Open Briefing with Mr Ian Tchacos

Please find attached a transcript of the Open Briefing conducted with Mr Ian Tchacos, Managing Director, Nexus Energy Limited.

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MD Update on Forward Strategy

Open Briefing with Managing Director Ian Tchacos

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In this Open Briefing®, Nexus Managing Director Ian Tchacos discusses

- the challenges in moving from explorer to producer at Longtom
- progress and outlook at the Crux liquids project
- recent appointees to the Nexus Board

Open Briefing interview:

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Nexus Energy Limited (ASX code: NXS) has now made the transition from explorer to producer. What was one of the challenges with getting the Longtom gas project in Bass Strait on-line? How are you using this knowledge to drive future value creation?

MD Ian Tchacos
We are very happy to have joined the ranks of oil and gas producers with the start-up of the Longtom gas project. Given that it is Nexus' first development, with a 100% interest and as operator; it is a very important milestone. There were many challenges to overcome but the important thing now is the asset is performing well.

Contractor selection is a very important element of delivering a successful project. One of the issues we have in Australia is that we don't always have as many options as we would like. For example with the Longtom project we were very reliant on the construction of a pipelay barge out of Singapore. Delivery of the barge took longer than we expected however we had no other choice at the time. Once the barge did arrive it proved highly efficient in the actual pipelay program. The loss of a dive support vessel at the final stages of the installation campaign also had a significant impact on the project resulting in an unnecessary delay in our installation program at a critical stage.

Looking forward, risk mitigation will be central to our decision making processes. Whilst we are an entrepreneurial company, we recognise that a different approach is required for project delivery where risk awareness and meticulous project management are critical for success.

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All gas from Longtom is sold to Santos under a long-term contract. Are you confident that flow rates will meet your stated cash flow objectives? What is the planned production profile of the project and what are you doing with the condensate being produced?

MD Ian Tchacos

The gas is sold under a long term contract, but it is under specific contract obligations in terms of a minimum 'take or pay' provision. That allows the purchaser - in this case Santos - to vary the rate based on seasonal demand within a particular contractual tolerance. In the long term we'd expect that the off-take from the project will meet the contracted annual production volume profile.

The condensate from Longtom is being sold to the Geelong refinery and, being a by-product of the gas process, the quantity will vary in–line with the amount of gas produced and the seasonal demand. Typically what we see in Victoria is that peak usage of gas is in the winter months and that's when you see the highest demand and production.

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What has been the total capex spend on the Longtom project to date? Are there any ongoing capital requirements?

MD Ian Tchacos

To date we've spent A$315 million on the project, since the Final Investment Decision. There is no go forward capital requirement other than the potential drilling of a third development well for the field. Right now, that's forecast somewhere between years three to seven from initial production. Of course timing of a third well will be determined based on the performance of the reservoir to maximise recoveries from the field and maintain sales gas deliverability.

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Proven (1P) Reserves at Longtom have increased 63% to 282 petajoules (PJ). Where has this increase come from? Does this impact your production expectations? Why is there no increase in 2P reserves and is there a possibility for further increases in the future?

MD Ian Tchacos

Over the past six months we have incorporated the results of the Garfish and Longtom-4 wells into our Longtom field model. This has resulted in an improved expected gas recovery based on better than previously expected reservoir properties encountered in some of the sands intersected by the Longtom-4 horizontal well. The increase in our 1P reserves is very important as it increases our confidence in our downside production volumes for the field.

Our 2P reserve estimate of 350 PJ is unchanged as it is limited to the contracted volume under our gas sales contract with Santos. There is the possibility for further increase since we also hold contingent resources of 71 PJ which would be in our 2P reserves estimates on the back of a firm sales contract.

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What progress have you made toward progressing the Crux liquids project in offshore Western Australia? What is your development timeline for the project?

MD Ian Tchacos

Now that Longtom is bedded down and we've recapitalised the company, our focus going forward is very much on the commercialisation of Crux. I think it is the company's biggest challenge, but also it is the company's greatest opportunity in generating significant value. The proposed Crux liquids project is technically well defined with all approvals in place to proceed with a development. We had intended to take Crux forward at the end of last year, but were tripped up by the GFC. Alongside the Crux sales process we have now commenced a detailed examination into financing options as we're seeing an increased appetite for funding good quality resource projects. We are also working to repackage some of the commercial elements to Crux, particularly in relation to potential FPSO contractors.

We'll also be considering related opportunities to Crux such as the near-field appraisal of Auriga, which could significantly enhance the project's value as a liquids project, but also take the gas reserves at Crux up to a threshold necessary for a LNG project. When we look at development timelines, 2013 is a reasonable date for first liquids, but that assumes we achieve a commercial outcome for Crux by the end of 2010 - that is what we will be working towards.

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If there is no Crux liquids project what are your options?

MD Ian Tchacos

If we do not develop the Crux liquids project we maintain the rights to the liquids in the permit forever, that is, the liquid rights do not revert to Shell in 2021. However, operatorship of the permit would revert to Shell and our Crux commercialisation option would be via a Shell operated gas project. Under that scenario, Nexus would contribute capital for the liquids recovery element of the project and receive the revenue for the liquids produced. In our view, this would most likely be via a floating LNG project, like what Shell has announced for the nearby Prelude field.

The benefit of participating in a LNG project is that without a time limit it would be possible to recover substantially more liquids reserves over a longer period of production. The downside is that Nexus would have less certainty and control over timing of the project. It is important to remember that under this scenario Nexus owns 85% of all the condensate reserves in the AC/L9 permit - this has substantial value. The liquids project remains our preferred development option given the incremental value from the nearer term cash flow; however, the Shell operated gas development option provides a backstop value for our substantial interest in the Crux asset.

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You recently raised A$74 million via a placement and rights issue. What is your current cash balance and development expenditure expectation over the medium-term? How will you manage your balance sheet requirements going forward?

MD Ian Tchacos

At the end of September we had around A$53 million in cash. Since then we have raised an additional A$43 million from a rights issue and reimbursed the A$35 million Longtom deposit. In terms of development expenditure, we're not planning any at the moment unless we were to achieve a sell down of Longtom. The immediate focus for the company is on the commercialisation of Crux – I believe that achieving this will result in a significant step change in the value of the company's currency and provide a solid platform for future growth.

We will continue to pursue organic growth opportunities through exploration, with drilling largely funded via farm-outs, and I think if we achieve a sale of Longtom we would consider other potential initiatives like the drilling of Auriga. That's all in the decision making mix at the moment.

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You have just appointed three new directors. What experience do they bring to the Nexus Board? How will you draw on this experience to drive shareholder value? Does this change the scope of your longer-term vision?

MD Ian Tchacos

The three new directors offer additional skills to our existing board as well as enhanced international exposure for the company. Ian Boserio has a technical background with over 25 years international experience with Shell focusing on exploration. His experience and industry networks will be of great assistance. Steve Lowden also has over 25 years industry experience right across the energy value chain with a strong track record of commercialising gas assets and executing asset sales – these are valuable skills given our Crux strategy. Symon Drake-Brockman joins us with a successful international finance background across both debt and equity markets. His network provides us with a wide range of potential new international investors, and he is also an investor himself holding 4.9% of Nexus' shares.

Our long-term vision remains consistent; Nexus holds a very significant reserve base. Obviously the company has been through the mill as a result of the financial crisis, but we've been able to retain our core assets. We believe Crux offers an excellent opportunity that will deliver significant value, with Longtom now online providing cash flow and underlying value, all of our focus is being directed to Crux. Upon the commercialisation of Crux we will move on to organic growth opportunities from our existing exploration portfolio.

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Thank you Ian.

For more information about Nexus Energy, visit www.nxs.com.au or call Ian Tchacos or Jodie Phillips (Investor Relations Manager) on +61 3 9660 2500.

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