### 23. SUBSIDIARIES

Name	Country of incorporation	Percentage of equity and voting interests held		Investment	
		2007 %	2006 %	2007 \$	2006 \$
<b>Parent entity</b>					
Nexus Energy Limited	Australia				
<b>Subsidiaries</b>					
Nexus Energy Aust. NL	Australia	100.0	100.0	5,369,774	5,369,774
Provision for impairment				-	(5,369,774)
Nexus Energy VICP54 Pty Ltd	Australia	100.0	100.0	-	-
Nexus IT Investments Pty Ltd	Australia	100.0	100.0	1,095	1,095
Provision for impairment				(1,095)	
Nexus Energy Services Pty Ltd	Australia	100.0	100.0	982	982
Provision for impairment				(982)	
Nexus Energy WA Pty Ltd	Australia	100.0	100.0	1,055	1,055
Nexus Energy Corporate Pty Ltd	Australia	100.0	-	-	-
Nexus ACP41 Pty Ltd	Australia	100.0	-	-	-
Nexus Energy NTP66 Pty Ltd	Australia	100.0	-	-	-
Nexus Energy VICP56 Pty Ltd	Australia	100.0	-	-	-
Nexus Energy VICP49 Pty Ltd	Australia	100.0	-	-	-
Nexus Energy WA377P Pty Ltd	Australia	100.0	-	-	-
Nexus Energy WA368P Pty Ltd	Australia	100.0	-	-	-
Nexus Energy (Bass Strait) Pty Ltd	Australia	100.0	-	-	-
Nexus Energy (Timor Sea) Pty Ltd	Australia	100.0	-	-	-
				<b>5,370,829</b>	<b>3,132</b>

Nexus Energy VICP54 Pty Ltd is a wholly-owned subsidiary of Nexus Energy Aust. NL.

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

### 24. ASSOCIATE COMPANY

Details of the investment in the associate company are as follows:

Name of associate company	Country of incorporation and where business is carried on	Beneficial and voting interest in shares as at 30 June		Book value of ordinary shares as at 30 June		Contribution to consolidated income statement	
		2007	2006	2007	2006	2007	2006
		%	%	\$	\$	\$	\$
Original IT Investments Pty Limited	Australia	33.3	33.3	-	-	-	-

The Company has a 33.3% equity interest in Original IT Investments Pty Limited ("OIT"), an incubator company with the principal activity of nurturing start-up enterprises with innovative information technology and telecommunications products and concepts. The balance date of OIT is 30 June. OIT was granted \$5.0 million by the Commonwealth Government to operate the incubator program over a four-year period. Under the incubator program, the Company, together with its two other equity partners, made pro-rata contributions to OIT during previous financial years to augment the Commonwealth funding.

The Charles Darwin University ("CDU") has a similar shareholding in OIT. However, under the consortium agreement, CDU can elect for its required contributions to be paid by the other consortium members on its behalf. This election was made by CDU, and the contributions during previous financial years in this respect are disclosed in Note 9 as an unsecured loan.

The value of the OIT investment has been written down to \$Nil (2006: \$Nil).

### 25. FINANCIAL INSTRUMENTS DISCLOSURE

The Group's non-derivative financial instruments consist mainly of deposits with banks, accounts receivable and payable, and a bank loan. The main purpose of non-derivative financial instruments is to raise finance for Group operations. The Group's activities expose it primarily to the financial risk of changes in foreign exchange rate and interest rates movements. The Group may enter into various derivative financial instruments to manage its exposure to these risks. The Group does not enter into or trade in derivative financial instruments for speculative purposes. For the financial year ended 30 June 2007, the Group and Company did not enter into any derivative financial instruments.

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised in respect of each class of financial asset and financial liability are disclosed in Note 1.

#### (a) Credit risk

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets is the carrying amount of those assets, net of any provisions for impairment, as disclosed in the balance sheet and notes to the financial statements. Credit risk further arises in relation to financial guarantees given to certain parties (see note 27(a)) for details. Such guarantees are only provided in exceptional circumstances and are subject to board approval.

The Group does not have any material credit risk exposure to any single debtor or group of debtors under non-derivative financial instruments entered into by the Group.

#### (b) Net fair values

The net fair values of listed investments will be valued at the quoted market bid price at balance date adjusted for transaction costs expected to be incurred. For other assets and other liabilities the net fair value approximates their carrying value. Financial assets and financial liabilities are not readily traded on organised markets in standardised form other than listed investments.

The aggregate net fair values and carrying amounts of financial assets and financial liabilities are disclosed in the balance sheet and in the notes to the financial statements.

#### (c) Foreign exchange risk

The Group is exposed to fluctuations in foreign currencies arising from the purchase of goods and services in currencies other than Australian dollars. The main foreign currency exposure is United States dollars. The Group manages foreign exchange risk by monitoring forecast cash flows in currencies other than Australian dollars and ensuring that adequate United States dollar cash balances are maintained.

#### (d) Liquidity risk

The Group manages liquidity risk by monitoring forecast cash flows and ensuring that adequate borrowing facilities are maintained.

#### (e) Interest rate risk

The Group's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates, and the weighted average interest rate for classes of financial assets and financial liabilities, is set out below:

**NOTES TO THE FINANCIAL STATEMENTS**  
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

**25. FINANCIAL INSTRUMENTS DISCLOSURE (Continued)**

	Weighted average interest rate %	Floating interest rate \$	Fixed interest maturing in 1 year or less \$	Fixed interest maturing between 1 and 5 years \$	Non-interest bearing \$	TOTAL \$
<b>2007</b>						
<i>Financial assets</i>						
Cash and cash equivalents	5.75	34,419,900	-	-	6,712,671	41,132,571
Trade and other receivables		-	-	-	10,787,105	10,787,105
Foreign currency forward contracts		-	-	-	11,789,672	11,789,672
Total financial assets		34,419,900	-	-	29,289,448	63,709,348
<i>Financial liabilities</i>						
Trade and other payables		-	-	-	42,101,458	42,101,458
Finance lease liability	14.57	-	15,709	-	-	15,709
Bank loan	8.99	38,046,536	-	-	-	38,046,536
Foreign currency forward contracts		-	-	-	12,258,405	12,258,405
Total financial liabilities		38,046,536	15,709	-	54,359,863	92,422,108
<b>2006</b>						
<i>Financial assets</i>						
Cash and cash equivalents	5.35	41,835,503	-	-	628,352	42,463,855
Trade and other receivables		-	-	-	3,427,528	3,427,528
Other financial assets	1.40	16,306	-	-	-	16,306
Total financial assets		41,851,809	-	-	4,055,880	45,907,689
<i>Financial liabilities</i>						
Trade and other payables		-	-	-	15,470,834	15,470,834
Finance lease liability	14.57	-	5,967	-	-	5,967
Bank loan	8.78	7,000,000	-	-	-	7,000,000
Total financial liabilities		7,000,000	5,967	-	15,470,834	22,476,801

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

### 26. JOINT VENTURE OPERATIONS

The Group has an interest in the following joint venture operations as at 30 June 2007:

Petroleum exploration permit	Interest 2007 %	Interest 2006 %	Principal activities	Operator of joint venture operation
VIC/P54	37.5	37.5	Oil and gas exploration	Apache Energy Ltd
VIC/P39(v)	-	37.5	Oil and gas exploration	Santos Offshore Pty Ltd
VIC/P49	80.0	80.0	Oil and gas exploration	Nexus Energy Services Pty Ltd
VIC/P56	80.0	40.0	Oil and gas exploration	Nexus Energy Services Pty Ltd
WA-368-P	50.0	50.0	Oil and gas exploration	Nexus Energy Services Pty Ltd
AC/P41	50.0	-	Oil and gas exploration	Shell Development (Australia) Pty Ltd

The following amounts represent the Group's share of assets employed in joint venture operations. The amounts are included in the balance sheet, in accordance with the accounting policy described in Note 1(q), under the following classifications:

	Consolidated		Company	
	2007 \$	2006 \$	2007 \$	2006 \$
Cash and cash equivalents	536,722	560,696	-	-
Other receivables	-	416	-	-
Inventories	30,605	608,378	-	-
Total current assets	567,327	1,169,490	-	-
Exploration and evaluation expenditure carried forward	24,543,157	10,763,533	-	-
Total non-current assets	24,543,157	10,763,533	-	-
<b>Share of assets employed in joint venture operations</b>	<b>25,110,484</b>	<b>11,933,023</b>	-	-

Contingent liabilities in respect of joint venture operations are detailed in Note 27. Exploration expenditure commitments and capital commitments in respect of joint venture operations are detailed in Note 28.

**NOTES TO THE FINANCIAL STATEMENTS**  
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

Consolidated		Company	
2007	2006	2007	2006
\$	\$	\$	\$

**27. CONTINGENT LIABILITIES AND CONTINGENT ASSETS**

**(a) Contingent liabilities**

The Company and Group had contingent liabilities as at 30 June 2007 that may become payable in respect of:

(i) Guarantee provided by Nexus Energy Limited

In the 2006 financial year Nexus Energy Limited provided a guarantee to a third party in relation to the obligations of Nexus Energy WA Pty Ltd in respect of a Cash Advance facility. The guarantee was for the term of the facility. The guarantee may have given rise to a liability in the Company if the subsidiary did not meet its obligations under the terms of the facility, however, this did not eventuate.

-	-	-	7,000,000
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(ii) Letter of credit provided by subsidiaries

The subsidiaries Nexus Energy Australia NL and Nexus Energy VICP54 have entered into an agreement to supply raw gas to Santos Offshore Pty Ltd (Santos) from 1 July 2008. Under the agreement the subsidiaries have to complete minimum interim capital works by January 2008. As security for completion of the interim capital works Santos has access to a cumulative letter of credit capped at \$28,168,500 for failure to satisfy the requirements. As at 30 June 2007 the letter credit provided for the interim works totalled \$4,793,500. From 1 July 2008 the subsidiaries must supply minimum quantities of raw gas ranging from 10 - 25PJ per year totalling 193PJ over a 10 year period. Santos will have access to draw on a letter of credit capped at \$60,000,000 which amortises to zero from 150-185PJ of delivered gas for failure to satisfy the minimum requirements. The directors are of the opinion that the minimum interim capital works and minimum raw gas quantities will be satisfied.

(iii) In accordance with normal oil and gas industry practice, the Group has entered into joint venture operations and farm-out agreements 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.

(iv) The Company's present intention is to provide the necessary financial support for all incorporated entities, whilst they remain subsidiaries, as is necessary for each company to pay all debts as and when they become due.

No material losses are anticipated in respect of any of the above contingent liabilities.

**(b) Contingent assets**

The Company and Group had a contingent assets as at 30 June 2006 in respect of:

(i) Petroleum exploration permit AC/P23

On 6 June 2007, Nexus signed a Letter of Intent with Shell Development Australia Pty Ltd ("Shell") to purchase 100% of Nexus' rights in relation to the gas (excluding the condensate) in petroleum exploration permit AC/P23 (Crux). Under this conditional offer, Shell will pay US\$40,000,000 for all of Nexus' rights and interests in relation to the gas in the permit (including associated gas and solution gas).

The amount disclosed represents gross proceeds (pre-tax) as at 30 June 2006 at an exchange rate of A\$/US\$0.7433.

-	53,814,000	-	-
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**NOTES TO THE FINANCIAL STATEMENTS**  
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

	Notes	Consolidated		Company	
		2007	2006	2007	2006
		\$	\$	\$	\$
<b>28. COMMITMENTS</b>					
<b>(a) Capital expenditure commitments</b>					
Contracts for capital expenditure in relation to assets which are not provided for in the financial statements:					
(i) Drilling and Completions					
Not later than 1 year		7,236,233	1,435,525	-	-
		<b>7,236,233</b>	<b>1,435,525</b>	-	-
(ii) Development Project					
Not later than 1 year		165,701,889	-	-	-
		<b>165,701,889</b>	-	-	-
(iii) Geological, geophysical and administration					
Not later than 1 year		-	126,962	-	-
		-	126,962	-	-
(iv) Joint venture operations					
Not later than 1 year		-	846,277	-	-
		-	846,277	-	-
Total capital expenditure commitments		<b>172,938,122</b>	<b>2,408,764</b>	-	-
<b>(b) Operating lease rental commitments</b>					
Non-cancellable operating lease rentals not provided for in the financial statements and payable:					
Not later than 1 year		217,079	204,500	217,079	204,500
Not later than 1 year but not later than 5 years		626,255	826,900	626,255	826,900
Later than 5 years		-	16,433	-	16,433
Total operating lease rental commitments		<b>843,334</b>	<b>1,047,833</b>	<b>843,334</b>	<b>1,047,833</b>
The Company has an office lease with a primary 5-year term that expires during August 2011. Rent is payable monthly in advance. An option exists to renew the lease at the end of the 5-year term for an additional term of 5 years.					
The Company has a photocopier lease with a primary 3-year term that expires during December 2008. Rent is payable monthly in advance.					
<b>(c) Finance lease rental commitments</b>					
Payable – minimum lease payments:					
Not later than 1 year		7,608	6,372	7,608	6,372
Later than 1 year but not later than 5 years		10,246	-	10,246	-
Minimum lease payments		17,854	6,372	17,854	6,372
Less future finance charges		(2,145)	(405)	(2,145)	(405)
Present value of minimum lease payments (Total finance lease liability)	19	<b>15,709</b>	<b>5,967</b>	<b>15,709</b>	<b>5,967</b>
The Company has a lease for AV media equipment a communications system that commenced during August 2006, with a three-year term, lease payments are paid monthly in advance.					

**NOTES TO THE FINANCIAL STATEMENTS**  
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

Consolidated		Company	
2007	2006	2007	2006
\$	\$	\$	\$

**28. COMMITMENTS (Continued)**

**(d) Exploration expenditure commitments**

Exploration expenditure commitments are work commitments pursuant to the award of petroleum exploration permits VIC/P54, VIC/P56, VIC/P49, NT/P66, WA-368-P, WA-377-P, AC/P23 and AC/P41 (2006: VIC/P39(v), VIC/P54, VIC/P56, VIC/P49, NT/P66, AC/P23, WA-368-P, WA-377-P). Included in exploration expenditure commitments are \$64,942,500 (2006: \$76,307,500) of commitments that relate to the non-guaranteed work commitments of permit years 4 to 6 (30 June 2006: permit years 4 to 6) of the Group's exploration permits:

Not later than 1 year	<b>48,492,500</b>	19,620,000	-	-
Later than 1 year but not later than 5 years	<b>100,392,500</b>	97,857,500	-	-
Later than 5 years	-	100,000	-	-
Total exploration expenditure commitments	<b>148,885,000</b>	117,577,500	-	-

The above commitments include exploration expenditure commitments relating to joint venture operations:

Not later than 1 year	<b>36,350,000</b>	6,870,000	-	-
Not later than 1 year but not later than 5 years	<b>87,107,500</b>	44,507,500	-	-
Later than 5 years	-	-	-	-
Total joint venture operation exploration expenditure commitments	<b>123,457,500</b>	51,377,500	-	-

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

**NOTES TO THE FINANCIAL STATEMENTS**  
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

	Consolidated		Company	
	2007	2006	2007	2006
	\$	\$	\$	\$
<b>29. NOTES TO THE CASH FLOW STATEMENTS</b>				
<b>(a) Reconciliation of Profit/(Loss) after income tax to cash flow from operations</b>				
Profit/(loss) after income tax	35,845,497	(7,383,251)	6,061,086	5,365,849
<b>Add/(subtract) non-cash items</b>				
Depreciation of plant and equipment and amortisation of computer software	326,592	203,491	326,592	203,491
Inventory write-down	10,031	-	-	-
Share based payments expensed	3,248,057	906,790	3,248,057	906,790
Reversal of impairment losses for non-current receivables (subsidiaries)	-	-	(10,057,631)	(11,490,713)
Impairment losses for non-current receivables (subsidiaries)	-	-	346,955	359,083
Net unrealised foreign currency losses (gains)	787,624	(257,063)	319,241	(269,662)
<b>Items classified as investing/ financing activities:</b>				
Gain on disposal of plant and equipment	654	(568)	654	(568)
Gain on sale of gas rights	(49,606,000)	-	-	-
Gain on farm-out of area of interest	(5,938,949)	-	-	-
Exploration and evaluation expenditure expensed	1,825,826	1,162,349	-	-
Reimbursement of funds from Charles Darwin University	-	(30,000)	-	-
Net foreign currency losses (gains)	(906,767)	351,373	468,733	89
Finance lease and interest expense repayments	2,268	-	2,268	-
<b>Change in operating assets and liabilities:</b>				
<b>(Increase)/ decrease in assets</b>				
Trade and other receivables – current	(2,130,095)	(2,537,875)	(1,226,901)	(2,519,536)
Other assets – current	(493,095)	(212,825)	70,442	(207,824)
Trade and other receivables – non-current	-	-	397,455	(397,455)
Other financial assets – non-current	16,306	24	16,306	24
Deferred tax asset	-	-	(3,726,208)	-
<b>Increase/(decrease) in liabilities</b>				
Trade and other payables – current	1,474,697	3,103,159	(1,264,772)	2,597,535
Short-term provisions	6,236	(57)	6,236	(57)
Long-term provisions	53,048	35,962	53,048	35,962
Deferred tax liability	10,841,629	-	-	-
Net Cash Used in Operating Activities	(4,636,441)	(4,658,491)	(4,958,439)	(5,416,992)
<b>(b) Non-Cash Financing and Investing Activities During the Financial Year</b>				
(i) Share issue	-	2,000,000	-	2,000,000

In the 2006 financial year 871,688 fully paid Nexus Energy Limited ordinary shares at \$0.5736 and 2,714,932 fully paid Nexus Energy Limited ordinary shares at \$0.5525 were issued as part of the consideration for the purchase of petroleum exploration permit AC/P23 (Crux). This was not reflected in the cash flow statements.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

#### 30. SHARE BASED PAYMENTS

##### (a) Share Option Plan

##### (i) Employee Share Option Plan

The Company had one Employee Share Option Plan ("ESOP"), which was approved by shareholders at the 2003 annual general meeting and expired in November 2006. Options expire between two and three years after they are granted. The exercise price of options, issued during the financial year, is based on the weighted average price at which the Company's shares are traded on ASX during the two months of trading days before the options are granted. Options may be exercised after the date the option was granted. If there is a change of control of the Company, all unexercised options will become immediately exercisable. Options granted under ESOP carry no dividend or voting rights. When exercisable, each option is convertible into one ordinary share of the Company.

The following reconciles the outstanding share options granted under ESOP at the beginning and end of the financial year:

	Consolidated and Company 2007		Consolidated and Company 2006	
	Number	Weighted average exercise price \$	Number	Weighted average exercise price \$
Balance at beginning of financial year	7,210,000	0.61	5,500,000	0.36
Granted during the financial year	14,949,000	0.93	6,150,000	0.63
Exercised during the financial year	(8,042,500)	0.65	(4,440,000)	0.33
Forfeited during the financial year	-	-	-	-
Expired during the financial year	(150,000)	0.55	-	-
Balance at end of financial year	13,966,500	0.93	7,210,000	0.61
Exercisable at end of financial year	13,966,500	0.93	7,210,000	0.61

The weighted average share price when the share options were exercised during 2007 was \$0.995.

The ESOP options outstanding as at 30 June 2007 had a weighted average exercise price of \$0.93 with a weighted average remaining contractual life of 171 days.

Details of ESOP options outstanding at the end of the financial year:

Grant date	Expiry and exercise date	Exercise price	Number
14 September 2006	31 December 2007	0.77	500,000
14 September 2006	31 October 2007	0.87	6,586,800
30 November 2006	31 October 2007	0.87	4,770,000
14 September 2006	6 October 2008	1.10	1,000,000
21 November 2006	31 December 2007	1.36	199,400
21 November 2006	31 December 2007	1.46	410,300
14 September 2006	6 April 2009	1.50	500,000
			<b>13,966,500</b>

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

#### 30. SHARE BASED PAYMENTS (Continued)

##### (ii) Other Options

The Company granted five million other options during the 2006 financial year. These options expire within two years after they are granted. The exercise price of options is based on the weighted average price at which the Company's shares are traded on ASX during the two months of trading days before the options are granted. Options may be exercised after the date the option was granted. If there is a change of control of the Company, all unexercised options will become immediately exercisable. Options granted carry no dividend or voting rights. When exercisable, each option is convertible into one ordinary share of the Company.

The following reconciles the outstanding other share options granted at the beginning and end of the financial year:

	Consolidated and Company		Consolidated and Company	
	2007		2006	
	Number	Weighted average exercise price \$	Number	Weighted average exercise price \$
Balance at beginning of financial year	5,000,000	0.81	3,000,000	0.33
Granted during the financial year	-	-	5,000,000	0.81
Exercised during the financial year	(4,500,000)	0.73	(3,000,000)	0.33
Forfeited during the financial year	-	-	-	-
Expired during the financial year	(500,000)	1.50	-	-
Balance at end of financial year	-	-	5,000,000	0.81
Exercisable at end of financial year	-	-	5,000,000	0.81

The weighted average share price when the share options were exercised during 2007 was \$1.18.

##### (b) Fair value of options

The weighed average fair value of the ESOP options granted during the financial year was \$0.217. The fair value of each option during the financial year was estimated on grant date using the binomial option pricing model. The binomial option pricing model takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option. The Company has applied the following assumptions and inputs:

Weighted average exercise price	\$0.93 (2006: \$0.71)
Weighted average life of options	429 days (2006: 414 days)
Weighted average share price	\$0.91 (2006: \$0.47)
Expected share price volatility	50% (2006: 48%)
Risk-free interest rate	5.91% (2006: 5.25%)

Historical volatility has been the basis for determining expected share price volatility as it is assumed that this is indicative of future tender, which may not eventuate.

Included under employee benefits expense in the income statement is \$3,248,057 relating to the ESOP (2006: \$705,096) and \$Nil for other options (2006: \$201,694), and relates, in full, to equity-settled share based payments transactions.

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

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### 31. EMPLOYEE BENEFITS

#### (a) Employee Share Option Plan

Information relating to the Nexus Energy Limited Employee Share Option Plan, including details of options issued, exercised and expired during the financial year and options outstanding at the end of the financial year, is set out in Note 30.

#### (b) Superannuation plans

During the financial year, the Company contributed to accumulation type benefit funds administered by fund managers. The funds cover all Australian domiciled employees of the Company. Employee and employer contributions are based on a fixed percentage of cash salary. The current contribution is 9% (2006: 9%) of employee cash remuneration.

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### 32. RELATED PARTY TRANSACTIONS

#### (a) Parent entity

The ultimate parent entity within the Group is Nexus Energy Limited.

#### (b) Subsidiaries

Interests in subsidiaries are set out in Note 23.

During the financial year, the Company provided accounting, administrative and technical services to subsidiaries at cost as set out in Note 2. Other transactions that occurred were advancement of intercompany loans at Nil interest rate and no fixed term for repayment. Loans are unsecured. These transactions are eliminated on consolidation. Loans advanced to and repayments from subsidiaries are set out in the cash flow statements. The amounts receivable (including provisions for impairments raised) from subsidiaries as at 30 June 2007 is set out in Note 9.

Guarantee provided to a subsidiary is set out in Note 27.

#### (c) Directors and other key management personnel

Disclosures relating to Directors and other key management personnel are set out in the Directors' Report. Apart from the details disclosed in this note, no Director or other key management personnel has entered into a material contract with the Company or the Group since the end of the previous financial year and there were no material contracts involving Directors' or other key management personnel interests subsisting as at 30 June 2007.

Key Management Personnel of Nexus Energy Limited include:

Name	Position	
Mr Ian Tchacos	Managing Director	
Mr Michael Fowler	Non-Executive Director	
Mr Alastair Haydock	Non-Executive Director	
Mr Neil Ferguson	Non-Executive Director	Commenced 17 May 2007
Mr Neil Philip	Non-Executive Director	Resigned 7 August 2007
Mr Robert Boyson	Non-Executive Director	Resigned 4 April 2007
Mr Philip Smith	Exploration Manager	
Mr Keith Edwards	Engineering and Business Development Manager	
Mr Edward Munks	Commercial Manager	Resigned 13 October 2007
Mr Brendan Brown	Corporate Finance and Business Development Manager	Commenced 6 October 2006
Mr Charles Sim	Engineering Manager	Commenced 1 March 2006

All of the above persons were also Key Management Personnel during the previous financial year except where noted above.

**NOTES TO THE FINANCIAL STATEMENTS**  
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

Consolidated		Company	
2007	2006	2007	2006
\$	\$	\$	\$

**32. RELATED PARTY TRANSACTIONS (Continued)**

**(i) Key management personnel compensation**

**Key management personnel compensation**

Short-term employee benefits	1,631,006	1,317,829	1,631,006	1,317,829
Post-employment benefits	-	-	-	-
Long-term employee benefits	-	-	-	-
Share-based payments	2,930,799	584,750	2,930,799	584,750
	<b>4,561,805</b>	<b>1,902,579</b>	<b>4,561,805</b>	<b>1,902,579</b>

The company has taken advantage of the relief provided by Corporations Regulation 2M.6.04 and has transferred the detailed remuneration disclosures to the directors' report.

**(ii) Options over ordinary shares**

The movement of share options held by Directors and other key management personnel during the financial year is as follows:

	Balance 1/7/06	Granted as remuneration	Options exercised in 2007	Net change other	Balance 30/6/07	Total vested 30/6/07	Total exercisable 30/6/07	Total unexercisable 30/6/07
<b>Executive Director</b>								
Mr Ian Tchacos	2,000,000	1,800,000	(2,000,000)	-	1,800,000	1,800,000	1,800,000	-
<b>Non-Executive Directors</b>								
Mr Neil Philip	-	742,500	-	-	742,500	742,500	742,500	-
Mr Robert Boyson <sup>(1)</sup>	-	742,500	-	(742,500)	-	-	-	-
Mr Michael Fowler	-	742,500	-	-	742,500	742,500	742,500	-
Mr Alastair Haydock	-	742,500	(304,000)	-	438,500	438,500	438,500	-
<b>Other key management personnel</b>								
Mr Philip Smith	1,000,000	945,000	(1,000,000)	-	945,000	945,000	945,000	-
Mr Keith Edwards	500,000	945,000	(500,000)	-	945,000	945,000	945,000	-
Mr Edward Munks <sup>(2)</sup>	1,000,000	-	(1,000,000)	-	-	-	-	-
Mr Brendan Brown <sup>(3)</sup>	1,000,000	2,445,000	(1,000,000)	-	2,445,000	2,445,000	2,445,000	-
Mr Charles Sim	-	992,200	-	-	992,900	992,900	992,900	-
	5,500,000	10,097,200	(5,804,000)	(742,500)	9,051,400	9,051,400	9,051,400	-

<sup>(1)</sup> Mr Robert Boyson resigned on 4 April 2007, transactions detailed in the above table cover the period 1 July 2006 to 4 April 2007.

<sup>(2)</sup> Mr Edward Munks resigned from the company on 13 October 2006, transactions detailed in the above table cover the period 1 July 2006 to 13 October 2006.

<sup>(3)</sup> Mr Brendan Brown commenced with the company on 6 October 2006, transactions detailed in the above table cover the period 6 October 2006 to 30 June 2007.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

#### 32. RELATED PARTY TRANSACTIONS (Continued)

##### (ii) Shareholdings

The number of ordinary shares held by Directors and other key management personnel as at 30 June 2007:

	Balance 1/7/06	Received as remuneration	Options exercised	Shares purchased	Shares sold	Other	Balance 30/06/07
<b>Executive Director</b>							
Mr Ian Tchacos	3,708,518	-	2,000,000	14,250	(985,000)	-	4,737,768
<b>Non-Executive Directors</b>							
Mr Neil Philip	5,450,000	-	-	14,250	(645,000)	-	4,819,250
Mr Robert Boyson <sup>(1)</sup>	2,276,500	-	-	-	(500,000)	(1,776,500)	-
Mr Michael Fowler	1,995,184	-	-	387,327	-	-	2,382,511
Mr Alastair Haydock	886,891	-	304,000	14,250	-	-	1,205,141
Mr Neil Ferguson <sup>(2)</sup>	-	-	-	100,000	-	-	100,000
	14,317,093	-	2,304,000	530,077	(2,130,000)	(1,776,500)	13,244,670
<b>Other key management personnel</b>							
Mr Philip Smith	2,050,000	-	1,000,000	6,250	(556,250)	-	2,500,000
Mr Keith Edwards	904,466	-	500,000	31,250	(811,000)	-	624,716
Mr Edward Munks <sup>(3)</sup>	1,260,000	-	1,000,000	-	(720,000)	(1,540,000)	-
Mr Brendan Brown <sup>(4)</sup>	139,259	-	1,000,000	14,250	(1,000,000)	-	153,509
Mr Charles Sim	1,000	-	-	6,250	-	-	7,250
	4,354,725	-	3,500,000	58,000	(3,087,250)	(1,540,000)	3,285,475

<sup>(1)</sup> Mr Robert Boyson resigned on 4 April 2007, transactions detailed in the above table cover the period 1 July 2006 to 4 April 2007.

<sup>(2)</sup> Mr Neil Ferguson was appointed on 17 May 2007, transactions detailed in the above table cover the period 17 May 2007 to 30 June 2007.

<sup>(3)</sup> Mr Edward Munks resigned from the company on 13 October 2006, transactions detailed in the above table cover the period 1 July 2006 to 13 October 2006.

<sup>(4)</sup> Mr Brendan Brown commenced on 6 October 2006, transactions detailed in the above table cover the period 6 October 2006 to 30 June 2007.

##### (d) Other transactions with the Company

During the financial year, a Director, Mr Robert Boyson, had an interest in Boyson Consulting Pty Ltd, which provided consulting services to the Group. The value of transactions during the financial year was \$Nil (2006: \$30,000). These transactions were made on normal commercial terms and conditions and at market rates.

##### (e) Associate company

The interest in an associate company is set out in Note 24.

#### 33. SEGMENT REPORTING

##### Business segment

The Group operates exclusively in one segment, investment in energy related projects.

##### Geographic segment

The Group operates in one geographic segment, being Australia.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

#### 34. CHANGE IN ACCOUNTING POLICY

The following Australian Accounting Standards have been issued or amended and are applicable to the Company and Group but are not yet effective. They have not been adopted in the preparation of the financial statements as at 30 June 2007:

AASB amendment	AASB Standard affected	Nature of change in accounting policy and impact	Application date of Standard	Application date for Group
AASB 2005-10 Amendments to Australian Accounting Standards	AASB 1 First time adoption of AIFRS: AASB 4 Insurance Contracts: AASB 101 Presentation of Financial Statements: AASB 114 Segment Reporting: AASB 117 Leases: AASB 133 Earnings per Share: AASB 1023 General Insurance Contracts: AASB 1038 Life Insurance Contracts: AASB 139 Financial Instruments: Recognition and Measurement.	The disclosure requirements of AASB 132: Financial Instruments: Disclosure and Presentation have been replaced due to the issuing of AASB 7: Financial Instruments: Disclosures in August 2005. These amendments will involve changes to financial instrument disclosures within the financial report. However, there will be no direct impact on amounts included in the financial report as it is a disclosure standard.	1 January 2007	1 July 2007
AASB 7 Financial Instruments: Disclosures	AASB 132 Financial Instruments: Disclosure and Presentation	As above.	1 January 2007	1 July 2007
Amendment to AASB 123	AASB 123 Borrowing Costs	Under the amendments to AASB 123 only the capitalisation treatment is permitted in relation to borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. The amendment will have no effect on the company and group.	1 January 2009	1 July 2009

#### Financial Guarantees

The policy of recognising financial guarantee contracts as financial liabilities was adopted for the first time in the current financial year. In previous reporting periods, a liability for financial guarantee contracts was only recognised if it was probable that the debtor would default and a payment would be required under the contract. The change in policy was necessary following the change to AASB 139 Financial Instruments: Recognition and Measurement made by AASB 2005-9 Amendments to Australian Accounting Standards in September 2005. The new policy has been applied retrospectively and has had no financial impact on the company's and groups financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

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### 35. SUBSEQUENT EVENTS

Since the end of the financial year, the following material events have occurred:

#### (a) Share capital issued

In July and August 2007, 1,043,700 Nexus Energy Limited ordinary shares were issued on the exercise of \$0.87 options granted under the Nexus Energy Limited Employee Share Option Plan. Total gross proceeds raised amounted to \$908,019.

In July 2007, the company completed a placement of 68,700,000 new ordinary shares at \$1.35 per share to Viking Shipping Limited ("Viking"). The placement represented the equivalent of 15% of prior existing issued capital of the company and raised gross proceeds of \$92,745,000. As part of the placement Viking obtained an exclusive arrangement for the supply of a Floating Storage Production and Offloading ("FPSO") facility for the AC/P23 Crux liquids project pursuant to a Floating Production Facility Option Agreement ("Option Agreement") between Nexus and a subsidiary of Viking. Under the Option Agreement, Vanguard Oil and Gas International ("Vanguard"), a subsidiary of Viking, will provide Nexus with a leased FPSO on pre-agreed terms based on a transparent calculation of lease rates for deployment on the Crux liquids project.

#### (b) New Employee Share Option Plan and Directors Options

A general meeting of shareholders was held on 28 August 2007 to approve an Employee Share Option Plan as well the granting of options over unissued ordinary shares to the Directors in lieu of fees for the 2008 Financial Year. The share option plan allows for granting of options of up to 5% of the company's issued capital. The options issued to existing staff have an exercise price of \$1.62. The total number of options granted to directors totalled 1,911,500 and have an exercise price of \$1.62.

#### (c) Sale of 15% of AC/P23 Crux Liquid Project

In August 2007 the company and its wholly owned subsidiary, Nexus Energy WA Pty Ltd, executed a Sale and Purchase Agreement in relation to a 15% interest in the AC/P23 Crux liquids project with Osaka Gas Co., Ltd ("Osaka Gas") and its wholly owned subsidiary, Osaka Gas Crux Pty Ltd.

Nexus will receive A\$75 million for Osaka Gas' interest in the Crux liquids project upon receipt of regulatory approvals for the transaction. The group estimates a gain on sale of the area interest before tax of \$57,262,161. Deferred tax expense of \$17,178,648 is expected to arise from the transaction with sufficient tax losses available to offset current tax payable.

#### (d) WA-377-P Farm-in

On 16 July 2007 the company announced the finalisation of the Farm-in and Joint Venture Agreements with Shell Development (Australia) Pty Ltd ("Shell") for appraisal of the Echuca Shoals gas condensate discovery. Under the Farm-in Agreement Shell is required to provide funding of up to US\$60 million in a combination of cash (US\$5 million), which was recognised as a receivable as at 30 June 2007 and contributions toward the drilling of two appraisal wells (US\$55 million) to earn a 34% interest in the entire permit. Shell is required to fund the first US\$30 million of the first appraisal well and they an option to fund the first US\$25 million of a second appraisal well to retain a 34% interest in the entire permit.

The first appraisal well Fossetmaker-1 was spudded on the 6 August 2007 and it was announced on the 3 September 2007 that the well reached a depth of 3,822 metres and was to be plugged at this depth. Gas shows were recorded during drilling over a section of sandstones equivalent in age to the sandstones encountered in the Echuca Shoals-1 well. Wire line logs indicate a 10 metre gas interval at a depth just below the 70 metre main gas column seen in the Echuca shoals gas well. Wire line run formation pressure measurement logs indicate that the formation is tight at this location. It is unclear whether the gas encountered in Fossetmaker-1 is in pressure communication with the gas observed in the Echuca Shoals-1 well. Further study will be required to assess the commercial implications of the result for the Echuca Shoals gas accumulation. The well is expected to be drilled at no cost to the Group.

#### (e) Longtom Development Project

On 4 September 2007 the company announced that it had received notice of intention from the Designated Authority for and on behalf of the Commonwealth Victoria Offshore Petroleum Joint Authority to grant a Production Licence for Petroleum for the Longtom Development project. The company intends to accept the offer of the Production Licence.

The financial effect of these events has not been recognised in the financial statements for the financial year ended 30 June 2007.

This financial report was authorised for issue on 19th September 2007 by the Board of Directors.

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**DIRECTORS' DECLARATION**  
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

The Directors of the Company declare that:

1. The financial statements and notes, as set out on pages 19 to 56, are in accordance with the Corporations Act 2001 and:
  - (a) comply with Accounting Standards and the Corporations Regulations 2001; and
  - (b) give a true and fair view of the Company's and Group's financial position as at 30 June 2007 and of their performance for the financial year ended on that date;
2. In the Directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;
3. The Directors have been given the declarations required by Section 295A of the Corporations Act 2001.

This Directors' Declaration is made in accordance with a resolution of the Board of Directors made pursuant to Section 295(5) of the Corporations Act 2001.

On behalf of the Directors:



Michael Fowler  
Chairman and Non-executive Director

Dated Melbourne this 20th day of September 2007

**INDEPENDENT AUDITOR'S REPORT  
TO THE MEMBERS OF  
NEXUS ENERGY LIMITED AND SUBSIDIARIES**

**Report on the Financial Report**

We have audited the accompanying financial report of Nexus Energy Limited (the company) and Nexus Energy Limited and Subsidiaries (the consolidated entity), which comprises the balance sheet as at 30 June 2007, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

As permitted by the Corporations Regulations 2001, the company has disclosed information about the remuneration of directors and executives ("remuneration disclosures"), required by Accounting Standard AASB 124 Related Party Disclosures, under the heading "remuneration report" in pages 7 to 13 of the directors' report and not in the financial report.

*Directors' Responsibility for the Financial Report*

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101: "Presentation of Financial Statements", that compliance with the Australian equivalents to International Financial Reporting Standards (IFRSs) ensures that the financial report, comprising the financial statements and notes, complies with IFRSs.

The directors also are responsible for preparation and presentation of the remuneration disclosures contained in the directors' report in accordance with the Corporations Regulations 2001.

*Auditor's Responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement and that the remuneration disclosures in the directors' report comply with Accounting Standard AASB 124.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report and the remuneration disclosures in the directors' report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Independence*

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001. We confirm that the independence declaration required by the Corporations Act 2001, provided to the directors of Nexus Energy Limited on 18 September 2007, would be in the same terms if provided to the directors as at the date of this auditor's report.

*Auditor's Opinion*

In our opinion:

- (a) the financial report of Nexus Energy Limited and Nexus Energy Limited and Subsidiaries is in accordance with the Corporations Act 2001, including:
  - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2007 and of their performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.
- (b) the financial report also complies with International financial Reporting Standards as disclosed in Note 1.
- (c) the remuneration disclosures that are contained in pages 7 to 13 of the directors' report comply with Accounting Standard AASB 124.

**Significant uncertainty regarding continuation as a going concern**

Without qualification to the opinion expressed above, attention is drawn to the following matter. As indicated in Note 1(y) to the financial report, the Directors of Nexus Energy Limited are of the opinion that the consolidated entity and the parent entity have the ability to farm out their interest in their permits, seek additional sources of capital or raise project finance via debt funding in order to meet future exploration expenditure commitments and working capital requirements. If the farm outs do not occur, and additional capital or finance via debt funding is not raised, there is uncertainty whether the consolidated entity and the parent entity will be able to continue as a going concern and therefore whether they will realise their assets and extinguish their liabilities in the normal course of business and at the amounts in the financial report.



MOORE STEPHENS  
Chartered Accountants



Kevin W Neville  
Partner  
Melbourne, 20 September 2007

## ASX ADDITIONAL INFORMATION

Additional information required by the Australian stock Exchange Limited Listing rules and not disclosed elsewhere in this report is set out below. The information was applicable as at 17 September 2007.

### DISTRIBUTION OF SHAREHOLDING

The number of shareholders by size of holding is set out below:

Size of Shareholding	Number of Holders	Number of Shares
Less than 1,000	673	415,707
1,001 to 5,000	1,830	5,825,696
5,001 to 10,000	1,621	12,991,394
10,001 to 100,000	2,956	84,845,201
More than 100,000	345	424,186,179
<b>Total</b>	<b>7,425</b>	<b>528,264,177</b>

There were 169 Shareholders of less than a marketable parcel of ordinary shares.

### SUBSTANTIAL SHAREHOLDERS

An extract of the Company's register of Substantial Shareholders (who held 5% or more of the issued capital) is set out below:

Shareholder	Number of shares
Viking Shipping Limited	68,700,000
Anzon Australia Limited	65,701,223
ANZ Nominees Limited	39,761,346
<b>Total</b>	<b>174,162,569</b>

### TOP 20 SHAREHOLDERS

Shareholder	Number of Shares	% of Issued Capital
Viking Shipping Limited	68,700,000	13.00
Anzon Australia Limited	65,701,223	12.44
ANZ Nominees limited	39,761,346	7.53
HSBC Custody Nominees (Australia) Limited-GSI ECSA	25,368,138	4.80
National Nominees Limited	16,482,813	3.12
HSBC Custody Nominees (Australia) Limited –GSCO ECA	15,634,096	2.96
Citicorp Nominees Pty Limited CFS W/sale GBL Res Fund A/C	15,617,894	2.96
Citicorp Nominees Pty Limited	15,383,420	2.91
Pan Australian Nominees Pty Limited	10,515,969	1.99
HSBC Custody Nominees (Australia) Limited	9,865,099	1.87
BDH Nominees Pty Ltd	6,032,102	1.14
RBC Dexia Investor Services Australia Nominees Pty Limited	5,776,566	1.09
Vilo Finance Pty Ltd	5,015,563	0.95
JP Morgan Nominees Australia Limited	4,717,372	0.89
Robhar Pty Ltd (Robhar S/F No 2 A/C)	4,026,250	0.76
Mogal Marine Pty Ltd	3,586,620	0.68
Mr Michael John Hannon & Mrs Elsbeth Ulrike Hannon (Michael J Hannon s/f a/c)	3,284,284	0.62
Eonia Pty Ltd	2,405,509	0.46
HSBC Custody Nominees (Australia) Limited - A/C 2	2,355,411	0.45
Mr Philip Smith	2,320,000	0.44
<b>Total</b>	<b>322,549,675</b>	<b>61.06</b>

## ASX ADDITIONAL INFORMATION

### ISSUED CAPITAL

Type		Number of Securities on Issue	Number of Holders
Fully paid ordinary shares		528,264,177	7,425
Employee Share Options Exercisable at	\$0.77	500,000	1
	\$0.87	10,313,100	18
	\$1.10	1,000,000	1
	\$1.36	199,400	1
	\$1.46	410,300	3
	\$1.50	500,000	1

### VOTING RIGHTS

#### Ordinary Shares

On a show of hands every member present in person or by proxy shall have one vote and upon a poll each share shall have one vote.

### SCHEDULE OF TENEMENTS

Tenements	Basin	Interest %
VIC/P54	Gippsland	37.5
Longtom Sole Risk Programme (VIC/P54)	Gippsland	100
VIC/P56	Gippsland	80
VIC/P49	Gippsland	80
NT/P66	Bonaparte	100
WA-368-P	Perth	50
AC/P23 (Crux)	Browse	85
WA-377-P (Echuca Shoals)	Browse	66
AC/P41	Browse	50

### OTHER INFORMATION

Nexus Energy Ltd is incorporated and domiciled in Australia and is a publicly listed Company limited by shares.

The name of the company secretary is Susan Robutti.

The address of the principal registered office in Australia is 134 Little Lonsdale Street, Melbourne, Victoria 3000. Telephone 03 9600 2500.

Register of securities are held at Computershare Investor Services Pty Ltd, Yarra Falls, 452 Johnston Street, Abbotsford VIC 3067 Australia. Telephone 1300 850 505.