

The background of the cover is a photograph of an industrial facility at night. The sky is a deep blue, transitioning from a lighter blue near the horizon to a dark blue at the top. The facility is illuminated by several bright lights, creating a strong contrast with the dark surroundings. The lights are arranged in a line across the middle ground, and there are some structures and pipes visible in the foreground. The overall scene is industrial and modern.

Nexus Energy Limited
annual report

2010

company profile

Nexus Energy Limited (ASX:NXS) is a Melbourne based, Australian Securities Exchange listed oil and gas company.

Nexus has assembled a portfolio of high quality assets with a substantial reserves base for a company of its size in two key regions in Australia: the Gippsland basin off the south-east coast of Victoria and the Browse basin, off the north-west coast of Western Australia. Key assets of the company are the Longtom gas project (Nexus 100%, production started in October 2009), Crux asset (Nexus 85%) and its portfolio of attractive appraisal and exploration permits.

Nexus' future involves the enhancement of its domestic gas assets and the commercialisation of its offshore gas and condensate assets in the Browse basin.

Nexus Energy Limited

ABN 64 058 818 278

The annual general meeting of Nexus Energy Limited will be held at:

11.00 am on 25 November 2010

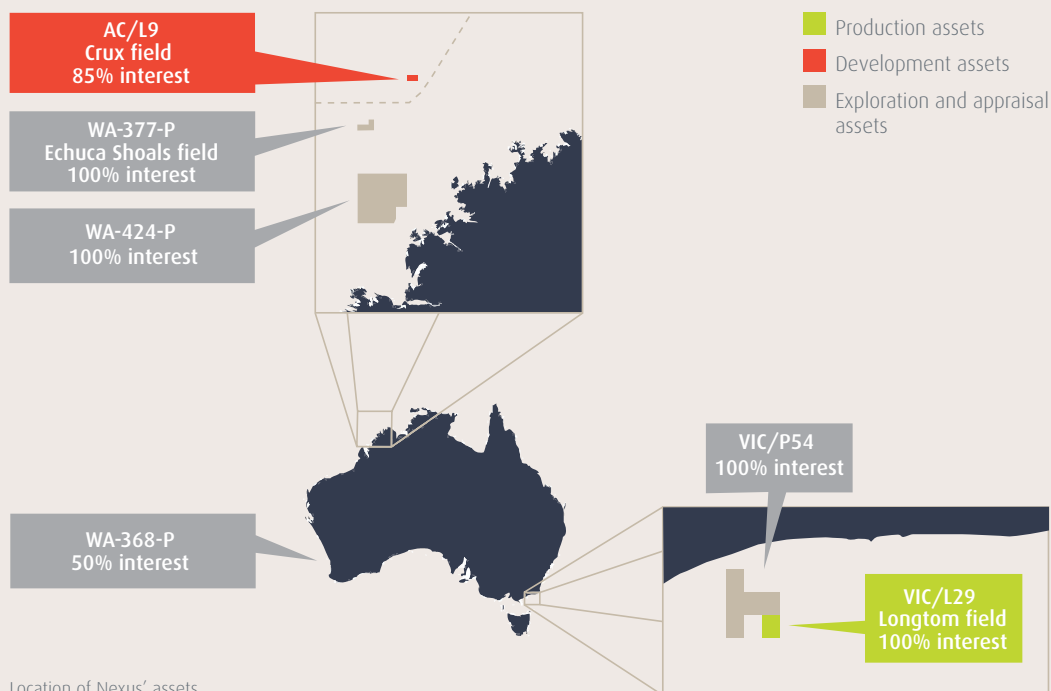
River Room 1 & 2

Crown Towers

Level 1

8 Whiteman Street

Southbank Victoria 3006



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- New managing director appointed with the required skills and experience to guide the company as it monetises its key assets and transitions from developer to producer.
- Board of directors enhanced with the appointment of key individuals with valuable experience and expertise.
- Successful and safe start-up of the Longtom gas project with no recordable lost time cases, severe safety or environmental incidents.
- Strengthened financial position through the securing of an equity line of credit for \$50 million and the announcement of an exchange offer for new notes, replacing the majority of existing subordinated notes.



chairman's review



We are cautiously optimistic about the future for Nexus.

The past year has been a period of substantive change for our company. Progress on our key assets, especially Crux, has taken longer than originally anticipated, due in part to the slow recovery in global financial markets. We did however achieve a significant milestone by safely bringing the Longtom gas project into production in October 2009.

The recent issues regarding mercury detected in the Longtom gas were unfortunate and unforeseen and have resulted in delayed cash flows for the company. We remain focused on returning Longtom to production as soon as possible and look forward to many years of production from the field.

We are cautiously optimistic about the future for Nexus. The new board of directors, including our new managing director, Richard Cottee, bring vast experience and a proven track record which has already enhanced Nexus' position. I am pleased to report that the new board is working as a cohesive team focused on unlocking the value of our current asset base and positioning the company for future growth. I am excited to remain chairman of Nexus and plan on stepping back into a non-executive role by the end of 2010 now that Richard Cottee is on board.

Attracting appropriate institutional investors is an important vote of confidence for the company. Our shareholder base has been strengthened by the addition of M&G Investments, one of the largest and long term focused investors in the UK with over £182 billion of funds under management. M&G Investments is a fully owned subsidiary of Prudential PLC, a global financial services group with significant operations in Asia, the United States of America and the United Kingdom with £290 billion of assets under management.

Our financial achievements over the past year have been significant. Our successful capital raising in late 2009 provided us with the financial strength to complete the development of Longtom. More recently, our arrangement with US-based investment fund YA Global Master SPV Ltd secured a \$50 million equity facility. The unique feature of this facility is its ability to provide security by giving funding flexibility on competitive terms at Nexus' sole option. In July 2010, we also announced that the majority of existing holders of our \$110 million subordinated notes facility had agreed to exchange their existing notes for new notes with delayed maturity dates and revised payment schedules, providing better alignment with our forecasted cash flows. The exchange was completed in August 2010 with 86% acceptances. Nexus will now be able to maximise its near-term cash flows to counter the effects of the interruption of production at Longtom with interest rate relief on the new notes until July 2011, enabling us to focus on our growth strategy.

During the year we also rationalised our portfolio to focus on the exciting Browse and Gippsland basins. It is our view that in the Browse, with our three permits (Crux AC/L9, Echuca Shoals WA-377-P and WA-424-P) we are the best placed of any mid-sized operator. We are confident that substantial progress will be made on Crux in the near term. Our 100% ownership of both WA-377-P and WA-424-P gives us the flexibility to develop our drilling targets and pursue a selective farm-out process as we improve our capital base. Our core Longtom asset is the heart of our Gippsland basin strategy. We remain committed to maximising the value of the Longtom asset by recommencing production as soon as possible and through further drilling in the area. We will also evaluate selective strategic acquisitions if they are clearly value enhancing and the right fit for Nexus. As our assets are monetised, at an appropriate value, we will reduce our equity interest and use proceeds to pay down debt.

I would personally like to thank all shareholders who have remained with Nexus through a challenging year. Our leaner corporate structure coupled with a strong board and focused management team promises to deliver an exciting year for Nexus.

Thank you

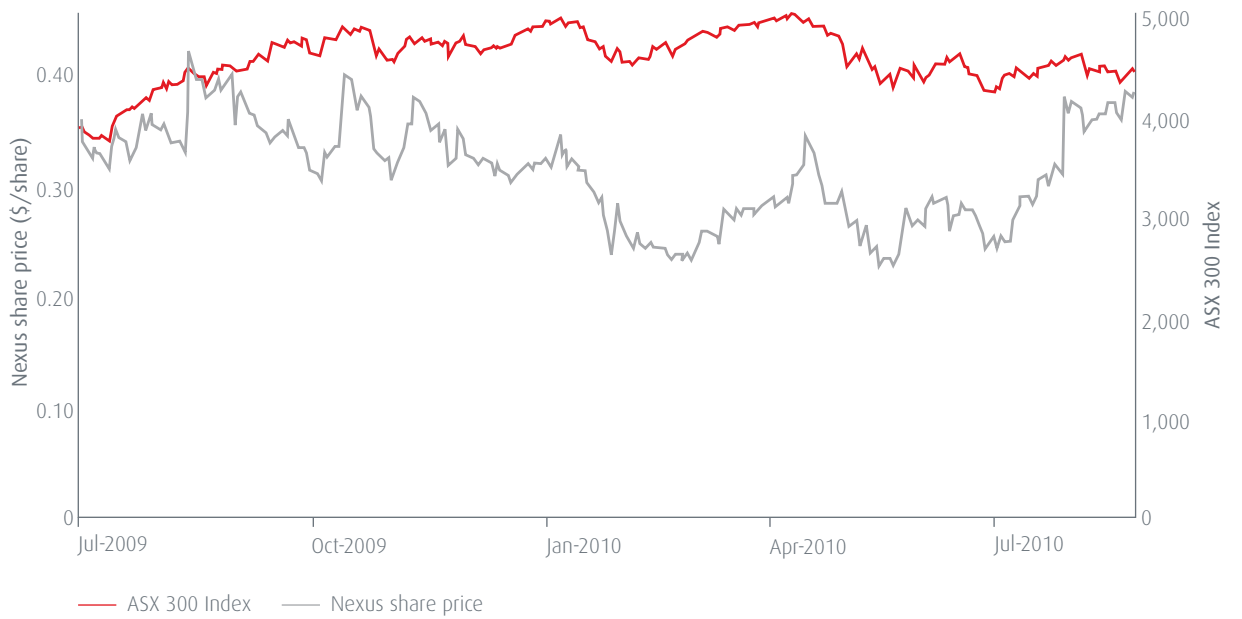
A handwritten signature in black ink, appearing to read 'Michael Fowler'. The signature is fluid and cursive, written over a white background.

Michael Fowler
Chairman



CruX-3 production test flare

Nexus share price performance (A\$ per share) July 2009 – August 2010



Source: Australian Securities Exchange.



rebuilding for growth

managing director's review



The coming year will be one of renewal and growth.

The past year has been a period in which latent structural defects of the past became obvious whether it be mercury in our gas at Longtom, Nexus' ability to identify and plan for risks, or the depth of our management and the ability of Nexus' balance sheet to provide for and support change. That said, the reason for my decision to join Nexus is the quality of its assets which with astute commercial management provide an undisputed platform for great shareholder growth. Being no stranger to the requirement to build solid shareholder value from difficult positions, I know that there is no substitution for getting the foundations right first rather than concentrating on more exciting yet essentially cosmetic changes.

In this regard, this year has been a year of exceptional structural change. The board has been renewed with exceptional talent being brought on board in the areas of exploration (Ian Boserio), production and commercial (Steven Lowden) and finance (Symon Drake-Brockman). Management has been strengthened with the appointment of Michael Maloney (with undoubted talent in construction and asset management) and my appointment having experience in growing companies from a weak base in difficult economic climates whilst adding unrivalled shareholder value.

The company's priority in the near term is to strengthen the balance sheet to enable the value of Crux to be unlocked thereby creating the platform for a sustained period of prosperity. This includes getting Longtom back into production as soon as possible. The restructuring of the notes was an important milestone in strengthening the balance sheet.

I would like to thank the Nexus team for their dedication and hard work and hope you will join us in relishing the challenges ahead as we move forward unleashing the fundamental wealth inherent in Nexus.

A handwritten signature in black ink, appearing to read 'R Cottee'. The signature is fluid and cursive, with a long horizontal stroke at the end.

Richard Cottee
Managing director

financial summary

The 2010 financial year represented a significant transition for the company as it evolved from a pure exploration company to one operating a producing asset. On 21 October 2009, the company initiated production of hydrocarbons from the Longtom gas project with 6.2 PJ of gas and 78,400 barrels of condensate sold in the 2010 financial year (prior to the production halt on 24 April 2010).

Nexus reported for the 2010 financial year a consolidated net loss before tax of \$51 million. This was primarily driven by interest and finance costs on its debt facilities (\$33 million) and the write down of the carrying value of VIC/P49 exploration permit (\$7 million), which were partly offset by a non cash gain on the unwind of restoration provisions of \$10 million.

During the year, the proposed sale of a 50% interest in the Longtom gas project and VIC/P54 exploration permit to AED Oil Limited did not complete. The \$35 million deposit received in the prior financial year was refunded in November 2009.

Nexus continued to draw against its project financing facility to progress the Longtom gas project. The Longtom finance facility of \$160 million was fully drawn during the financial year. Revenue of \$28 million was generated from hydrocarbon sales to Santos for the 2010 financial year.

Additional sources of funds came from a share placement in September 2009 raising \$31 million and a rights issue in October 2009 raising \$47 million. At year end Nexus had a cash balance of \$25 million and a balance sheet reflecting \$739 million in capitalised exploration production and development assets.

The company will continue to seek additional sources of funds as required through debt management and equity raisings and continue to seek industry respected participants to partner in its Crux liquids project and farm-in partners for its other exploration permits. Prior to the end of the financial year the company announced the establishment of a \$50 million equity line of credit with YA Global Master SPV Ltd with the restructure of the senior subordinated notes announced and completed in August 2010.

The following summarises some of the key items of financial year 2010:

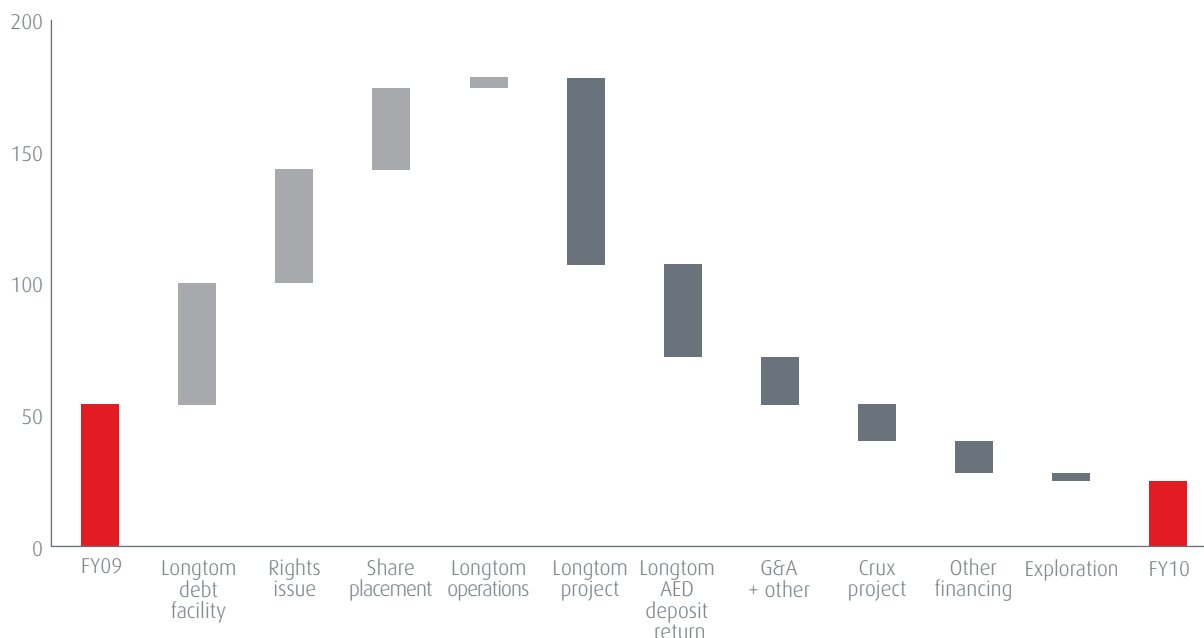
Profit and loss

- \$28 million in revenue generated from gas and condensate sales from Longtom
- \$51 million pre-tax loss primarily reflecting interest and finance costs

Balance sheet and cash flow

- cash balance of \$25 million
- company debt of \$290 million
- net assets of \$528 million
- investment in development exploration and production assets of \$90 million

Sources and allocation of cash (A\$ million) financial year 2010





Five year financial summary

Financial year		2010	2009	2008	2007	2006
Net profit/(loss) after tax	A\$ million	1.0	(50.4)	24.9	25.2	(7.4)
Revenue	A\$ million	28.6	85.4	65.3	52.5	1.0
Cash flow from operating activities	A\$ million	(26.1)	(14.1)	(12.4)	(4.6)	(4.7)
Cash and cash equivalents	A\$ million	24.9	55.4	223.8	41.1	42.5
Total assets	A\$ million	919.4	824.7	747.4	284.5	101.8
Borrowings	A\$ million	290.3	225.0	204.1	38.1	7.0
Issued capital	A\$ million	544.5	469.8	461.6	174.9	103.2
Total equity	A\$ million	528.6	451.6	463.1	179.6	79.3
Exploration and evaluation expenditure carried forward	A\$ million	16.8	31.1	254.7	147.3	24.4
Production and development expenditure carried forward	A\$ million	722.1	655.6	146.5	75.3	0.0
Basic earnings per share	cents	0.1	(7.8)	4.5	6.3	(2.7)
Issued capital	million shares	958.1	645.3	639.5	458.5	360.7



working together

health, safety, environment and community

The installation of the Longtom offshore infrastructure was delivered with very good health, safety, environment and community (HSEC) performance. It was a challenging year, but Nexus maintained its focus.

The 2010 financial year saw Nexus reach an important milestone with Nexus' first production from the Longtom gas field. The Longtom installation operations were challenging, but were delivered with only one medical treatment case, and three first aid cases. Nexus is now the operator of a number of regulatory plans and licences for the Longtom field ongoing production.

Significant focus and attention has been given to HSEC throughout the company during a busy year. Three noteworthy events were achieved in the reporting year:

- Achievement of 1,500 days lost time case (injury) free.
- Significant improvement in the total recordable injury frequency rate (TRIFR).
- All regulatory plans and licences in place for the Longtom installation and production operations.

Nexus has worked hard to develop a strong HSEC culture and this has been fundamental in delivering the strong HSEC performance. Overall Nexus saw a dramatic improvement the total recordable injury frequency rate (TRIFR). The TRIFR is the number of recordable injuries expressed as a frequency per million man-hours, using a 12 month rolling average. Nexus' TRIFR is on par with the Australian industry average. The company was shortlisted (one of three) for the APPEA safety awards, and was very proud in this regard to be able to compete with its much larger peers.

During the year Nexus had two reportable environmental incidents, both involving its Longtom operations. The first was a leak of approximately 2,000 litres of 'MEG' fluid from the control umbilical. MEG is a chemical commonly used by the petroleum industry for controlling valves and avoiding hydrate formation, and is considered to present minimal risk to the offshore marine environment. The second incident also involved a leak of MEG of small volumes and is under active investigation. Both incidents were reported to the regulatory authorities.

HSEC corporate governance

The HSEC committee of the board met during the reporting year to review performance, issues and strategy. The HSEC committee is a key element in demonstrating the

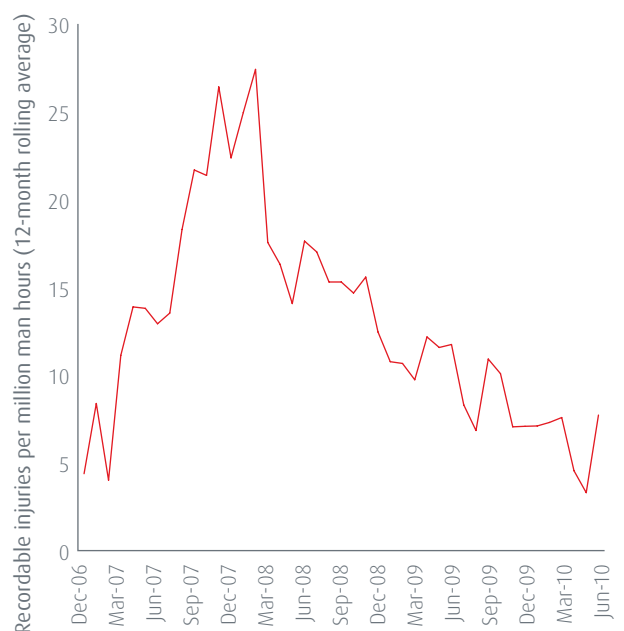
importance of properly addressing HSEC risks and establishing a positive culture. The committee has the following responsibilities:

- Support the board in meeting its HSEC related due diligence and corporate governance responsibilities.
- Provide specific recommendations to the board regarding HSEC aspects of the business.
- Ensure that the board understands Nexus' key HSEC issues and risks and that these are effectively incorporated into Nexus' strategy and planning processes.
- Promote the commitment to a strong HSEC culture such that it is an integral part of the organisation and its values.

Financial year 2011 HSEC focus areas

The international petroleum industry has recently seen two very significant incidents relating to drilling operations with the Timor Sea Montara oil spill and rig fire and the Gulf of Mexico Macondo oil spill and fatal fire incident. These events will have an effect in Australia in terms of stricter requirements for operators. Nexus will be paying close attention to the outcomes of these events, and responding appropriately.

Nexus safety performance – total recordable injury frequency rate (TRIFR – year 2009-10)



Note: Nexus total annual work-hours are less than one million per year (actual hours are around 70,000 per year). Therefore, the number of recordable injuries is calculated to be expressed as a frequency rate per million man hours.



energy for Victoria

Longtom asset

Nexus made the transition from an exploration company to a producing company with the successful start-up of the Longtom gas project in October 2009.

This major milestone was the culmination of almost four years of development from the date the gas sales agreement was signed with Santos in December 2005 and two and a half years from the date that the Longtom field development project was sanctioned in 2007.

The Longtom field development involves the production of gas through two horizontal subsea wells tied-back to an upgraded Santos operated and owned Patricia-Baleen onshore gas plant. Gas is delivered into the Eastern Gas Pipeline connecting the Melbourne and Sydney gas markets and condensate is trucked and sold to the Shell refinery in Geelong.

Cumulative production from Longtom of 6.2 PJ of gas and 78,400 barrels of condensate were sold to Santos during the 2010 financial year.

Gas production ceased on 24 April 2010 when low levels of mercury were detected in the gas, rendering the gas off-specification. Production was halted until mercury removal facilities are installed at the onshore gas plant. These works are underway and gas production is targeted to resume by 4Q 2010.

Monitoring of the reservoir pressure during the production shut down has indicated that the reservoir distribution may be more complex than previously modelled and therefore the originally planned Longtom-5 development well may

be brought forward. Nexus also believes that an earlier drilling date may improve data in the Gippsland region for drilling additional nearby prospects.

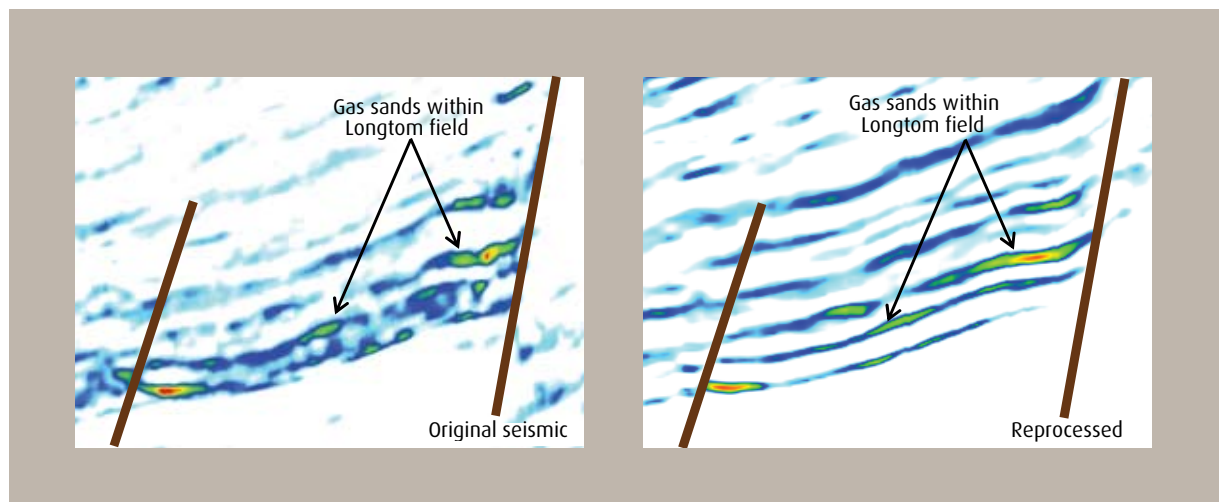
During the past year, improvements in the quality of the 3D seismic data over the Longtom field have been achieved through a detailed reprocessing effort incorporating the latest processing techniques. The new data will facilitate a clearer understanding of the distribution of the reservoir sands within the field.

Reconciliation of the reservoir pressure behaviour with field mapping coupled with further data from the undeveloped shallower sands on Longtom-3 is ongoing. Results from this study are expected in 1Q 2011. This data will be used as the basis for a review of the full field development plan and an update to the reserves.

Exploration potential

Interpretation of the reprocessed 3D seismic data over the Longtom field and the surrounding area has indicated the presence of prospects to the south and west of the Longtom field. Longtom South lies in the fault block immediately south of the Longtom field and has a series of potential oil and gas targets in the Intra Latrobe and Golden Beach formations.

Longtom West has been mapped as an extension of the Longtom field structural trend into the western part of the VIC/P54 permit (Nexus 100%). The presence of seismic amplitudes at Longtom West are similar to those associated with gas bearing reservoirs at the Longtom field. Discoveries at either of these prospects could be tied into the Longtom production facilities. Nexus will evaluate these targets in the next year.

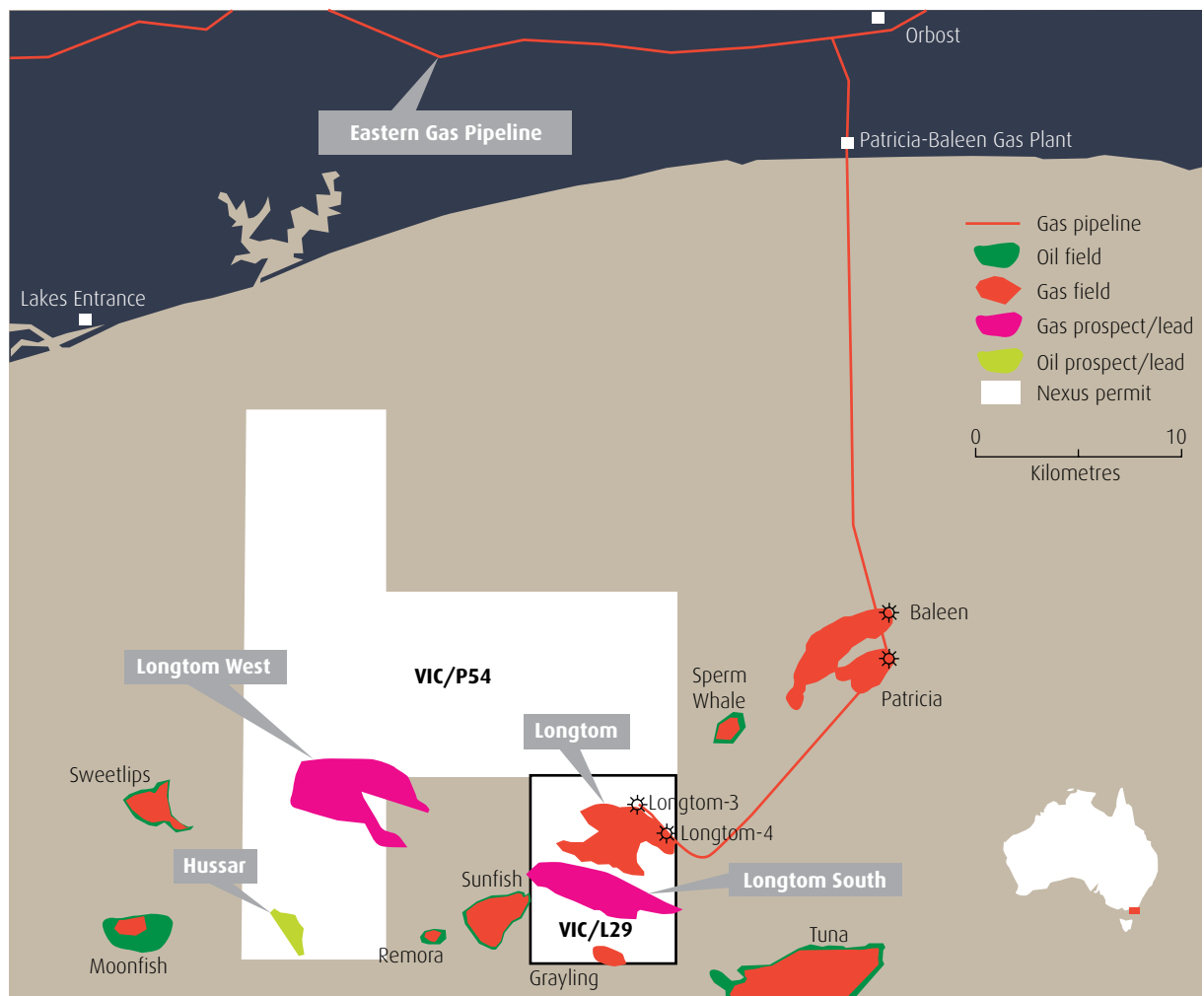


3D seismic data over the Longtom field has been improved through a detailed reprocessing effort

Longtom asset continued

Gippsland exploration prospects and leads

Basin	Permit	Prospect/lead	Nexus %	Oil/gas	Risk	Gross resource potential
Gippsland	VIC/L29	Longtom South	100	Oil/gas	Medium	10 MMbbl/200 Bcf
	VIC/P54	Longtom West	100	Gas	Low	200 Bcf
		Hussar	100	Oil	High	>10 MMbbl



Location of Longtom gas project



a producing asset

A photograph of an offshore oil rig at sunset. The rig is silhouetted against a bright orange and yellow sky. A large crane is visible on the rig. The ocean is in the foreground, and a small boat is visible on the horizon. The text "enormous potential" is overlaid on the right side of the image.

enormous potential

Crux asset and Browse basin

Browse basin

Over the past few years, the energy industry has witnessed the emergence of the Browse basin, off the north-west coast of Australia, on to the world stage. Arguably, it is now one of the more exciting regions in the world for gas project developments. The Browse basin has reserves in excess of 37 Tcf and 1.2 billion bbl of liquids and up to five multi-billion dollar LNG projects are being proposed to develop these resources. If these projects are constructed, they will have the potential to double Australia's current LNG output. Over the next 12 months, a number of the projects are expected to reach final investment decisions (FID), heralding a new age for the basin and for Australian resources.

The challenges associated with developing the resources are well known and should not be underestimated. Resources discovered by Woodside in 1971 and 1979 (Torosa and Brecknock) have languished for 40 years without significant development progress. Challenges associated with the Basin's remote location, distance from shore, CO₂ content, environmental permits, and native title issues have all contributed to the long time frame between discovery and development. However, over the past few years, many companies, including Nexus, have pushed forward ambitious drilling plans and are now contemplating project development options. The attractiveness of world-scale resource volumes, good quality reservoir parameters, and the relatively unexplored nature of the basin will keep activity and interest high over the next few years.

A string of successful exploration wells in the Browse basin over the last 12 months has further highlighted the enormous gas potential of the basin and underscored the growing importance of the region as a world class LNG province. New discoveries were made at Concerto-1 and Burnside-1 in the central part of the basin, close to Nexus permits WA-377-P and WA-424-P, while both the Poseidon-1 and Kronos-1 wells made significant gas discoveries further to the north-west.

The role of the government is crucial to the development of the basin. Jointly, the agencies of the Commonwealth as well as the individual governments of Western Australia and Northern Territories have shown increasing interest in the status of resources that should be developed to benefit all stakeholders, from the local communities to the wider population, through taxes and employment opportunities. Over the past year, the authorities have taken an increasingly strict stance over conditions for renewal of retention permits. This marks a major shift from earlier policies which allowed resources to remain stagnant for many decades. As a mid-sized, independent Australian company, Nexus supports this pragmatic approach and is committed to progress its Browse assets.

Nexus has an enviable position in the Browse. The company holds high equity positions in three licences, with 85% of the AC/L9 Production Licence which contains the Crux field, a 100% interest in WA-377-P containing the Echuca Shoals gas discovery and a 100% interest in WA-424-P containing the Gwydion oil discovery.

Over the next year, Nexus will pursue efforts that will alter the status quo of its exciting Browse assets.

Crux (AC/L9)

The Crux field is located in Production Licence AC/L9, in the north-east corner of the basin. The licence was granted in 2008 and Nexus holds an 85% interest in the hydrocarbon liquids within the licence and is also operator of the licence. The field is located 200 kilometres off the north-west coast of Western Australia in approximately 170 metres of water.

Nexus remains committed to the development of the liquid resources in the Crux field. The base concept remains a liquids stripping project with subsea production and injection wells tied back to a floating production storage and offloading vessel (FPSO). Over the past few years, Nexus has completed appraisal and engineering studies for this proposal. This development concept is financially attractive and overcomes the hurdles of distance from shore and onshore permitting. To move the project forward, new partners may need to be introduced to the venture. Unfortunately, due to a variety of factors, including the global financial crisis and Crux-specific commercial issues, this is yet to be achieved.

Over the past year, Nexus has completed further geological and geotechnical studies confirming the field characteristics, evaluated alternative development concepts and technologies, and developed innovative commercial structures that the company expects will result in tangible progress towards FID in the next year.

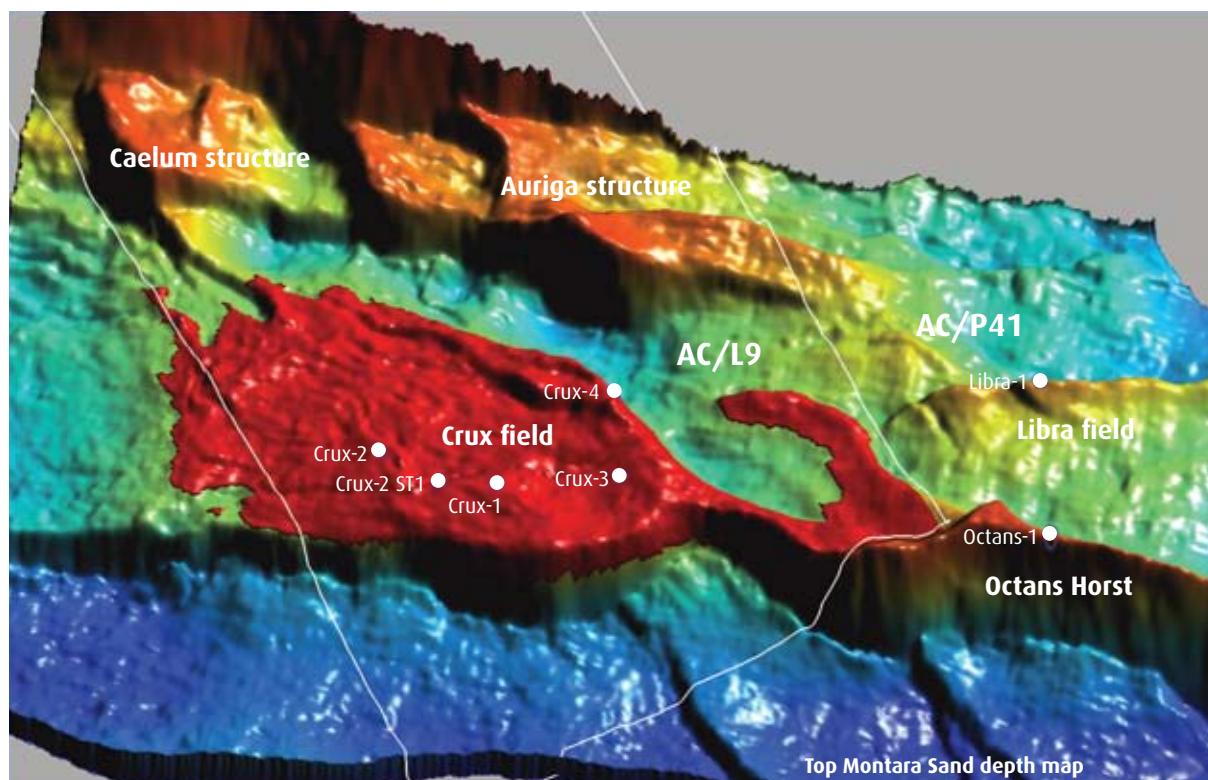
Echuca Shoals (WA-377-P)

The potential of the Echuca Shoals gas discovery in WA-377-P continues to be a major focus for Nexus with recent studies having identified exciting exploration prospects in deeper targets below the gas sands identified in the discovery well, Echuca Shoals-1. An attractive exploration prospect (Backmaker) has been identified along trend and north-east of Echuca Shoals. The recent Burnside discovery offers encouragement for this type of trap. Another prospect, Mashmaker, has been delineated on 3D seismic data as a separate closure in the northern part of the permit. It is an attractive and relatively low risk Plover Formation gas play.

Crux asset and Browse basin continued

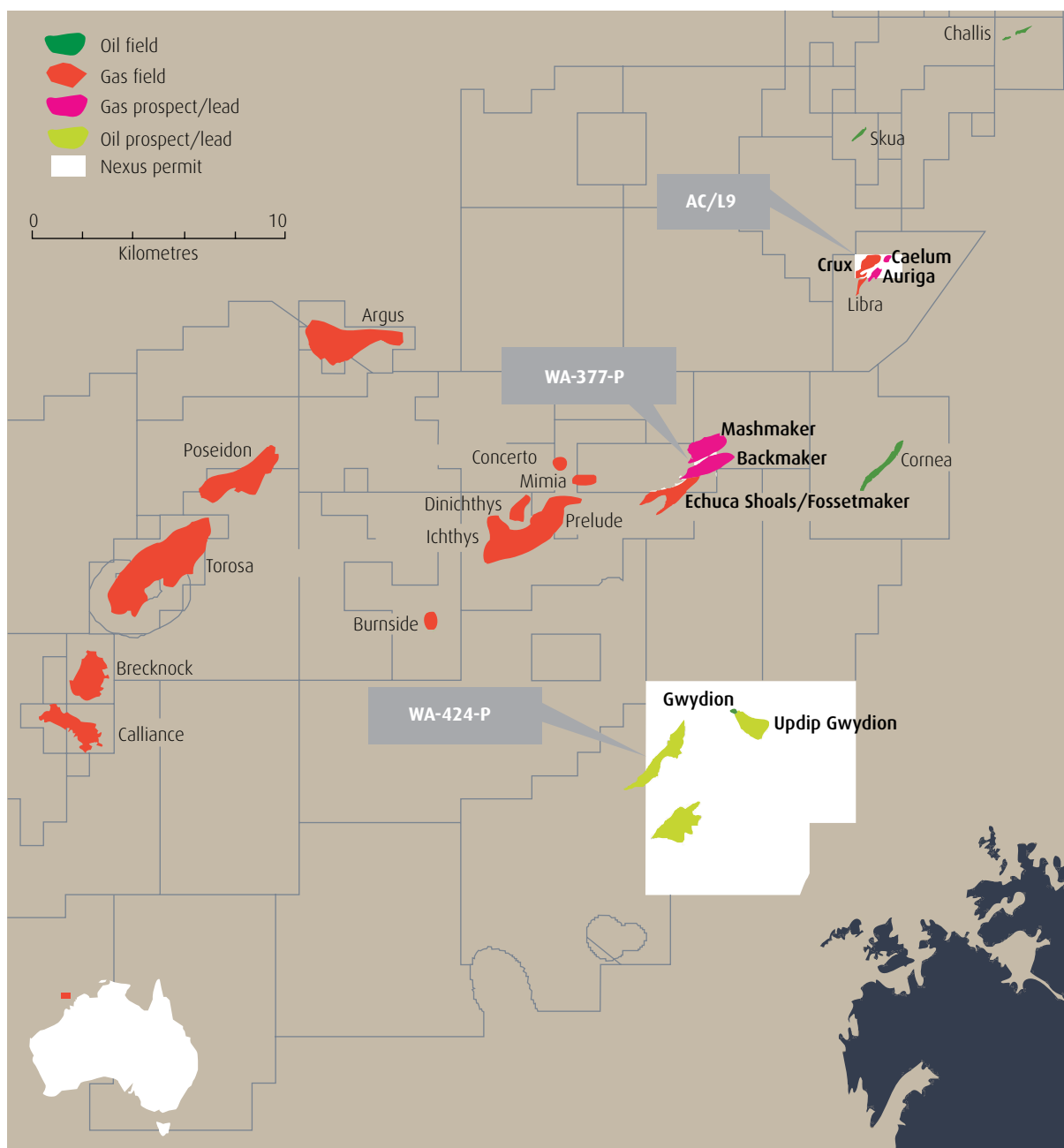
Browse and Perth basins exploration prospects and leads

Basin	Permit	Prospect/lead	Nexus %	Oil/gas	Risk	Gross resource potential
Browse	AC/L9	Auriga	85	Condensate	Low	45 MMbbl
		Caelum	85	Condensate	Low	25 MMbbl
	WA-377-P	Echuca Shoals/Fossetmaker	100	Gas/condensate	Low	0.5 Tcf/30 MMbbl
		Backmaker	100	Gas/condensate	High	1.8 Tcf/108 MMbbl
		Backmaker Deep	100	Gas/condensate	High	> 5 Tcf/100 MMbbl
		Mashmaker	100	Gas	Medium	>0.3 Tcf
	WA-424-P	Gwydion/Updip Gwydion	100	Oil	Medium	>10 MMbbl
Perth	WA-368-P	Yngling	50	Oil	Medium	90 MMbbl



3D perspective image of the Crux field within AC/L9

Nexus is the best placed mid-sized operator in the Browse basin



Location of AC/L9, WA-377-P and WA-424-P permits in the Browse basin

board of directors



Michael Fowler

B.Bus (Acc), Finsia (Fellow)

Executive chairman

Michael Fowler was a founding director of Nexus and has been a board member since the company listed on the ASX in September 2000. Mr Fowler has over 20 years experience in the financial services sector. He began his career working for chartered accounting firms in Melbourne before leaving to join a private family investment group in the mid 1990s, where he furthered his career by joining their board. Mr Fowler left that group to start the Treasury Group of Companies, a funds management company, with the Victor Smorgon Group in 1999. That business grew to have some \$1.2 billion of funds under management and was taken over by an ASX200 financial services company in early 2005. Mr Fowler established the Maximum Capital Group of Companies which specialises in property finance and related investment products and services. Mr Fowler, formerly a non-executive director, was appointed chairman on 7 August 2007 and executive chairman on 28 May 2009.



Richard Cottee

B. Arts, Bachelor of Laws (Hons)

Managing director

Richard Cottee commenced on 3 May 2010 as chief executive officer and was appointed managing director on 22 July 2010. Mr Cottee's previous role was at Queensland Gas Company (QGC) where he held the position of managing director from 2002 until 2008 when the company was taken over in a friendly acquisition by the BG Group. Over this period QGC grew from a market capitalisation of around \$20 million to an ASX100 company with a market capitalisation of \$5.7 billion. Prior to his role at QGC, Mr Cottee worked in the utility sector as vice president and managing director of NRG Energy Ltd in London, and chief executive of CS Energy Ltd in Brisbane. Mr Cottee is a lawyer by background and commenced his career with Allens Arthur Robinson before holding commercial positions with Itochu and Santos. He also spent six years with Freehills, Allens & Mallesons covering the resource sector and six years as an executive director of Cyprus Australia Coal.



Michael Arnett

B.Comm (Acc & Fin), Bachelor of Laws

Non-executive director

Michael Arnett was appointed to the board of Nexus on 28 May 2009. Mr Arnett has more than 20 years experience in capital raising, corporate, commercial, banking and finance, mergers and acquisitions and securities. He is a consultant to and former partner of international law firm Deacons predominantly consulting in the mining, resources and oil and gas areas. Current directorships held by Mr Arnett include Archipelago Resources Plc, Cloncurry Metals Limited, New Guinea Energy Limited and NRW Holdings Limited.



Steven Lowden

B.Sc, Master of Petroleum Engineering

Non-executive director

Steven Lowden was appointed to the board of Nexus on 18 November 2009. Mr Lowden has over 25 years experience in the international oil and gas industry across exploration, development, production and gas liquefaction. Throughout his career Mr Lowden has worked in the North Sea, Middle East, South East Asia and North Africa. Mr Lowden has previously held positions with Premier Oil plc, including chief petroleum engineer, general manager for development and production and an executive director of the Board, and, more recently at Marathon Oil Company as president of Marathon International, head of corporate business development and an officer of the company. Since late 2005 Mr Lowden has been involved with two private energy businesses focusing on assets in Africa.



Ian Boserio

B.Sc Hons (Geophysics), B.Sc (Geology)

Non-executive director

Ian Boserio was appointed to the board of Nexus on 18 November 2009. Mr Boserio has more than 25 years international experience in the oil and gas business focusing predominantly on exploration. He has spent the majority of his career with Shell including roles in Australia, North Sea, Middle East, India and Indonesia, and five years with Woodside as the Australian exploration manager. Mr Boserio's last position at Shell was as the Australian new business manager, prior to that he led the Shell Australia and New Zealand exploration team growing its gas portfolio for LNG development.



Symon Drake-Brockman

B.Com

Non-executive director

Symon Drake-Brockman was appointed to the board of Nexus on 18 November 2009. Mr Drake-Brockman has over 20 years of finance experience covering both the debt and equity markets. He was formerly chief executive officer of RBS Global Banking and Markets in the Americas and chief executive officer of RBS Greenwich Capital, global head of RBS' Debt Markets division and board member of RBS Global Banking and Markets. Mr Drake-Brockman previously held senior positions with ING Barings and JP Morgan in London, New York, Tokyo and Hong Kong.

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directors' report

for the year ended 30 June 2010

The Directors present their report of Nexus Energy Limited ("Company") and subsidiaries ("Group") for the financial year ended 30 June 2010 and the independent audit report thereon.

Board of directors

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

Michael Fowler B.Bus (Acc), Finsia (Fellow)

Executive chairman

Michael Fowler was a founding Director of Nexus and has been a Board member since the Company listed on the ASX in September 2000. Mr Fowler has over 20 years experience in the financial services sector. He began his career working for chartered accounting firms in Melbourne before leaving to join a private family investment group in the mid 1990s, where he furthered his career by joining their board. Mr Fowler left that group to start the Treasury Group of Companies, a funds management company, with the Victor Smorgon Group in 1999. 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 2005. Mr Fowler established the Maximum Capital Group of Companies which specialises in property finance and related investment products and services. Mr Fowler, formerly a Non-Executive Director, was appointed Chairman on 7 August 2007 and Executive Chairman on 28 May 2009.

Richard Cottee B. Arts, Bachelor of Laws (Hons)

Managing director – appointed 22 July 2010

Richard Cottee commenced on 3 May 2010 as Chief Executive Officer and was appointed Managing Director on 22 July 2010. Mr Cottee's previous role was at Queensland Gas Company ("QGC") where he held the position of Managing Director from 2002 until 2008 when the company was taken over in a friendly acquisition by the BG Group. Over this period QGC grew from a market capitalisation of around \$20 million to an ASX100 company with a market capitalisation of \$5.7 billion. Prior to his role at QGC, Mr Cottee worked in the utility sector as Vice President and Managing Director of NRG Energy Ltd in London, and Chief Executive of CS Energy Ltd in Brisbane. Mr Cottee is a lawyer by background and commenced his career with Allens Arthur Robinson before holding commercial positions with Itochu and Santos. He also spent six years with Freehills, Allens & Mallesons covering the resource sector and six years as an Executive Director of Cyprus Australia Coal.

Michael Arnett B.Comm (Acc & Fin), Bachelor of Laws

Non-executive director

Michael Arnett was appointed to the Board of Nexus on 28 May 2009. Mr Arnett has more than 20 years experience in capital raising, corporate, commercial, banking and finance, mergers and acquisitions and securities. He is a consultant to and former partner of international law firm Deacons predominantly consulting in the mining, resources and oil and gas areas. Current directorships held by Mr Arnett include Archipelago Resources Plc, Cloncurry Metals Limited, New Guinea Energy Limited and NRW Holdings Limited.

Steven Lowden B.Sc, Master of Petroleum Engineering

Non-executive director – appointed 18 November 2009

Steven Lowden was appointed to the Board of Nexus on 18 November 2009. Mr Lowden has over 25 years experience in the international oil and gas industry across exploration, development, production and gas liquefaction. Throughout his career in the oil industry Mr Lowden has worked in the North Sea, Middle East, South East Asia and North Africa. Mr Lowden has previously held positions with Premier Oil plc, including Chief Petroleum Engineer, General Manager for Development And Production and an Executive Director of the Board, and, more recently at Marathon Oil Company as president of Marathon International, head of corporate business development and an officer of the company. Since late 2005 Mr Lowden has been involved with two private energy businesses focusing on assets in Africa.

directors' report continued for the year ended 30 June 2010

Ian Boserio B.Sc Hons (Geophysics), B.Sc (Geology)

Non-executive director – appointed 18 November 2009

Ian Boserio was appointed to the Board of Nexus on 18 November 2009. Mr Boserio has more than 25 years international experience in the oil and gas business focusing predominantly on exploration. He has spent the majority of his career with Shell including roles in Australia, North Sea, Middle East, India and Indonesia, and five years with Woodside as the Australia exploration manager. Mr Boserio's last position at Shell was as the Australian new business manager, prior to that he led the Shell Australia and NZ exploration team growing its gas portfolio for LNG development.

Symon Drake-Brockman B.com

Non-executive director – appointed 18 November 2009

Symon Drake-Brockman was appointed to the Board of Nexus on 18 November 2009. Mr Drake-Brockman has over 20 years of finance experience covering both the debt and equity markets. He was formerly Chief Executive Officer of RBS Global Banking and Markets in the Americas and Chief Executive Officer of RBS Greenwich Capital, Global head of RBS' Debt Markets division and Board member of RBS Global Banking and Markets. Mr Drake-Brockman previously held senior positions with ING Barings and JP Morgan in London, New York, Tokyo and Hong Kong.

Ian Tchacos B.Sc (Mech Eng), Grad. Dip. (Chem Eng)

Managing director – ceased 21 December 2009

Ian Tchacos was appointed Chief Executive Officer of Nexus on 15 July 2002 and was subsequently appointed Managing Director on 24 November 2004. Mr Tchacos previously held positions with Amalgamated Scottish Oil Limited, Hardy Oil and Gas PLC, Emperor Bay Petroleum Pty Ltd and Bond Corporation Ltd. Mr Tchacos ceased as Managing Director on 21 December 2009.

Alastair Haydock B.Sc Hons

Non-executive director – ceased 31 December 2009

Alastair Haydock was appointed to the Board of Nexus on 26 July 2001. Mr Haydock previously held positions with Petroz NL (Exploration Manager), Santos Limited (Manager – Queensland Exploration & Development), Laurel Bay Petroleum Limited (General Manager) and Occidental Petroleum (Manager – Petroleum Joint Ventures). Mr Haydock ceased as a Non-Executive Director on 31 December 2009.

Neil Ferguson B.Sc Hons (Mech Eng)

Non-executive director – ceased 24 February 2010

Neil Ferguson was appointed to the Board of Nexus on 17 May 2007. Mr Ferguson held senior engineering and management positions with British Petroleum, Royal Dutch Shell, Mobil, Woodside and BHP Billiton Petroleum. Mr Ferguson ceased as a Non-Executive Director on 24 February 2010.

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 actively involved with the listing of Nexus in 2001 and was Company Secretary at that time.

directors' report continued

for the year ended 30 June 2010

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*		Audit		Remuneration & performance		Nomination	
	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended
Michael Fowler	9	9	-	-	-	-	2	2
Michael Arnett	9	9	2	2	1	1	2	2
Steven Lowden	5	5	-	-	-	-	1	1
Ian Boserio	5	5	-	-	1	1	1	1
Symon Drake-Brockman	5	5	1	1	-	-	1	1
Ian Tchacos	4	4	-	-	-	-	1	1
Alastair Haydock	5	5	1	1	-	-	2	2
Neil Ferguson	5	5	1	1	-	-	2	2

* As detailed in the Statement of Corporate Governance the Risk Management Committee members are the Board of Directors. All matters relating to the Risk Management Committee form part of the meetings held by the Board of Directors. The Health, Safety, Environment and Community Committee is a sub Committee of the Board and all matters relating to this committee have been included as part of the Meetings of the Board of Directors.

Principal activities

The principal activities of the Company during the course of the financial year were the investment in energy related projects. During the year the Group initiated production of hydrocarbons from the Longtom gas project. Other than the initiation of production from the Longtom gas project, no other significant changes in the nature of the principal activities of the Company occurred during the financial year.

Operating results

The consolidated profit/(loss) after income tax of the Group for the financial year ended 30 June 2010 was \$1,031,157 (2009: loss \$50,420,139).

Financial position

The net assets of the Group have increased by \$76,986,257 from 30 June 2009 to \$528,582,773 as at 30 June 2010.

Significant changes in state of affairs

During the financial year the Group initiated production of hydrocarbons from the Longtom gas project.

As noted in the Financial Report for the financial year ended 30 June 2009, the conditional sale of a 50% interest in the Longtom gas project did not complete and, as a result, Nexus refunded the \$35 million deposit to AED in November 2009.

Future developments, prospects and business strategies

Likely developments, future prospects and business strategies for the operations of the economic entity and the expected results of those operations have not been included in this report as the Directors believe, on reasonable grounds, that the inclusion of such information would be likely to result in unreasonable prejudice to the consolidated Group.

Review of operations – production segment

Longtom gas project (Nexus 100%)

VIC/L29 – Gippsland basin, Victoria

Development of the Longtom gas project was successfully completed during the year with gas production commencing from the Longtom field on 21 October 2009. Cumulative production of 6.2PJ of gas and 78,400 barrels of condensate have been sold to Santos in accordance with Nexus' gas sales agreement with Santos for the financial year.

On 23 April 2010, Nexus advised the market that production was halted from the Longtom field after routine gas testing detected low levels of mercury in the produced gas. Nexus is working with Santos on the installation of mercury removal equipment at the onshore Patricia Baleen gas plant. The equipment is to be installed by late September 2010 with Nexus targeting gas production to resume at that time.

Monitoring of the reservoir pressure during the production shut down has indicated that the reservoir distribution may be more complex than previously modelled and therefore the originally planned Longtom-5 development well may be brought forward. Nexus also believes that an earlier drilling date may improve data in the Gippsland region for drilling additional nearby prospects.

Reconciliation of the reservoir pressure behaviour with field mapping is ongoing coupled with further data on the undeveloped 400 sands on Longtom-3, with the results being anticipated around March 2011. This will be used as the basis for a review of the full field development plan and an update to the reserves which is expected to be available after March 2011.

On 11 September 2009, Nexus advised that, due to the delay to the completion of the Longtom gas project, certain conditions which were required to be satisfied by 15 September 2009 would not be satisfied for the conditional sale to AED of a 50% interest in Longtom exploration permit VIC/P54 for \$155 million (announced 28 May 2009). As a result, in November 2009 Nexus refunded the \$35 million deposit to AED and retained 100% interest in the Longtom gas project and exploration permit VIC/P54.

Review of operations – development segment

Crux asset (Nexus 85%)

AC/L9 – Browse basin, Western Australia

Nexus holds an 85% interest in the liquids (light oil) in AC/L9 which may be recovered via:

- a liquids project prior to 2021; or alternatively
- in circumstances where the liquids joint-venture unanimously decides not to progress with a liquids stripping project and notifies Shell of the same prior to 31 December 2020, via a possible Shell operated gas and liquids project, in which case the 2021 end date does not apply.

During the year, Nexus has pursued both the liquids development option and the potential for participation in a Shell operated gas and liquids project. Whilst it was recognised that the Crux liquids project would generate earliest cash flow for Nexus, announcements during the year regarding floating LNG (FLNG) technology in Australia highlighted the potential for FLNG to accelerate a gas and liquids development at Crux.

Nexus has been in discussions with a build/own/operate ("BOO") contractor for the provision of an FPSO for the Crux liquids project. In accordance with the AC/L9 Production Licence terms, recovery operations are required on or before 23 February 2014. The BOO contractor has confirmed the project's viability and indicated its capacity to provide funding from its own third party financiers subject to standard commercial terms including confirmation that the Crux Title arrangements are adequate so as to provide a bankable production and return period of ten years. This would require an extension of the 31 December 2020 hand over date and negotiation with the other legal and equitable title holders in Crux.

Review of operations – exploration segment

Echuca Shoals gas discovery (Nexus 100%)

WA-377-P – Browse basin, Western Australia

The Echuca Shoals gas discovery in WA-377-P has the potential to contain up to 3Tcf of gas in place with associated condensate within Tithonian aged sands. Geological studies also indicate the presence of a deeper exploration target which has the potential to add another 6Tcf of gas in place. Additional leads in a deeper and older reservoir section have also been identified on 3D

directors' report continued

for the year ended 30 June 2010

seismic in the north-east of the permit. Shell formally withdrew from the permit during the year leaving Nexus with a 100% interest. Nexus is planning to complete further evaluation of the prospects in the permit prior to pursuing an equity farm-out to fund drilling activity tentatively targeted for the 2011 calendar year.

WA-424-P (Nexus 100%)

Browse basin, Western Australia

Technical evaluation of WA-424-P continued during the year with the intention of farming out an interest in the permit. The oil potential of the permit is confirmed by the small Gwydion oil field which was discovered in 1995. Several large stratigraphic leads have been identified in the permit and work is underway to define drill ready prospects.

VIC/P54 (Nexus 100%)

Gippsland basin, Victoria

Reprocessing of 3D seismic data over the Longtom field and the eastern part of VIC/P54 was completed and interpretation of this data is underway to determine the potential for the Longtom trend to extend further east. A gas discovery here could be tied into the nearby Longtom production facilities.

WA-368-P (Nexus 50%)

Perth basin, Western Australia

Activity continued during the year to farm-out an interest in WA-368-P to fund drilling of the Yngling exploration prospect with a mean unrisked resource of 90MMbbl. Nexus is seeking to farm-out equity in the permit prior to drilling the prospect. The company is investigating the availability of a suitable rig to drill the permit. A six month permit extension has been awarded.

VIC/P49 (Nexus 0%)

Gippsland basin, Victoria

Nexus performed further internal technical work on the permit which did not eventuate in the identification of viable drilling prospects. As a result an application was made to the Designated Joint Authority to suspend and extend the year 6 work program, and to vary the work program. The application was not granted and the permit has reverted to the government. Nexus has elected to maintain good standing under the guidelines issued by the Designated Joint Authority.

NT/P66 (Nexus 0%)

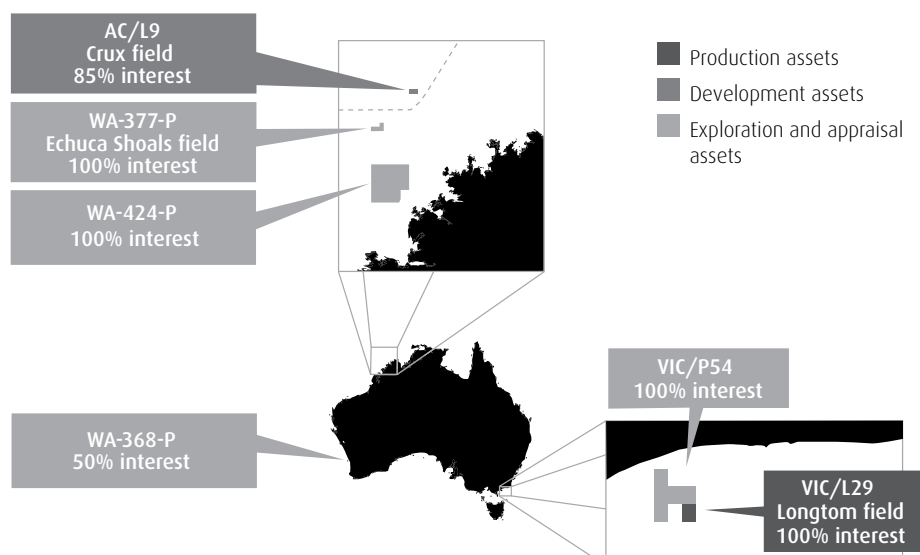
Bonaparte basin, Northern Territory

Nexus has elected to withdraw from the permit having fulfilled all work commitments.

New ventures

The Company continued to evaluate a number of oil and gas opportunities during the year.

Location of Nexus' assets



directors' report continued

for the year ended 30 June 2010

Dividends

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

Events subsequent to balance date

Since the end of the financial year, the significant events referred to in Note 33 to the Financial Report have occurred. Except for the matters referred to in Note 33, 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 periods subsequent to 30 June 2010.

Remuneration report

This report details the nature and amount of remuneration for each Director and the other key management personnel of Nexus Energy Limited. This section of the Directors' Report is prepared in accordance with Section 300A of the Corporations Act 2001.

Remuneration policy

The remuneration policy of Nexus has been designed to align Director and other key management personnel compensation with shareholder and business objectives by providing a fixed remuneration component as well as offering specific short term and long term incentives based on key performance areas affecting the Group's financial results. The Board 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 Directors and other key management personnel of the Group is as follows:

- The remuneration policy, setting the terms and conditions for the Executive and Non-Executive Directors and other senior executives, was developed 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, equity-based remuneration (within thresholds set by the Board) and termination payments.
- Reviews of executive packages are performed annually by reference to the Group's performance, executive performance and comparable information from industry sectors.
- All executives are eligible to participate in the Executive Director and Employee 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, currently at 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 a binomial option pricing model.

The Board policy is to remunerate Non-Executive Directors at market rates for time, commitment and responsibilities. The remuneration amounts paid to Non-Executive Directors is reviewed 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. 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. The Company's earnings have not been included in the assessment of the remuneration of Directors or other key management personnel.

directors' report continued for the year ended 30 June 2010

Employment details of directors and key management personnel

The following table provides employment details of persons who were, during the financial year, Directors and members of key management personnel of the Consolidated Group, and to the extent different, the five group executives receiving the highest remuneration. Also illustrated are the proportion of remuneration that was performance and non-performance based and the portion of remuneration received in the form of options.

Directors	Position	Contract details
Michael Fowler	Executive Chairman	Appointed as Non-Executive Director in September 2000, Non-Executive Chairman on 7 August 2007 and Executive Chairman on 28 May 2009 for a minimum one year term. Four week notice period is required to terminate and is entitled to three years aggregate remuneration on termination or resignation.
Michael Arnett	Non-Executive Director	No minimum term. Four week notice period required to terminate and entitled to three years aggregate salary on termination or resignation.
Steven Lowden	Non-Executive Director	No minimum term. No notice period required to terminate and is entitled to one year aggregate salary on termination or resignation.
Ian Boserio	Non-Executive Director	No minimum term. No notice period required to terminate and is entitled to one year aggregate salary on termination or resignation.
Symon Drake-Brockman	Non-Executive Director	No minimum term. No notice period required to terminate and is entitled to one year aggregate salary on termination or resignation.
Ian Tchacos	Managing Director	Commenced on 15 July 2002 and ceased on 21 December 2009. Mr Tchacos received in the 2010 financial year one year total fixed remuneration plus outstanding entitlements.
Alastair Haydock	Non-Executive Director	Resigned effective 31 December 2009. In accordance with his contract on resignation Mr Haydock received the aggregate of the preceding three years remuneration.
Neil Ferguson	Non-Executive Director	Resigned effective 24 February 2010. In accordance with his contract on resignation Mr Ferguson received the aggregate of the preceding three years remuneration.

The Board acknowledges that the entitlement of each of Michael Arnett, Steven Lowden, Ian Boserio and Symon Drake-Brockman to receive a termination payment in certain circumstances is contrary to Recommendation 8.2 of the ASX Corporate Governance Principles and Recommendations. However, the Board considers that these arrangements are reasonable in the circumstances, particularly given the significant time commitments required by each of the Non-Executive Directors during the Company's continuing phase of development. The Board also believes that such payments are appropriate given the necessity to attract the highest calibre of professionals to the Company.

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for the year ended 30 June 2010

Executive team	Position	Contract details
Richard Cottee	Chief Executive Officer	Three year term commencing on 3 May 2010. Three months notice period required to terminate and entitled to six months fixed remuneration on termination. Richard Cottee was appointed Managing Director on 22 July 2010.
Keith Edwards	GM Business Development and Corporate Planning	No fixed term. One month notice period required to terminate and entitled to one year total fixed remuneration upon redundancy.
Philip Smith	GM Exploration and Geotechnical	No fixed term. One month notice period required to terminate and entitled to one year total fixed remuneration upon redundancy.
John Ah-Cann	Drilling & Longtom Asset Manager	No fixed term. Four week notice period required to terminate and entitled to three months total fixed remuneration for the first year plus one month of total fixed remuneration for each additional year of service upon redundancy.
Stuart Jones	Finance Executive	Four year contract expiring 7 August 2013. Three months notice period required to terminate and entitled to three months total fixed remuneration upon redundancy.
Mike Maloney	GM Operations, Engineering & Commercial	No fixed term. Three months notice period required to terminate and entitled to six months total fixed remuneration upon redundancy.
Moss Daemi	GM Commercial and Partnership Relations	Ceased employment effective 31 December 2009. In accordance with his employment contract he received one year total fixed remuneration plus outstanding leave entitlements.
Dave Nolan	Chief Operating Officer	Ceased employment effective 1 July 2009. In accordance with his employment contract he received one year total fixed remuneration plus outstanding leave entitlements.

	Proportions of elements of remuneration related to performance			Proportions of elements of remuneration not related to performance	
	Non salary cash incentives %	Shares %	Options %	Fixed salary/fees %	Total %
Directors					
Ian Tchacos ⁽¹⁾	8	-	-	92	100
Other key management personnel					
Richard Cottee	-	-	-	100	100
Keith Edwards	-	-	-	100	100
Philip Smith	-	-	-	100	100
John Ah-Cann ⁽²⁾	9	-	-	91	100
Stuart Jones	13	-	-	87	100
Mike Maloney	-	-	-	100	100
Moss Daemi ⁽³⁾	-	-	-	100	100
Dave Nolan ⁽⁴⁾	-	-	-	100	100

(1) Ian Tchacos ceased employment with the company effective 21 December 2009.

(2) John Ah-Cann became a member of the key management personnel effective 1 July 2009.

(3) Moss Daemi ceased employment with the company effective 31 December 2009.

(4) Dave Nolan ceased employment with the company effective 1 July 2009.

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for the year ended 30 June 2010

Details of remuneration for the financial year ended 30 June 2010

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:

Directors	Year	Short term benefits		Post employment benefits		Share-based payments	Fair value of share options at grant date	Total
		Salary, fees & commissions	Cash bonus	Other	Superannuation contributions	Termination benefits		
		\$	\$	\$	\$	\$	\$	\$
Michael Fowler	2010	900,000	-	-	81,000	-	-	981,000
	2009	275,808	-	-	24,822	-	-	300,630
Michael Arnett ⁽¹⁾	2010	115,387	-	-	11,399	-	-	126,786
	2009	11,273	-	-	1,014	-	-	12,287
Steven Lowden ⁽²⁾	2010	68,807	-	-	6,193	-	-	75,000
Ian Boserio ⁽³⁾	2010	68,151	-	-	6,134	-	-	74,285
Symon Drake-Brockman ⁽⁴⁾	2010	64,269	-	-	5,784	-	-	70,053
Geoffrey Simpson ⁽⁵⁾	2009	72,247	-	-	6,502	-	-	78,749
Ian Tchacos ⁽⁶⁾	2010	366,746	150,000	13,375	48,587	1,296,439	-	1,875,147
	2009	722,476	-	41,051	65,022	-	422,611	1,251,160
Alastair Haydock ⁽⁷⁾	2010	25,000	-	-	50,000	347,501	-	422,501
	2009	63,340	-	-	99,160	-	-	162,500
Neil Ferguson ⁽⁸⁾	2010	45,774	-	-	50,000	447,024	-	542,798
	2009	41,252	-	-	99,998	-	-	141,250
	2010	1,654,134	150,000	13,375	259,097	2,090,964	-	4,167,570
	2009	1,186,396	-	41,051	296,518	-	422,611	1,946,576

- (1) Michael Arnett was appointed as a Non-Executive Director on 28 May 2009. The transactions detailed in the above table for 2009 cover the period 28 May 2009 to 30 June 2009.
- (2) Steven Lowden was appointed as a Non-Executive Director on 18 November 2009. The transactions detailed in the above table for 2010 cover the period 18 November 2009 to 30 June 2010.
- (3) Ian Boserio was appointed as a Non-Executive Director on 18 November 2009. The transactions detailed in the above table for 2010 cover the period 18 November 2009 to 30 June 2010.
- (4) Symon Drake-Brockman was appointed as a Non-Executive Director on 18 November 2009. The transactions detailed in the above table for 2010 cover the period 18 November 2009 to 30 June 2010.
- (5) Geoffrey Simpson resigned as a Non-Executive Director on 23 January 2009. Transactions detailed in the above table for 2009 cover the period 1 July 2008 to 23 January 2009.
- (6) Ian Tchacos ceased with Nexus effective 21 December 2009. Transactions detailed in the above table for 2010 cover the period 1 July 2009 to 21 December 2009.
- (7) Alastair Haydock resigned as a Non-Executive Director effective 31 December 2009. Transactions detailed above for 2010 cover the period 1 July 2009 to 31 December 2009.
- (8) Neil Ferguson resigned as a Non-Executive Director on 24 February 2010. Transactions detailed above for 2010 cover the period 1 July 2009 to 24 February 2010.

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for the year ended 30 June 2010

Other key management personnel	Year	Salary, fees & commissions \$	Cash bonus \$	Other \$	Superannuation contributions \$	Termination benefits \$	Share-based payments	Total \$
							Fair value of share options at grant date \$	
Richard Cottee ⁽¹⁾	2010	91,744	-	-	8,256	-	-	100,000
Keith Edwards	2010	484,998	-	-	25,000	-	-	509,998
	2009	450,456	-	-	40,541	-	124,678	615,675
Philip Smith	2010	368,676	-	-	46,261	-	-	414,937
	2009	304,956	-	-	92,846	-	101,422	499,224
John Ah-Cann ⁽²⁾	2010	589,543	63,000	-	57,394	-	-	709,937
Stuart Jones ⁽³⁾	2010	409,048	50,000	13,234	14,287	-	-	486,569
Mike Maloney ⁽⁴⁾	2010	268,118	-	-	24,131	-	-	292,249
Peter Thomas ⁽⁵⁾	2009	406,883	22,935	34,795	30,163	-	128,418	623,194
Moss Daemi ⁽⁶⁾	2010	215,000	-	-	50,000	557,480	-	822,480
	2009	430,430	27,522	-	102,516	-	132,158	692,626
Dave Nolan ⁽⁷⁾	2010	-	-	-	-	499,583	-	499,583
	2009	497,503	82,568	-	56,598	-	135,898	772,567
	2010	2,427,127	113,000	13,234	225,329	1,057,063	-	3,835,753
	2009	2,090,228	133,025	34,795	322,664	-	622,574	3,203,286

(1) Richard Cottee was appointed Chief Executive Officer on 3 May 2010. The transactions detailed in the above table for 2010 cover the period 3 May 2010 to 30 June 2010.

(2) John Ah-Cann became a member of the key management personnel effective 1 July 2009. The transactions detailed in the above table for 2010 cover the period 1 July 2009 to 30 June 2010.

(3) Stuart Jones commenced with the company on 1 September 2009. The transactions detailed in the above table for 2010 cover the period 1 September 2009 to 30 June 2010.

(4) Mike Maloney commenced with the company on the 18 December 2009. The transaction in the above table for 2010 cover the period 18 December 2009 to 30 June 2010.

(5) Peter Thomas commenced with the company on 21 August 2008 and ceased employment on 17 April 2009. Transactions detailed in the above table for 2009 cover the period 21 August 2008 to 17 April 2009.

(6) Moss Daemi commenced with the company on 25 March 2008 and ceased employment on 31 December 2009. The transactions detailed in the above table for 2010 cover the period 1 July 2009 to 31 December 2009. Included in the 2010 remuneration is the final payment of salary in accordance with his contract.

(7) Dave Nolan commenced with the company on 19 May 2008 and ceased employment on 1 July 2009. The transactions detailed in the above table for 2010 cover the final pay on 1 July 2009. Included in the 2010 remuneration is the final payment of salary in accordance with his contract.

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.

Cash bonus and performance related incentives

Bonuses and performance related incentives are paid at the discretion of the Board and are based on a percentage of fixed remuneration. During the 2010 financial year Ian Tchacos, Stuart Jones and John Ah-Cann were granted bonus payments as part of their remuneration.

On 8 July 2009, Ian Tchacos was granted a bonus payment of \$150,000. The bonus was paid at the discretion of the Board and was based on operational key performance indicators. Ian Tchacos ceased employment on 21 December 2009.

Stuart Jones commenced with the company on 1 September 2009. As part of the terms of his employment Stuart Jones was paid a sign on bonus of \$50,000. This was paid on commencement of his employment and was a one off payment.

directors' report continued for the year ended 30 June 2010

John Ah-Cann was awarded a bonus for his contribution to the completion of the Longtom production asset. The bonus was paid at the discretion of the Board with no performance criteria used to determine the compensation. The grant date was 11 November 2009.

Options over ordinary shares

Details of Nexus Share Option Plans are set out in Note 29 to the Financial Report. During the financial year there were no share options (2009: 4,421,800) issued to Directors and other key management personnel. No options were exercised by the Directors or other key management personnel during the financial year. Vesting of the options issued in the 2009 financial year will be subject to a performance test. A proportion (between nil and 100%) of the options (as determined by the performance test) will vest at the end of the vesting period expiring on 30 June 2011 (the vesting date) with the Board having the discretion to vary the vesting conditions in certain circumstances. The options will be exercisable in the 12 month period commencing on the vesting date.

The performance test measures the total shareholder return (TSR) of Nexus ordinary shares relative to the TSR of a comparative group of other oil and gas companies and the ASX Energy Index over the vesting period. Vesting of the options issued in the 2009 financial year will be as follows: top quartile ranking is required for all options to vest while no options would vest if Nexus ranks in the fourth quartile of TSR rankings at the end of the vesting period, with proportionate vesting between those levels.

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

	Balance 30/6/09	Granted as remuneration	Options exercised in 2010	Net change Other	Balance 30/6/10	Total vested 30/6/10	Total exercisable 30/6/10	Total Un- exercisable 30/6/10
Directors								
Michael Fowler	-	-	-	-	-	-	-	-
Michael Arnett	-	-	-	-	-	-	-	-
Ian Boserio	-	-	-	-	-	-	-	-
Symon Drake- Brockman	-	-	-	-	-	-	-	-
Ian Tchacos ⁽¹⁾	2,590,700	-	-	(2,590,700)	-	-	-	-
Alastair Haydock	-	-	-	-	-	-	-	-
Neil Ferguson	-	-	-	-	-	-	-	-
	2,590,700	-	-	(2,590,700)	-	-	-	-
Other key management personnel								
Richard Cottee	-	-	-	-	-	-	-	-
Keith Edwards	366,700	-	-	-	366,700	-	-	366,700
Philip Smith	298,300	-	-	-	298,300	-	-	298,300
John Ah-Cann ⁽²⁾	277,200	-	-	-	277,200	-	-	277,200
Stuart Jones	-	-	-	-	-	-	-	-
Mike Maloney	-	-	-	-	-	-	-	-
Moss Daemi ⁽³⁾	478,700	-	-	(478,700)	-	-	-	-
Dave Nolan ⁽⁴⁾	857,100	-	-	(857,100)	-	-	-	-
	2,278,000	-	-	(1,335,800)	942,200	-	-	942,200

(1) Ian Tchacos ceased with Nexus effective 21 December 2009, Transactions detailed in the above table for 2010 cover the period 1 July 2009 to 21 December 2009.

(2) John Ah-Cann became a member of the key management personnel effective 1 July 2009. The transactions detailed in the above table for 2010 cover the period 1 July 2009 to 30 June 2010.

(3) Moss Daemi ceased employment on 31 December 2009. The transactions detailed in the above table for 2010 cover the period 1 July 2009 to 31 December 2009.

(4) Dave Nolan ceased employment on 1 July 2009. The transactions detailed in the above table for 2010 cover the final pay on 1 July 2009.

directors' report continued

for the year ended 30 June 2010

Shareholdings

Number of ordinary shares held by Directors and other key management personnel as at 30 June 2010:

	Balance 30/6/09	Received as remuneration	Options exercised	Shares purchased	Shares sold	Other	Balance 30/6/10
Directors							
Michael Fowler	3,354,569	-	-	894,553	-	-	4,249,122
Michael Arnett ⁽¹⁾	250,000	-	-	66,667	-	-	316,667
Steven Lowden ⁽²⁾	-	-	-	446,500	-	-	446,500
Ian Boserio ⁽³⁾	-	-	-	300,000	-	-	300,000
Symon Drake-Brockman ⁽⁴⁾	-	-	-	46,673,074	-	-	46,673,074
Ian Tchacos ⁽⁵⁾	4,937,768	-	-	1,228,740	(330,000)	(5,836,508)	-
Alastair Haydock ⁽⁶⁾	1,643,641	-	-	411,638	(100,000)	(1,955,279)	-
Neil Ferguson ⁽⁷⁾	387,500	-	-	203,334	-	(590,834)	-
	10,573,478	-	-	50,224,506	(430,000)	(8,382,621)	51,985,363
Other key management personnel							
Richard Cottee	-	-	-	-	-	-	-
Keith Edwards	796,466	-	-	162,259	(188,000)	-	770,725
Philip Smith	2,640,000	-	-	302,934	(2,442,934)	-	500,000
John Ah-Cann ⁽⁸⁾	98,250	-	-	40,000	(138,250)	-	-
Stuart Jones	-	-	-	-	-	-	-
Mike Maloney	-	-	-	513,334	(113,334)	-	400,000
Moss Daemi ⁽⁹⁾	-	-	-	-	-	-	-
Dave Nolan ⁽¹⁰⁾	-	-	-	-	-	-	-
	3,534,716	-	-	1,018,527	(2,882,518)	-	1,670,725

(1) Michael Arnett was appointed as a Non-Executive Director on 28 May 2009. The transactions detailed in the above table for 2009 cover the period 28 May 2009 to 30 June 2009.

(2) Steven Lowden was appointed as a Non-Executive Director on 18 November 2009. The transactions detailed in the above table for 2010 cover the period 18 November 2009 to 30 June 2010.

(3) Ian Boserio was appointed as a Non-Executive Director on 18 November 2009. The transactions detailed in the above table for 2010 cover the period 18 November 2009 to 30 June 2010.

(4) Symon Drake-Brockman was appointed as a Non-Executive Director on 18 November 2009. The transactions detailed in the above table for 2010 cover the period 18 November 2009 to 30 June 2010.

(5) Ian Tchacos ceased with Nexus effective 21 December 2009. Transactions detailed in the above table for 2010 cover the period 1 July 2009 to 21 December 2009.

(6) Alastair Haydock resigned as a Non-Executive Director effective 31 December 2009. Transactions detailed above for 2010 cover the period 1 July 2009 to 31 December 2009.

(7) Neil Ferguson resigned as a Non-Executive Director on 24 February 2010. Transactions detailed above for 2010 cover the period 1 July 2009 to 24 February 2010.

(8) John Ah-Cann became a member of the key management personnel effective 1 July 2009. The transactions detailed in the above table for 2010 cover the period 1 July 2009 to 30 June 2010.

(9) Moss Daemi ceased employment on 31 December 2009. The transactions detailed in the above table for 2010 cover the period 1 July 2009 to 31 December 2009.

(10) Dave Nolan ceased employment on 1 July 2009. The transactions detailed in the above table for 2010 cover the final pay on 1 July 2009.

directors' report continued

for the year ended 30 June 2010

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:

Directors	Ordinary shares	Options over ordinary shares
Michael Fowler	4,249,122	-
Richard Cottee ⁽¹⁾	-	2,250,000
Michael Arnett	316,667	-
Steven Lowden	446,500	-
Ian Boserio	300,000	-
Symon Drake-Brockman	46,673,074	-
	51,985,363	2,250,000

(1) Richard Cottee was appointed as Managing Director on 22 July 2010.

Options

At 30 June 2010, 7,052,300 options (2009: 8,461,000 options) were outstanding as part of the Nexus Energy Limited Executive Director and Employee Option Plan and other Plan. The Executive Director and Employee Option Plan was approved on 25 September 2008 at a General Meeting of shareholders. Details of the Nexus Energy Limited Executive Director and Employee Option Plan and other Plan are disclosed in Note 29 to the Financial Report. As at 30 June 2010 the unissued ordinary shares of Nexus Energy Limited under option are as follows:

Grant date	Date of expiry	Exercise price	Number under option
28 April 2008	28 April 2011	\$2.25	90,000
23 May 2008	23 May 2011	\$2.19	148,000
23 May 2008	23 May 2011	\$2.25	359,800
24 December 2008	24 December 2012	\$1.47*	2,590,700
9 January 2009	30 June 2012	Zero	3,863,800
			7,052,300

* At date of issue the exercise price was set at \$1.50. The exercise price has been repriced to \$1.47 as a result of the rights issue (completed in September 2009).

There were no options granted to staff during the financial year. However, of the 5,801,400 zero priced options issued on 9 January 2009, a total of 1,937,600 options have expired as a result of staff ceasing employment with the Company. No person entitled to exercise an option had or has any right by virtue of the option to participate in any share issue of any other body corporate. Vesting of the options will be subject to performance test. A proportion (between nil and 100%) of the options (as determined by the performance test) will vest at the end of the vesting period expiring on 30 June 2011 (the vesting date) with the Board having the discretion to vary the vesting conditions in certain circumstances. The options will be exercisable in the 12 month period commencing on the vesting date.

The performance test measures the total shareholder return (TSR) of Nexus ordinary shares relative to the TSR of a comparative group of other oil and gas companies and the ASX Energy Index over the vesting period; top quartile ranking is required for all options to vest while no options would vest if Nexus ranks in the fourth quartile of TSR rankings at the end of the vesting period, with proportionate vesting between those levels.

During the financial year, no ordinary shares of Nexus Energy Limited were issued on the exercise of options granted under the Nexus Energy Limited Executive Director and Employee Option Plan and other Plan.

directors' report continued

for the year ended 30 June 2010

Indemnification of directors and officers

During the financial year, the Company paid a premium in respect of the contract insuring the Directors of the Company (as named above), the Company Secretary and all Executive Officers of the Company and of any related body corporate against a liability incurred by a Director, Secretary or Executive Officer. 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 the 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.

Environmental regulation

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

- The Offshore Petroleum and Greenhouse Gas Storage Act 2006; 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 significant breach of those environmental requirements as they apply to the Company and Group.

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

The Board of Directors, in accordance with advice from the audit committee, is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

- all non-audit services are reviewed and approved by the audit committee prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- the nature of the services provided do not compromise the general principles relating to auditor independence in accordance with APES 110: Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standards Board.

The following fees were paid or payable to Moore Stephens for non-audit services provided during the year ended 30 June 2010:

	\$
Review of prospectus (September 2009 Rights Issue)	4,200
HR consultancy and superannuation advice	810
	<hr/> 5,010

directors' report continued
for the year ended 30 June 2010

Auditor's independence declaration

A copy of the auditor's independence declaration for the financial year ended 30 June 2010 has been received as required under Section 307C of the Corporations Act 2001 and is included on page 36.

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
Executive Chairman



Richard Cottee
Managing Director

Dated Melbourne this 30th day of August 2010

auditor's independence declaration statement

MOORE STEPHENS

ACCOUNTANTS & ADVISORS

Level 10, 530 Collins Street
Melbourne VIC 3000

T +61 (0)3 8635 1800

F +61 (0)3 8102 3400

www.moorestephens.com.au

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 2010 there has 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, 30 August 2010

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statement of corporate governance principles

Nexus Energy Limited (“the Company”) has made and continues to make it a priority to adopt systems of control and accountability as the basis for the administration of corporate governance. Nexus reviewed its corporate governance practices and procedures and updated them in accordance with the second edition of the ASX Corporate Governance Guidelines released in August 2007.

Nexus has followed each recommendation of the ASX Corporate Governance Guidelines where the Board has considered the recommendation to be an appropriate benchmark for corporate governance practices, taking into account factors such as the size of Nexus and the Board, resources available and the activities of Nexus. Where, after due consideration, Nexus’ corporate governance practices depart from the recommendations, the Board has offered full disclosure of the nature of, and reasons for, the adoption of its own practice.

Further information about Nexus’ corporate governance practices is set out on Nexus’ website at www.nexusenergy.com.au. In accordance with the recommendations of the Corporate Governance Council, information published on Nexus’ website includes summaries of charters (for the Board and its Board Committees), codes of conduct and other policies and procedures relating to the Board and its responsibilities.

Set out below are the key aspects of Nexus’ corporate governance framework.

The roles of the board and senior management

The Board is responsible for the strategic direction of Nexus, the identification and monitoring of corporate goals and policies, overseeing Nexus’ management and regularly reviewing performance.

The Board’s key objectives are to increase shareholder value within an appropriate framework which safeguards the rights and interests of Nexus’ shareholders and ensure Nexus is properly managed.

The Board acts in accordance with the Board Charter and Nexus’ Constitution. The Board Charter details the composition, functions and responsibilities of the Board and distinguishes such functions and responsibilities from those which have been delegated to management.

Responsibilities of the board

As well as matters expressly required by law to be approved by the Board, the Board’s responsibilities include:

Nomination, remuneration and performance

- approving the remuneration and conditions of service including financial incentives for the direct reports to the Managing Director, as recommended by the Remuneration and Performance Committee;
- monitoring and assessing management’s performance in achieving any strategies and budgets;
- appointing and removing the Managing Director and Company Secretary and determining his or her terms and conditions of service, including approving any financial incentives;
- evaluating the performance of the Managing Director;
- contributing to management’s development of corporate strategy and performance objectives;
- satisfying itself that processes and plans are in place to maintain an orderly succession of appointments of Non-Executive Directors to the Board and an appropriate balance of skills within the Board; and
- recommending the appointment and reviewing the performance of Directors and senior management.

Company direction

- establishing and monitoring Nexus’ strategic and financial objectives.

statement of corporate governance principles continued

Risk oversight and management, and culture

- monitoring compliance with regulatory requirements and ethical standards;
- reviewing and ratifying the risk management strategies;
- overseeing Nexus' Health, Safety, Environment and Community Policy, risks management and continuous disclosure obligations;
- overseeing effective internal control systems;
- encouraging a culture that promotes ethical and responsible decision-making, in compliance with legal responsibilities and transparency through effective and timely reporting; and
- approving any matters in excess of the discretion that it delegates to the Managing Director and senior management in relation to business transactions, credit transactions, risk limits and expenditure.

Integrity of external reporting

- approving annual accounts, reports and other public documents.

Stakeholder interests

- within the constraints of the Corporations Act 2001 and the ASX Listing Rules, approving the issue of any shares, options, equity instruments or other securities in Nexus;
- convening general meetings of Nexus' shareholders; and
- considering Nexus' corporate governance policies.

Delegated authority

- the Managing Director has been delegated the responsibility of the day-to-day running of Nexus (except for those matters expressly reserved to the Board or senior management); and
- the Company Secretary has been delegated the responsibility of preparing for and arranging Board and Board Committee meetings, responsibility for the overall administration of the Communications Strategy and all communications by Nexus with the ASX, as well as assisting the Board to achieve its corporate governance objectives.

Board committees

The Board has also established various Committees to assist in carrying out its responsibilities and include:

- Audit Committee;
- Health, Safety, Environment and Community Committee (HSEC Committee);
- Nomination Committee;
- Remuneration and Performance Committee; and
- Risk Management Committee.

The Board has adopted charters setting out matters relevant to the composition, responsibilities and administration of each of these committees. The role and responsibility requirements of each Board Committee are set out below.

Board structure and composition

In accordance with Nexus' Constitution there must be a minimum of three to a maximum of 12 Directors of Nexus. The Board determines the size of the Board within those limits. As at the date of this report, the Board is comprised of six Directors being two Executive Directors, Michael Fowler (Chairman) and Richard Cottee (Managing Director), and four Non-Executive Directors, Michael Arnett, Steven Lowden, Ian Boserio and Symon Drake-Brockman.

The period of office held by each Director, the attendance of Directors at meetings of the Board and Board Committees is set out in the Directors' Report.

statement of corporate governance principles continued

The Board includes Directors who have a proper understanding of Nexus' business and who can add value in the context of that business. The Nomination Committee assists the Board in identifying the appropriate skills and experience required for the Board and to identify potential new candidates for the Board. The skills, experience, expertise and commencement dates of the Directors are set out in the Directors' Report. The Board annually reviews its size and composition. The Board also includes two Directors and Non-Executive Directors who satisfy the criteria for independence set out in Nexus' Independence of Directors Policy. The role of Managing Director and Chair of the Board are held by separate individuals.

Recommendation 2.2 of the revised Corporate Governance Council Principles provides that the Chair should be an independent Director. The Chair of Board, Michael Fowler was appointed as an Executive Director on 28 May 2009 to provide additional support with the direct management of the Company. The Board considered that in the Company's circumstances the additional support was required and it was appropriate for the Chair to be an Executive Director and not independent. The Board will be monitoring this position.

The skills, experience, expertise and commencement dates of the Directors are set out in the Directors' Report. A Director (other than the Managing Director) may not retain office for more than three years without submitting themselves for re-election. In effect, four of the Directors in office (with the exclusion of the Managing Director) retire by rotation at the annual general meeting. Retiring Directors' re-election is not automatic and each must seek re-election by the shareholders.

Director independence

Nexus recognises the importance of independent Directors on the Board so that it can effectively review and challenge the performance of management and exercise independent judgement. The Board has determined that its composition should include a majority of independent Directors and has developed criteria for independence of Directors set out in Nexus' Independence of Directors Policy. However, the Board reserves its right to make an appropriate assessment of a Director's independence and determine a Director to be independent even if the Director does not meet the criteria specified.

The criteria for independence are set out in the company's Independence of Directors Policy and Recommendation 2.1 of the ASX Corporate Governance Guidelines. Based on the assessment of independence of Directors conducted by the Board, all Non-Executive Directors are independent.

The Board annually assesses the independence of Directors of Nexus, as well as upon the appointment of a Director or upon a disclosure of a change in their circumstances which may affect their independence or give rise to a conflict of interest with their duties to Nexus. Directors are required to keep the Board apprised of any potential conflicts of interest they may have with the interests of Nexus or circumstances which may affect their independence. A Directors' declaration of interests is tabled at each Board meeting.

Board meetings

The Board usually meets on a monthly basis and, where appropriate, receives presentations from senior management who may be questioned directly by Board members on any matter including operational and commercial issues. The Board considers issues relating to health, safety, environment and community, continuous disclosure, risk oversight and risk management at every meeting.

Directors are also required to attend Board meetings for committees to which they have been appointed. The number of Board meetings held during the reporting period and each Director's attendance is set out in the Directors' Report.

Performance of the board, board committees and individual directors

The Board, with the assistance of the Remuneration and Performance Committee, reviews the performance and effectiveness of the Board, Board Committees and individual Directors at least annually. Each Director is required to submit to the Remuneration and Performance Committee their views on the performance and effectiveness of the Board and the Board Committees and their individual performance.

statement of corporate governance principles continued

The role of the Remuneration and Performance Committee includes the identification of those areas of governance and performance that may require an increased level of attention by the Board and recommends improvements to the Board's processes and procedures.

Remuneration of directors and senior management

The Board's focus is on long term strategic direction and overall performance of Nexus. As a consequence, Non-Executive Director remuneration is primarily related to the long term performance of Nexus.

Non-Executive Directors will generally be remunerated by way of fees. The maximum total annual amount of fees to be paid to Non-Executive Directors is determined by shareholders. Non-Executive Directors will not receive bonus payments nor retirement benefits other than superannuation.

The Remuneration and Performance Committee may from time to time seek independent advice in relation to the remuneration of Non-Executive Directors and may make recommendations to the Board in relation to any total fee increase. The Board annually reviews Non-Executive Director remuneration.

Remuneration for Executive Directors and senior management may incorporate fixed and variable pay performance elements with both a short term and long term focus. The Executive Directors and senior management, as well as other employees, may also be able to participate in Nexus' Executive Director and Employee Share Option Plan. The Board takes into account performance indicators and achievements in determining the remuneration of Executive Directors and senior management.

The performance and remuneration of the Managing Director will be considered and determined by the Board and Chair of the Board. The remuneration for each Director during the reporting period is set out in the Directors' Report.

The Managing Director annually conducts performance reviews of members of senior management against measures appropriate to Nexus' operations and activities.

Access to management and independent professional advice

Individual Directors may, with the reasonable approval of the Chair, obtain independent professional advice, at Nexus' cost, in relation to their position while acting as a Director of Nexus. The Board and Board Committees also have access to senior management and, in the performance of their duties and responsibilities, access to all information and records held by the Company in accordance with the Company's Privacy Policy.

Corporate policies and code of conduct

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. Nexus requires that senior management and employees of Nexus act in a manner that reflects the highest 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.

Privacy of information

Nexus is committed to protecting the privacy and confidentiality of the information it collects and has established privacy policies applying to the use, disclosure, security and storage of the information it collects generally and the information it collects through its website. These policies apply to all Directors, senior management and employees of Nexus and its subsidiaries.

Code of conduct

Nexus has established a Code of Conduct which recognises Nexus' commitment to business and corporate ethics and recognition of the interests of shareholders. Nexus' Directors, senior management, employees and where relevant and to the extent possible, contractors of Nexus are required to comply with the Code of Conduct.

statement of corporate governance principles continued

Restrictions on dealings in securities

Directors, senior management and employees of Nexus (“Designated Persons”) are restricted under the Corporations Act on applying for, acquiring or disposing of securities in or derivatives or other relevant financial products of, Nexus (“Company Securities”) if they are in possession of inside information.

Nexus has established a Securities Trading Policy which sets out the circumstances in which Designated Persons may deal or trade in Company Securities with the objective that no Designated Person will contravene the requirements of the Corporations Act.

The Securities Dealing Policy is not designed to prohibit Designated Persons from investing in Company Securities but does recognise that there may be times when Designated Persons cannot or should not invest in Company Securities. Additionally, a person in possession of inside information in relation to Nexus must not deal in Company Securities or procure another person to deal in Company Securities.

Nexus expressly prohibits Directors, senior management and employees from short term trading of Company Securities and trading in shares of any other entity if in possession of inside information on such entity which they acquire by virtue of their position as a Director, senior manager or employee of Nexus.

Market communication

Nexus is committed to effective communication with its shareholders, market participants, customers, employees, suppliers, financiers, creditors, other stakeholders and the wider community. Nexus will ensure that all stakeholders, market participants and the wider community are informed of its activities and performance. Nexus has developed a Communications Strategy containing its approach and commitment to communication. Nexus will endeavour to make publicly available full information to ensure that trading in its shares takes place in an efficient, competitive, and informed market, and has implemented a number of processes to ensure it achieves these goals.

Continuous disclosure policy

Nexus has established a Continuous Disclosure Policy, to ensure that Nexus, as a minimum, complies with its continuous disclosure obligations under the Corporations Act and the ASX Listing Rules and achieves or exceeds best practice, provides shareholders and the market with timely, direct and equal access to information issued by Nexus, and promotes investor confidence in the integrity of Nexus and its securities.

To assist in determining whether information regarding Nexus is, or may be, material, the Board has adopted materiality guidelines. Whether a matter is material must be considered from both a quantitative and qualitative viewpoint. Some guidance is also given to assist in identifying material contracts.

Nexus has also established procedures for the identification and disclosure of material information to ASX. This Continuous Disclosure Policy is administered by several key personnel within Nexus.

Risk management

Risk recognition and management are viewed by Nexus as integral to Nexus’ objectives of creating and maintaining shareholder value, and to the successful execution of Nexus’ strategies.

Risk is defined as possible outcomes that could materially adversely impact on Nexus’ financial performance, assets, reputation, people or the environment. There are a number of risks which are inherent to the business activities that Nexus undertakes, including:

- the availability and cost of reserves replacement and recovery;
- commercialisation of gas reserves;
- sovereign risk;
- exposure to oil price and exchange rates;

statement of corporate governance principles continued

- production availability;
- technical and project management competencies;
- health, safety, environment and community risks; and
- exposure to debt.

The Risk Management Committee is responsible for risk oversight and the management and internal control of the processes by which risk is considered for both ongoing operations and prospective actions.

Health, safety, environment and community (HSEC)

Nexus is committed to adhering to high standards of health, safety, environment and community performance. Nexus has adopted a HSEC Policy which applies to all personnel, contractors and joint venturers engaged in activities under Nexus' operational control. The Managing Director is accountable to the Board of Directors for ensuring that this Policy is implemented.

Nexus has also established the HSEC Committee to assist the Board to achieve its objectives in respect to HSEC.

Audit committee

The role of the committee is to oversee and enhance Nexus' financial reporting process focusing on issues relevant to the following activities:

- the integrity of Nexus' financial reporting;
- the appointment, remuneration, qualifications, performance and independence of the external auditor;
- the performance of the internal audit function; and
- the integrity of the audit process as a whole.

The Audit Committee's role, responsibilities, composition and membership requirements are documented in the Audit Committee Charter.

The members of the Audit Committee are Michael Arnett (Committee Chair), Steven Lowden and Symon Drake-Brockman. All members of the Audit Committee are Non-Executive Directors and all are financially literate and have a background, skills and experience which is relevant to the operations and financial and strategic risk profile of Nexus. The members of the Audit Committee changed during the year as a result of the departure of Neil Ferguson and Alastair Haydock.

The Audit Committee is chaired by Michael Arnett, who is not the Chairman of the Board. The Audit Committee has met twice during the reporting period.

Nomination committee

The role of the committee is to make recommendations to the Board in relation to:

- the identification of suitable candidates for nomination to the Board, Board Committees and senior management;
- succession planning for the Board and senior management;
- the appointment and re-election of Directors; and
- ensuring the skills needed are available to the Board to discharge its duties and add value to Nexus.

The Nomination Committee's role, responsibilities, composition and membership requirements are documented in the Nomination Committee Charter.

The members of the Nomination Committee include the whole Board with Ian Boserio as Committee Chair. Directors having a conflict of interest in relation to a particular item of business of the Nomination Committee must absent themselves from the Nomination Committee meeting before commencement of discussion on the topic. The chair of the Nomination Committee changed during the year as a result of the departure of Alastair Haydock.

statement of corporate governance principles continued

The Board may consider a restructure so that the committee comprises at least three members of the Board to the Nomination Committee, but not including the Managing Director. A majority of those members will be independent Non-Executive Directors. During the reporting period, Nomination Committee matters were included as part of the meetings of the Board.

Remuneration and performance committee

The role of the committee is to make recommendations to assist the Board in considering the following activities:

- the qualifications and experience represented on the Board and Board Committees;
- the assessment of the performance of the Board and individual Directors;
- succession planning issues and strategies for the ongoing effective performance of the Board; and
- the development of a process for evaluation of the performance of the Board, Board Committees and individual Directors.

The Remuneration and Performance Committee's role, responsibilities, composition and membership requirements are documented in the Remuneration and Performance Committee Charter and Remuneration and Performance Policy. The members of the Remuneration and Performance Committee are Ian Boserio (Committee Chair), Michael Arnett and Symon Drake-Brockman. The members of the Remuneration Committee changed during the year as a result of the departure of Neil Ferguson and Alastair Haydock.

During the reporting period, Remuneration and Performance Committee matters were included as part of the meetings of the Board with dedicated meetings held twice.

Risk management committee

The identification and effective management of risk, including calculated risk-taking, is viewed as an essential part of the Group's approach to creating long term shareholder value. The management team under the direction of the Managing Director is responsible for the designing, implementing and reporting on the adequacy of the Group's risk management and internal controls.

The role of the Committee is to assist the Board in managing the risks associated with Nexus' ongoing operations and prospective actions, in particular by focusing on the following activities:

- the effectiveness of the systems of internal control and risk management;
- the identification and development of strategies and actions to manage business risk; and
- the compliance by management with constraints imposed by the Board.

The Risk Management Committee's role, responsibilities, composition and membership requirements are documented in the Risk Management Policy and Risk Management Committee Charter. The Risk Management Policy provides that a review of Nexus' risk management will be included as part of the meetings of the Board.

The Board is responsible for satisfying itself that the management team has developed and implemented a sound system of risk management and internal control.

The members of the Risk Management Committee is the whole Board with Ian Boserio as Committee Chair. The Board may consider a restructure so that the committee comprises at least three members of the Board. Risk Management Committee matters have been included as part of the meetings of the Board during the reporting period. The chair of the Risk Management Committee changed during the year as a result of the departure of Neil Ferguson.

statement of corporate governance principles continued

Management accountability

The Board of Directors encourages management accountability for the Group's financial reports requiring the Executive Chairman and the Managing Director to state in writing to the Board of Directors that:

- (a) the Group's financial reports present a true and fair view, in all material respects, of the Group's financial condition and operational results and are in accordance with relevant Australian Accounting Standards; and
- (b) that financial reports are compiled in accordance with best practice and are properly monitored using the Audit Committee and external auditors to ensure a sound system of risk management and control.

HSEC Committee

The role of the Committee is to oversee the implementation and observance of the Health, Safety, Environment and Community Policy. The HSEC Committee's role, responsibilities, composition and membership requirements are documented in the HSEC Committee Charter.

The members of the HSEC Committee are Steven Lowden (Committee Chair), Ian Boserio, an independent third party member and Michelle Zaunbrecher (Health, Safety, Environment & Community Manager). The members of the HSEC Committee changed during the year as a result of the departure of Neil Ferguson and Alastair Haydock. HSEC matters have been included as part of the meetings of the Board during the reporting period.

consolidated statement of comprehensive income

for the financial year ended 30 June 2010

	Note	2010 \$	2009 \$
Sales revenue	3	28,551,872	-
Operating costs	4	(31,481,382)	-
Operating profit/(loss)		(2,929,510)	-
Other revenue	3	1,794,410	85,444,540
Exploration expenditure expensed	5	(7,590,855)	(16,814,148)
Employee benefits expense		(12,644,313)	(10,059,955)
Depreciation and amortisation	5	(747,925)	(959,129)
Finance costs	5	(33,223,547)	(17,536,604)
Mark-to-market adjustment on derivative financial instruments		3,384,922	(7,080,160)
Net foreign currency gains/(losses)	5	262,570	(5,556,189)
Inventory write down		(1,702,118)	(5,678,547)
Loss on disposal of inventory		(1,619,002)	(294,403)
Loss on available for sale investments	5	-	(89,800,752)
Restoration provision expense		10,541,624	(9,168,614)
Other expenses		(6,264,623)	(9,704,453)
Profit/(loss) before income tax		(50,738,367)	(87,208,414)
Income tax credit/(expense)	6	51,769,524	36,788,275
Profit/(loss) for the year		1,031,157	(50,420,139)
Other comprehensive income		-	-
Other comprehensive income for the year, net of tax		-	-
Total comprehensive profit/(loss) attributable to members of the parent entity		1,031,157	(50,420,139)
Basic profit/(loss) per share (cents)	8	0.12	(7.82)
Diluted profit/(loss) per share (cents)	8	0.12	(7.78)

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

consolidated statement of financial position

as at 30 June 2010

	Note	2010 \$	2009 \$
Current assets			
Cash and cash equivalents	9	24,923,857	55,376,991
Trade and other receivables	10	12,176,030	9,327,590
Inventories	11	5,499,158	7,231,235
Other current assets	12	618,830	3,522,330
Total current assets		43,217,875	75,458,146
Non-current assets			
Trade and other receivables	10	5,809,431	-
Property, plant and equipment	13	208,041	501,826
Deferred tax asset	6	114,067,937	61,475,312
Intangible assets	14	158,276	569,829
Exploration and evaluation assets	15	16,820,787	31,110,098
Development assets	16	274,226,289	655,613,294
Production assets	17	447,969,310	-
Other non-current assets	12	16,882,929	-
Total non-current assets		876,143,000	749,270,359
Total assets		919,360,875	824,728,505
Current liabilities			
Trade and other payables	18	11,361,482	55,670,044
Financial liabilities	20	-	182,474
Total current liabilities		11,361,482	55,852,518
Non-current liabilities			
Trade and other payables	18	11,562,063	-
Financial liabilities	20	3,553,772	6,938,694
Borrowings	19	290,270,202	224,996,268
Long term provisions	21	35,824,225	46,363,659
Deferred tax liability	6	38,206,358	38,980,850
Total non-current liabilities		379,416,620	317,279,471
Total liabilities		390,778,102	373,131,989
Net assets		528,582,773	451,596,516
Equity			
Issued capital	22	544,505,729	469,756,885
Reserves	23	8,590,572	7,384,316
Retained profits/(accumulated losses)		(24,513,528)	(25,544,685)
Total equity		528,582,773	451,596,516

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

consolidated statement of changes in equity for the financial year ended 30 June 2010

	Issued capital \$	Retained profits/ (accumulated losses) \$	Share based payments reserve \$	Available for sale investments revaluation reserve \$	Hedge reserve \$	Total equity \$
Balance as at 30 June 2008	461,552,255	24,875,454	6,917,033	(30,197,653)	-	463,147,089
Shares issued during the financial year less transaction costs	8,171,043	-	-	-	-	8,171,043
Deferred tax credit on shares issued	33,587	-	-	-	-	33,587
Sale of available for sale investments	-	-	-	30,197,653	-	30,197,653
Hedge reserve movement	-	-	-	-	(240,611)	(240,611)
Share based payments	-	-	707,894	-	-	707,894
Total other comprehensive income	-	-	-	-	-	-
Total comprehensive profit/ (loss) attributable to members of the parent entity	-	(50,420,139)	-	-	-	(50,420,139)
Balance as at 30 June 2009	469,756,885	(25,544,685)	7,624,927	-	(240,611)	451,596,516
Shares issued during the financial year less transaction costs	73,151,251	-	-	-	-	73,151,251
Deferred tax credit on shares issued	1,597,593	-	-	-	-	1,597,593
Hedge reserve movement	-	-	-	-	240,611	240,611
Share based payments	-	-	965,645	-	-	965,645
Total other comprehensive income	-	-	-	-	-	-
Total comprehensive profit/ (loss) attributable to members of the parent entity	-	1,031,157	-	-	-	1,031,157
Balance as at 30 June 2010	544,505,729	(24,513,528)	8,590,572	-	-	528,582,773

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

consolidated statement of cash flows

for the financial year ended 30 June 2010

	Note	2010 \$	2009 \$
Cash flows from operating activities			
Receipts from customers		31,895,564	-
Payments to suppliers and employees		(45,968,100)	(16,826,821)
Interest received		1,350,315	4,599,245
Finance costs		(13,340,715)	(1,849,751)
Net cash provided by (used in) operating activities	28	(26,062,936)	(14,077,327)
Cash flows from investing activities			
Payments for plant and equipment and intangible assets		(47,064)	(986,531)
Proceeds from disposal of plant and equipment		4,945	-
Proceeds from sale of casing		2,540,146	-
Payments for exploration and evaluation expenditure		(90,268,965)	(333,226,139)
Proceeds from sale of exploration permit interest		-	98,344,614
Proceeds from sale of investments		-	33,054,154
Payments/(proceeds) for operated joint venture exploration expenditure		(174,204)	374,259
Net cash flows provided by (used in) investing activities		(87,945,142)	(202,439,643)
Cash flows from financing activities			
Proceeds from issue of shares		74,516,569	8,283,000
Payments for transaction costs arising on share issues		(1,365,318)	(111,957)
Proceeds from borrowings		45,910,600	94,089,400
Repayment of borrowings		-	(89,500,000)
Deposit received on conditional sale of permit		-	35,000,000
Repayment of deposit received on conditional sale of permit		(35,000,000)	-
Finance lease repayments		-	(10,246)
Net cash flows provided by (used in) financing activities		84,061,851	47,750,197
Net increase/(decrease) in cash and cash equivalents held		(29,946,227)	(168,766,773)
Cash and cash equivalents at beginning of financial year		55,376,991	223,807,119
Effect of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies		(506,907)	336,645
Cash and cash equivalents at end of financial year	9	24,923,857	55,376,991

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

notes to the financial statements

for the year ended 30 June 2010

1. Statement of significant accounting policies

These financial statements include the consolidated financial statements and notes of Nexus Energy Limited ("Company") and Subsidiaries ("Consolidated Group" or "Group").

The separate financial statements of the parent entity, Nexus Energy Limited, have not been presented within this financial report as permitted by amendments made to the Corporations Act 2001 effective as at 28 June 2010.

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:

Level 8, 28 Freshwater Place
Southbank Victoria 3006

Basis of preparation

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board ("AASB") and the Corporations Act 2001.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in financial statements containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial statements and notes comply with International Financial Reporting Standards.

Material accounting policies adopted in the preparation of these financial statements are presented below and have been consistently applied unless otherwise stated.

The financial statements have been prepared on an accruals basis and are based on historical costs, modified, when relevant, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

During the current year the Group adopted all of the new and revised Australian Accounting Standards and Interpretations applicable to its operations which became mandatory. The adoption of these standards has impacted the recognition, measurement and disclosure of certain transactions. The following is an explanation of the impact the adoption of these standards and interpretations has had on the financial statements of Nexus Energy Limited and Subsidiaries.

Financial statement presentation

The Group applies revised AASB 101 Presentation of Financial Statements, which became effective as of 1 January 2009. As a result, the Group presents in the Consolidated Statements of Changes in Equity all owner changes in equity, whereas all non-owner changes in equity are presented in the Consolidated Statement of Comprehensive Income which has replaced the Income Statement. As a consequence, the Group had to change the presentation of its financial statements. Comparative information has been re-presented so that it also is in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

AASB 8: Operating segments

In February 2007 the Australian Accounting Standards Board issued AASB 8 which replaced AASB 114: Segment Reporting. As a result, some of the required operating segment disclosures have changed. Below is an overview of the key changes and the impact on the Group's financial statements.

notes to the financial statements continued

for the year ended 30 June 2010

1. Statement of significant accounting policies (continued)

Measurement impact

Identification and measurement of segments — AASB 8 requires the 'management approach' to the identification measurement and disclosure of operating segments. The 'management approach' requires that operating segments be identified on the basis of internal reports that are regularly reviewed by the entity's chief operating decision maker, for the purpose of allocating resources and assessing performance. This could also include the identification of operating segments which sell primarily or exclusively to other internal operating segments. Under AASB 114, segments were identified by business and geographical areas, and only segments deriving revenue from external sources were considered.

Disclosure impact

AASB 8 requires a number of additional quantitative and qualitative disclosures, not previously required under AASB 114, where such information is utilised by the chief operating decision maker. This information is now disclosed as part of the financial statements.

(a) Going concern

The current economic environment presents significant risks to the Group's ongoing ability to fund its capital expenditures. The Directors have undertaken a thorough review of all operations, instituted measures to defer capital projects and expenditures and reduced running costs in order to preserve cash, however, there are still material uncertainties over the future operating results and cash flows.

During the financial year, the Company completed the construction and commissioning of the Longtom gas project and commenced sales of hydrocarbons under the long term off take contract with Santos. As at the date of this report the project remains shut-in as a result of the detection of mercury above an allowable threshold. The Company remains focused on working with Santos to get production at the facility restarted as soon as practical and is targeting late September 2010.

The Company continues to pursue a variety of financing options and asset sales in order to strengthen its balance sheet. The Company's shareholder base has strengthened during the year, reflected through an increase in trading volumes and share price resulting in growing market confidence. The Directors believe that this provides a more favourable environment in which to raise equity if required. In addition, as backstop financing, the Company has secured a \$50 million equity line of credit which can be called upon at competitive rates at the Company's discretion in amounts up to \$2 million every 10 days. Further, as announced on 3 August 2010, Nexus exchanged 86.27% of its Existing Notes in consideration for new Unsecured Senior Subordinated Notes (Tranche A of which are due in 2017 and Tranche B of which are due in 2013) and issue of the New Shares (Exchange Offer). As part of the Exchange Offer, the note holders who accepted the Exchange Offer also agreed to forgo the interest payments on the Existing Notes which were due in July 2010 and January 2011. The Directors recognise there is uncertainty with respect to the successful completion of any asset sale and capital restructure.

Having considered these matters, the Directors, after making appropriate enquiries, have reasonable expectations that the Company has sufficient funding in the near term. Accordingly, the financial statements are prepared on a going concern basis as the Directors are of the opinion that there are reasonable grounds to believe that the Company and its subsidiaries will have sufficient liquidity to meet their existing commitments as and when they become due and payable.

(b) Principles of consolidation

The consolidated financial statements comprise the financial statements of Nexus Energy Limited and its controlled entities (the "Group"). A controlled entity 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. A list of controlled entities is provided in Note 24 to the financial statements. All controlled entities have a June financial year-end.

As at the reporting date the assets and liabilities of all controlled entities have been incorporated into the consolidated financial statements as well as their results for the year then ended. Where controlled entities 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. All inter-company balances and transactions between controlled entities in the Group, including any recognised profits or losses, have been eliminated on consolidation. Accounting policies of controlled entities have been changed where necessary to ensure consistencies with those policies applied by the Company.

notes to the financial statements continued

for the year ended 30 June 2010

1. Statement of significant accounting policies (continued)

(c) Income taxes

The income tax expense/(revenue) for the year comprises current income tax expense/(revenue) and deferred tax expense/(revenue).

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. Current tax liabilities (assets) are therefore measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

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 assets and liabilities are 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 charged or credited to the statement of comprehensive income except where it relates to items that may be charged or credited directly to other comprehensive income, in which case the deferred tax is adjusted directly against other comprehensive income. 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 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. 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. 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 statement of financial position.

(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.

Collectability 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

notes to the financial statements continued

for the year ended 30 June 2010

1. Statement of significant accounting policies (continued)

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 impairment loss is recognised in the statement of comprehensive income in other expenses.

Inter-entity receivables between wholly owned companies within the Group have no fixed terms of repayments and are payable on call. Where trade receivables for which an impairment allowance had been recognised become uncollectable in a subsequent period they are written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the statement of comprehensive income.

(f) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of casing and oil field inventory includes direct materials, direct labour and transportation costs relating to oil field activities. Inventories are reviewed annually for obsolescence. Inventories are deemed obsolete if the net realisable value is greater than cost and if the inventories are not in proper condition for use.

(g) Property, 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 statement of comprehensive income 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. 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 the end of each reporting period. An asset's carrying amount is written down 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 statement of comprehensive income.

(h) Intangibles

Computer software

Computer software is recognised at cost on 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 two to three years.

notes to the financial statements continued

for the year ended 30 June 2010

1. Statement of significant accounting policies (continued)

(i) Exploration and evaluation assets

Exploration and evaluation expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are only carried forward on the statement of financial position 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. Impairment of assets is discussed in Note 1(p).

Accumulated costs in relation to an abandoned area are written down in full in the statement of comprehensive income 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 statement of comprehensive income. 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) Production and development assets

Development assets 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 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 down in the financial period the decision is made. Each area of interest is reviewed at the end of each reporting period and accumulated costs are written down 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 the area of interest according to the rate of depletion of the 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. The amounts which are considered payable after 12 months have been classified as non-current.

(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 statement of comprehensive income 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 end of the reporting period.

(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 end of the reporting period.

notes to the financial statements continued

for the year ended 30 June 2010

1. Statement of significant accounting policies (continued)

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 asset) is created equivalent to the amount of the provision. 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 shown separately on the face of the statement of comprehensive income.

(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 the end of each reporting period, 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 statement of comprehensive income.

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. Cash generating units represent the lowest level of group assets for which there are separately identifiable cash flows, which are largely independent on the cash inflows from other assets or groups of assets. Non financial assets, other than goodwill that were previously impaired are reviewed for a possible reversal of the impairment at each reporting period.

(q) Interests in joint venture operations

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

(r) Financial guarantees

Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The liability is measured at fair value initially and subsequently measured at the higher of:

- the amount of the 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;

notes to the financial statements continued

for the year ended 30 June 2010

1. Statement of significant accounting policies (continued)

- 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.

(s) Financial instruments

Recognition

Financial instruments, incorporating financial assets and financial liabilities, are recognised when the entity becomes a party to the contractual provisions of the instrument. Financial instruments are initially measured at fair value on trade date plus in the case of financial asset or financial liability not at fair value through the profit and loss, transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below.

Derecognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expire. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

Financial assets at fair value through the profit and loss

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 'Financial Instruments: Recognition and Measurement'. Derivatives are also recognised as held for trading unless they are designated as hedges. Realised and unrealised gains and losses arising from changes in the fair value of these assets are included in the statement of comprehensive income in the period in which they arise. Assets in this category are classified as current assets.

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. They are included in current assets except those with maturities greater than 12 months after the reporting date which are classified as non-current assets.

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. These assets are classified as non-current assets except those with maturities less than 12 months from the reporting date which are classified as current assets.

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 recognised in other comprehensive income and included in the available-for-sale asset revaluation reserve. They are included in non-current assets unless management intends on disposing of the investment within 12 months of the reporting date.

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 statement of comprehensive income unless they are designated as hedges, in which case the accounting treatment is dependent on the nature of the item being hedged.

notes to the financial statements continued

for the year ended 30 June 2010

1. Statement of significant accounting policies (continued)

Hedging

In accordance with Australian Accounting Standard AASB 139 'Financial Instruments: Recognition and Measurement', the Company's foreign exchange contracts are considered qualifying cash flow hedges and the portion of the gain or loss that is considered to be an effective hedge is recognised directly in other comprehensive income with the ineffective portion recognised in the profit or loss.

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 the end of each reporting period, 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 significant or prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in the statement of comprehensive income.

(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 year-end 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 profit and loss, 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 profit and loss.

(u) Revenue

Sale of gas and condensate

The Group's operating revenue derived from the sale of condensate is brought to account after each shipment is loaded. Gas sales are recognised on production following delivery into the pipeline.

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) 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 statement of comprehensive income in the period in which they are incurred.

notes to the financial statements continued

for the year ended 30 June 2010

1. Statement of significant accounting policies (continued)

(w) 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 up to the end of the reporting period. 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 Executive Director and Employee Share Option Plan. The fair value of options granted are measured at the fair value of the equity instrument at the grant date. Fair value is measured by use of a binomial model. The expected life used in the model has been adjusted based on management's best estimate, for effects of non-transferability, exercise restrictions and behavioural considerations. The fair value determined at grant date is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest. The number of equity instruments expected to vest is reviewed and adjusted at the end of each reporting period.

(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 Taxation 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 statement of financial position 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 statement of financial position.

Cash flows are included in the statement of cash flows 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) Significant accounting estimates and judgments

In applying the Group's accounting policies, the Board and management evaluate estimates and judgements based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data obtained both externally and within the Group. Significant estimates and judgements made by management in the preparation for these financial statements are outlined below:

Share based payments

The Group measures the cost of equity settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined using the binomial options pricing model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit and loss and other comprehensive income.

Restoration provisions

The Group estimates the future removal costs of offshore equipment at the time of installation. This requires judgemental assumptions regarding removal method, future legislation, reclamation activities required, engineering methodology for estimating costs, future removal technologies and discount rates to determine the present value of the cash flows. For more detail regarding the policy in respect of provisions for restoration refer to Note 1(n).

notes to the financial statements continued

for the year ended 30 June 2010

1. Statement of significant accounting policies (continued)

Income tax

The Group is subject to income taxes in Australia. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Group estimates its tax liabilities based on the Group's understanding of the tax law. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax balances in the financial period in which such determination is made.

Impairment of production and development assets

The Group assesses impairment at the end of each reporting period by evaluating conditions specific to the Group that may lead to the impairment of production and development assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations are performed in assessing recoverable amounts and are based on the present value of future cash flows which incorporate a number of key estimates. Refer to Notes 16 to 17 for further details.

Capitalised exploration and evaluation expenditure

The future recoverability of capitalised exploration and evaluation expenditure is dependent on a number of factors, including whether the Group decides to exploit the related exploration permit itself or, if not, whether it successfully recovers the related exploration and evaluation asset through sale. Factors that could affect the future recoverability include the level of economically recoverable reserves, future technological changes which could impact the cost of development, future legal changes (including changes to environmental and restoration obligations) and changes to commodity prices. To the extent that capitalised exploration and evaluation expenditure is determined not to be recoverable in the future, financial results and net assets will be reduced during the financial period in which this determination is made.

In addition, exploration and evaluation expenditure is carried forward on the basis that exploration and evaluation activities in the areas of interest have not at the end of the reporting period reached a stage that permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or in relation to, the areas of interest are continuing. To the extent it is determined in the future this capitalised expenditure should be written off, financial results and net assets will be reduced during the financial period in which this determination is made. Information on the reasonable existence or otherwise of economically recoverable reserves is progressively gained through geological analysis and interpretation, drilling activity and prospect evaluation during a normal permit term. A reasonable assessment of the existence or otherwise of economically recoverable reserves can generally only be made, therefore, at the conclusion of those exploration and evaluation activities. The Group's accounting policy for exploration and evaluation expenditure is set out in Note 1(i).

Estimates on reserve quantities

The estimated quantities of proven plus probable reserves are integral to the calculation of amortisation expense and the assessment of possible impairment of assets. Estimated reserve quantities are based upon interpretations of geological and geophysical models and assessments of technical feasibility and commercial viability of producing the reserves. These estimates require assumptions to be made regarding future development and production costs, commodity prices and exchange rates. The estimates of reserves may change from period to period, and as additional geological data is generated during the course of the operations. Reserve estimates are prepared in accordance with guidelines prepared by the Society of Petroleum Engineers.

notes to the financial statements continued
for the year ended 30 June 2010

2. Parent information

The following information has been extracted from the books and records of the parent and has been prepared in accordance with the accounting standards.

	2010	2009
	\$	\$
Balance sheet		
Assets		
Current assets	24,360,256	51,649,352
Total assets	541,187,765	500,502,766
Liabilities		
Current Liabilities	934,919	36,396,620
Total liabilities	138,545,901	152,959,702
Equity		
Issued capital	544,505,729	469,756,885
Reserves	8,590,572	7,624,927
Retained profits/accumulated losses)	(150,454,437)	(129,838,748)
Total equity	402,641,864	347,543,064

Guarantees and contingent liabilities

Refer to Note 34 for details of guarantees and contingent liabilities.

Contractual commitments

Refer to Note 27 for details of contractual commitments.

	Consolidated	
	2010	2009
	\$	\$
3. Revenue		
Sale of gas and condensate	28,551,872	-
Total revenue	28,551,872	-
Other income		
Sale of exploration permit interest	-	80,424,402
Interest income	1,350,315	3,555,400
Services revenue from joint venture operations	444,095	1,464,738
Total other income	1,794,410	85,444,540
4. Operating costs		
Production costs	13,700,480	-
Royalty expense	824,322	-
Amortisation of production asset	16,956,580	-
Total operating costs	31,481,382	-

notes to the financial statements continued
for the year ended 30 June 2010

	2010 \$	2009 \$
5. Profit/(loss) for the year		
Exploration and evaluation expenditure expensed	7,590,855	16,814,148
Finance costs:		
- interest expense and other finance costs	33,223,547	17,536,604
Depreciation of plant and equipment and amortisation of software	747,925	959,129
Rental expense on operating leases – minimum lease payments	1,538,064	1,249,835
Loss on available-for-sale investments	-	89,800,752
Net foreign currency (gains)/losses	(262,570)	5,556,189

6. Income tax

(a) Income tax recognised in profit and loss

Tax expense/(income) comprises:

Deferred income tax	(14,954,686)	2,891,271
Deferred tax – petroleum resource rent tax (net of income tax benefits)	(36,814,838)	(39,679,546)
	(51,769,524)	(36,788,275)

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% (2009: 30%)	(15,221,510)	(26,162,524)
Add tax effect of:		
Under/(over) provided in prior year	(113,814)	-
Share based payments expense	289,693	212,368
Capital losses not recognised	-	35,999,521
Temporary differences and tax losses not previously brought to account	-	(7,327,345)
Other non deductible items	90,945	169,251
Income tax expense/(income)	(14,954,686)	2,891,271
Petroleum resource rent tax (net of income tax benefits)	(36,814,838)	(39,679,546)
Total tax expense (income)	(51,769,524)	(36,788,275)

Applicable weighted average effective tax rate/(tax benefit)	(102%)	(42%)
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The increase in the weighted average effective tax rate/(tax benefit) is the result of the tax benefits on the deferred tax balances and tax benefit on the Group's PRRT credits.

Included in tax expense (income) is tax income of \$36,814,838 (net of income tax) which arises principally on augmentation of the Group's PRRT credits relating to exploration and development costs incurred up to 30 June 2010.

(b) Income tax recognised directly in equity

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:

Deferred tax		
Unclaimed equity raising costs	1,597,593	33,587
Total income tax recognised directly in equity	1,597,593	33,587

notes to the financial statements continued
for the year ended 30 June 2010

6. Income tax (continued)

(c) Deferred tax balances

Deferred tax balances arise from the following:

	Opening balance \$	Charged to income \$	Charged to equity \$	Closing balance \$
2010				
Temporary differences				
Exploration and evaluation expenditure	(115,872,570)	(3,214,731)	-	(119,087,301)
Petroleum resource rent tax	61,475,312	52,592,625	-	114,067,937
Petroleum resource rent tax – income tax benefit	(18,442,595)	(15,777,787)	-	(34,220,382)
Provisions and accruals	14,210,227	(3,239,327)	-	10,970,900
Unclaimed takeover costs	1,325,371	(581,312)	-	744,059
Unclaimed equity raising costs	1,343,376	(892,298)	1,597,593	2,048,671
Senior subordinated notes	347,619	2,523,874	-	2,871,493
Inventory	1,703,564	551,338	-	2,254,902
Other	(4,998,405)	1,526,435	-	(3,471,970)
	(58,908,101)	33,488,817	1,597,593	(23,821,691)
Unused tax losses and credits:				
Tax losses	81,402,563	18,280,707	-	99,683,270
	22,494,462	51,769,524	1,597,593	75,861,579
Presented in the statement of financial position as follows:				
Deferred tax asset				114,067,937
Deferred tax liability				(38,206,358)
				75,861,579
	Opening balance \$	Charged to income \$	Charged to equity \$	Closing balance \$
2009				
Temporary differences				
Exploration and evaluation expenditure	(96,814,190)	(19,058,380)	-	(115,872,570)
Petroleum resource rent tax	4,790,246	56,685,066	-	61,475,312
Petroleum resource rent tax – income tax benefit	(1,437,075)	(17,005,520)	-	(18,442,595)
Provisions and accruals	7,317,690	6,892,537	-	14,210,227
Unclaimed takeover costs	1,885,471	(560,100)	-	1,325,371
Unclaimed equity raising costs	1,935,326	(625,537)	33,587	1,343,376
Senior subordinated notes	212,176	135,443	-	347,619
Inventory	-	1,703,564	-	1,703,564
Other	(314,432)	(4,683,973)	-	(4,998,405)
	(82,424,788)	23,483,100	33,587	(58,908,101)
Unused tax losses and credits:				
Tax losses	68,097,388	13,305,175	-	81,402,563
	(14,327,400)	36,788,275	33,587	22,494,462
Presented in the statement of financial position as follows:				
Deferred tax asset				61,475,312
Deferred tax liability				(38,980,850)
				22,494,462

notes to the financial statements continued

for the year ended 30 June 2010

	2010	2009
	\$	\$

6. Income tax (continued)

(d) Unrecognised deferred tax assets

A deferred tax asset has not been recognised in the statement of financial position as the benefits will only be realised if the conditions for deductibility set out in Note 1 occur:

Tax losses:

- capital losses	90,400,692	90,400,692
Potential net tax benefit at Australian tax rate of 30%	27,120,207	27,120,207

7. Dividends

There were no ordinary dividends declared or paid during the financial year by the Company (2009: \$Nil).

Dividend franking account

Balance of franking account	-	-
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8. Earnings per share

Profit (loss) used to calculate basic and dilutive profit (loss) per share	1,031,157	(50,420,139)
(a) Basic profit (loss) per share (cents)	0.12	(7.82)
(b) Diluted profit (loss) per share (cents)	0.12	(7.78)
Weighted average number of ordinary shares outstanding during the financial year used in calculating basic profit/loss per share:	872,376,078	645,109,944
Weighted average number of dilutive options outstanding:	4,939,565	2,733,810
Weighted average number of anti-dilutive options outstanding:	35,103,984	34,013,346
Weighted average number of ordinary shares outstanding during the financial year used in calculating diluted profit/(loss) per share (excluding anti-dilutive options outstanding):	877,315,643	647,843,754

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.

9. Cash and cash equivalents

Cash at bank and on hand	17,840,240	48,589,734
Bank deposits at call	1,307,471	1,616,309
Restricted bank deposits	5,776,146	5,170,948
Total cash and cash equivalents	24,923,857	55,376,991

(a) Cash at bank and on hand

Cash at bank and on hand balance attracted an interest rate of 3.05% as at 30 June 2010 (30 June 2009: 2.67%). The non-interest bearing amounts are disclosed at Note 25. As at 30 June 2010 cash at bank included accounts held in escrow totalling \$nil (2009: \$2,015,868). In the prior year these accounts were established in order to fund rig costs associated with the Group's drilling program.

notes to the financial statements continued
for the year ended 30 June 2010

9. Cash and cash equivalents (continued)

(b) Bank deposits at call

The weighted average interest rate on bank deposits at call as at 30 June 2010 was 3.15% (30 June 2009: 3.15%). These term deposits have a maturity of less than 60 days.

(c) Restricted bank deposits

The weighted average interest rate on restricted bank deposits as at 30 June 2010 was 3.39% (30 June 2009: 2.63%). Refer to Note 19 for further details.

(d) Effective interest rates

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

	2010 \$	2009 \$
10. Trade and other receivables		
Current		
Trade and other receivables	12,505,551	9,657,111
Provision for impairment	(329,521)	(329,521)
Total current trade and other receivables	12,176,030	9,327,590
Non-current		
Trade and other receivables	5,809,431	-
Provision for impairment	-	-
Total non-current trade and other receivables	5,809,431	-
(a) Past due but not impaired		
The ageing of these receivables is as follows:		
One to three months	-	795,786
Greater than three months	5,809,431	-
	5,809,431	795,786

(b) 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. Collectability of trade debtors is reviewed on an ongoing basis.

(c) Fair value

Due to the short term nature of these receivables, their carrying amount is assumed to approximate their fair value.

(d) Foreign exchange, interest rate and credit risk

Information concerning the Company and the Group's exposure to interest rate changes, foreign exchange and credit risk on both current and non-current receivables is set out in Note 25. The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivables mentioned above.

notes to the financial statements continued
for the year ended 30 June 2010

	2010 \$	2009 \$
11. Inventories		
Current		
Casing and oil field inventory, at cost	9,584,832	9,981,293
Inventory held for resale	3,430,665	3,430,664
Less: provision for obsolescence	(7,516,339)	(6,180,722)
Total current inventories	5,499,158	7,231,235
12. Other assets		
Current		
Prepayments	618,830	3,522,330
Total current other assets	618,830	3,522,330
Non-current		
Prepayments	16,882,929	-
Total non-current other assets	16,882,929	-
13. Property, plant and equipment		
Plant and equipment		
At cost	1,210,312	1,216,419
Accumulated depreciation	(1,135,137)	(875,549)
Total plant and equipment	75,175	340,870
Leasehold improvements		
At cost	326,789	326,789
Accumulated depreciation	(193,923)	(165,833)
Total leasehold improvements	132,866	160,956
Total property, plant and equipment, at net book value	208,041	501,826
Reconciliations		
Reconciliations of the carrying amounts for each class of property, plant and equipment are set out below:		
Plant and equipment		
Balance at beginning of financial year	340,870	476,035
Additions	9,306	236,858
Disposals	(15,413)	-
Write back of accumulated depreciation on disposal of assets	11,105	-
Depreciation expense	(270,693)	(372,023)
Net carrying amount at end of financial year	75,175	340,870
Leasehold improvements		
Balance at beginning of financial year	160,956	102,342
Additions	-	194,055
Depreciation expense	(28,090)	(135,441)
Net carrying amount at end of financial year	132,866	160,956

For details of non-current assets pledged as security by the Consolidated Group refer to Note 19.

notes to the financial statements continued
for the year ended 30 June 2010

	2010	2009
	\$	\$
14. Intangible assets		
Computer software		
At cost	1,709,071	1,672,664
Accumulated amortisation	(1,550,795)	(1,102,835)
Total intangibles, at net book value	158,276	569,829
Reconciliation		
Reconciliation of the carrying amount for computer software is set out below:		
Balance at beginning of financial year	569,829	466,261
Additions	37,757	554,999
Disposals	(1,350)	-
Amortisation expense	(449,142)	(451,431)
Write back of accumulated depreciation on disposal of assets	1,182	-
Net carrying amount at end of financial year	158,276	569,829

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

15. Exploration and evaluation assets

Balance at beginning of financial year	31,110,098	254,668,273
Expenditure incurred	2,631,836	19,551,207
Financing costs incurred	-	-
Transfer to development and production assets	(9,330,292)	(209,954,510)
Disposal on sale of exploration permit interest	-	(17,193,887)
Expenditure incurred expensed to the statement of comprehensive income	(7,590,855)	(15,960,985)
Total exploration and evaluation expenditure carried forward	16,820,787	31,110,098

Exploration and evaluation expenditure carried forward relates to the areas of interest in the exploration phase for petroleum exploration permits VIC/P54, WA-368-P, WA-424-P and WA-377-P (2009: VIC/P54, VIC/P49, WA-368-P, WA-424-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.

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.

	2010	2009
	\$	\$
16. Development assets		
Balance at beginning of financial year	655,613,294	146,475,473
Financing costs incurred	-	13,216,477
Expenditure incurred	6,083,948	285,966,834
Transfer from exploration expenditure	-	209,954,510
Transfer to production asset	(387,470,953)	-
Total development assets carried forward	274,226,289	655,613,294

notes to the financial statements continued

for the year ended 30 June 2010

16. Development assets (continued)

The development expenditure carried forward relates to the Crux asset (AC/L9). 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 production assets.

Impairment tests are performed where there is an indication of impairment. The consolidated entity performs annually an internal review of asset values using cash flow projections. These asset values are then used for impairment testing. Each development asset is considered a separate cash generating unit. The present value of future cash flows is used to determine a recoverable amount for each asset based on its value-in-use. If the carrying amount of an asset exceeds its recoverable amount, the asset is impaired and an impairment loss is charged to the statement of comprehensive income with a corresponding reduction in the carrying value of the asset.

The asset valuations are based on a proved and probable (2P) reserve production profile and various estimates and assumptions. The key assumptions used in the cash flow projections include the following:

- oil price – starting at a price of US\$80 per barrel escalated by CPI;
- exchange rates – USD/AUD exchange rate of 0.85; and
- discount rates – the post-tax discount rate applied to cash flow projections is 10%.

The cash flow has been projected over seven years which is the Build, Own and Operate production profile.

No impairment has been recorded at 30 June 2010 (2009: Nil).

Asset valuations based on cash flow projections use a range of assumptions that are subject to change. Accordingly, the recoverable amount of the development asset is sensitive to reasonable possible changes in key assumptions. Sensitivity analysis has been performed applying the following possible changes in key assumptions:

- reserves – 10% decrease in reserves;
- oil price – 10% decrease in oil price;
- exchange rate – 10% increase in exchange rates; and
- post tax discount rate – 1% increase in post tax discount rate.

The net effect of these changes does not result in impairment in the value of the asset at 30 June 2010.

	2010	2009
	\$	\$
17. Production assets		
Costs		
Balance at beginning of financial year	-	-
Transfer from development assets	387,470,953	-
Transfer from exploration expenditure	9,330,292	-
Financing costs incurred	5,390,188	-
Expenditure incurred	62,734,457	-
Total cost at 30 June 2010	464,925,890	-
Accumulated amortisation		
Balance at beginning of financial year	-	-
Amortisation charge for the year	(16,956,580)	-
Accumulated amortisation at 30 June 2010	(16,956,580)	-
Net book value at 30 June 2010	447,969,310	-

notes to the financial statements continued

for the year ended 30 June 2010

17. Production assets (continued)

The capitalisation rate used in the allocation of financing costs was 7.26% (2009: 8.13%).

The production assets relate to the Longtom gas project (VIC/L29) which commenced production on 21 October 2009.

Impairment tests are performed where there is an indication of impairment. The consolidated entity performs annually an internal review of asset values using cash flow projections. These asset values are then used for impairment testing. The producing asset is considered a separate cash generating unit. The present value of future cash flows is used to determine a recoverable amount of the asset base on its value-in-use. If the carrying amount of an asset exceeds its recoverable amount, the asset is impaired and an impairment loss is charged to the statement of comprehensive income with a corresponding reduction in the carrying value of the asset.

The asset valuations are based on a proved and probable (2P) reserve production profile and various estimates and assumptions. The key assumptions used in the cash flow projections include the following:

- oil price – starting at a price of US\$80 per barrel escalated by CPI;
- exchange rates – USD/AUD exchange rate of 0.85; and
- discount rates – the post-tax discount rate applied to cash flow projections is 10%.

The cash flow has been projected over 15 years which is the expected 2P production profile of the asset.

No impairment has been recorded at 30 June 2010 (2009: Nil).

Asset valuations based on cash flow projections use a range of assumptions that are subject to change. Accordingly, the recoverable amount of the production asset is sensitive to reasonable possible changes in key assumptions. Sensitivity analysis has been performed applying the following possible changes in key assumptions:

- reserves – 10% decrease in reserves;
- oil price – 10% decrease in oil price;
- exchange rate – 10% increase in exchange rates; and
- post tax discount rate – 1% increase in post tax discount rate.

The net effect of these changes would result in an impairment of \$11 million in the value of the asset at 30 June 2010.

	2010	2009
	\$	\$
18. Trade and other payables		
Current (unsecured)		
Trade payables	910,450	1,997,227
Sundry payables and accrued expenditure	10,451,032	53,672,817
Total current trade and other payables	11,361,482	55,670,044
Non-current (unsecured)		
Deferred revenue	11,562,063	-
Total non-current trade and other payables	11,562,063	-

notes to the financial statements continued

for the year ended 30 June 2010

	Note	2010 \$	2009 \$
19. Borrowings			
Non-current			
Bank loan (secured)	(a)	160,000,000	114,089,400
Senior subordinated notes (unsecured)	(b)	130,270,202	110,906,868
Total long term borrowings		290,270,202	224,996,268

(a) Bank loan

A \$160,000,000 senior debt facility and a \$60,000,000 senior secured letter of credit facility was arranged with BOS International (Australia) Limited in the 2007/2008 financial year to fund the Longtom gas project. The debt facility comprises a \$145,000,000 development facility and \$15,000,000 cost overrun facility maturing in eight years and six months from date of project financial completion (as defined in the Longtom project financing agreement). As at 30 June 2010 \$160,000,000 (2009: \$114,089,400) of the development facility and cost overrun facility had been fully drawn down.

Interest was charged on each drawdown at the average Reuters BBSY bid rate on the first date of the period plus a margin of 2.90% – 3.50%. Interest is payable on the last day of each funding period being one, two or three months. As at 30 June 2010 the interest rate was 8.43% (2009: 7.20%).

The \$60,000,000 senior secured letter of credit facility has been utilised to provide a letter of credit as security for completion of certain capital works on the Longtom gas project and in respect of obligations to make gas deliveries. The facility and letter of credit has two tranches: tranche A (\$30,000,000) attracts a fee of 2.05% – 3.50% until project financial completion and 1.80% thereafter, tranche B (\$30,000,000) attracts a fee of 2.90% – 3.50%.

The above debt facility was provided to Nexus Energy VIC/P54 Pty Ltd. The Company has guaranteed the obligations of this borrower, although the guarantee in respect of the Longtom debt facility and tranche A of the letter of credit expire at Longtom project financial completion and the loans become non-recourse to the company.

The Group has pledged \$4,000,000 of draw down notices in respect of the Equity Line of Credit. No draw downs have been made in relation to the pledge.

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. The carrying amount of assets given as security as at 30 June 2010 was \$700,022,417 (2009: \$452,816,850);
- (ii) mortgage of shares granted by the Company over all of its shares in Nexus Energy Aust. NL, Nexus Energy VIC/P54, and Nexus Energy Corporate Pty Ltd; and
- (iii) mortgage over a Cost Overrun Reserve Account established under the facility agreement.

The covenants within these facilities require inter alia, that the Group:

- (i) maintain Shareholders' Funds of at least \$130,000,000;
- (ii) post project completion, maintain a Debt Service Reserve Account of at least three months' principal and interest payments; and
- (iii) maintain certain cover ratios and maintain project gearing below 75%.

The above covenants were satisfied during the period to 30 June 2010 and 30 June 2009.

notes to the financial statements continued

for the year ended 30 June 2010

19. Borrowings (continued)

(b) Senior subordinated notes

In January 2008, 1,100 of Unsecured Senior Subordinated Notes ("Notes") at an issue price of \$100,000 per note and 31,844,058 Warrants were issued. The Notes are due in January 2013 and carry a semi-annual coupon of six months BBSW plus a margin of 550 bps, on the basis of 100% capitalisation for the first four interest payment dates and cash payment thereafter. Unless previously redeemed, the Notes will be redeemed at their principal amount on maturity. As at 30 June 2010 the interest rate payable on the Notes was 10.12% (2009: 8.95%). The net proceeds received from the issue of the Notes have been allocated to a liability and an equity component. The interest charge for the year is calculated by applying an effective interest rate of 15.87% on the liability component.

The Notes are subordinated to the Company's obligation in respect of the Group's existing senior debt facility. The Notes will also be subordinated to similar future senior debt facilities, and are not convertible into Nexus Energy Limited shares. Under the terms of the Notes the Group's gearing ratio (total liabilities to total assets) must not exceed 55%. The Group was compliant with this covenant as at 30 June 2010.

Each Warrant provides the option to subscribe for one Nexus Energy Limited share at an exercise price of \$2.04 (which was a 30% premium to the 20 day volume weighted average market price of Nexus Energy Limited shares prior to 21 December 2007). The Warrants will expire in January 2013 in the absence of earlier termination.

On 3 August 2010 Nexus advised that the Company had completed an exchange offer with acceptance by 86.27% of its A\$110,000,000 Unsecured Senior Subordinated Notes due 2013 ("Existing Notes") for new unsecured Senior Subordinated Notes and Nexus ordinary shares in accordance with the exchange offer announced on 15 July 2010 ("Exchange Offer"). For further details refer to Note 33 Subsequent events.

(c) Risk exposures

Details of the Group's exposure to risks arising from current and non-current borrowings are set out in Note 25.

	2010 \$	2009 \$
20. Financial liabilities		
Current		
Foreign currency forward contracts	-	182,474
Total current other financial liabilities	-	182,474
Non-current		
Interest rate swap contract carried at fair value through profit and loss	3,553,772	6,938,694
Total non-current other financial liabilities	3,553,772	6,938,694

(a) Risk exposures

Details of the Group's exposure to risks arising from foreign currency forward contracts and interest rate swap contracts are set out in Note 25.

21. Provisions

Long term

Employee benefits	126,889	124,699
Restoration	35,697,336	46,238,960
Total long term provisions	35,824,225	46,363,659

notes to the financial statements continued
for the year ended 30 June 2010

21. Provisions (continued)

	Long term employee benefits \$	Restoration provision \$
Balance at beginning of financial year	124,699	46,238,960
Additions	2,190	-
Decrease in the discounted amount arising because of time and the effect of any change in discount rate	-	(10,541,624)
Balance at end of financial year	126,889	35,697,336

Provision for employee benefits

A provision has been recognised for employee entitlements relating to long service leave. The measurement and recognition criteria relating to employee benefits has been included in Note 1(w) of this financial report.

Restoration provision

The restoration provision represents the Group's estimated present value of costs relating to future site restoration, removal and rehabilitation activities. The measurement and recognition criteria relating to the restoration provision has been included in Note 1(n) of this financial report. The significant movement in the restoration provision is the result of adjusting the provision to its present value at 30 June 2010.

	2010 Number	2009 Number	2010 \$	2009 \$
22. Issued capital				
(a) Share capital				
Ordinary shares, fully paid	958,061,849	645,350,183	525,745,195	450,996,351
(b) Other equity securities				
Value of warrants – senior subordinated notes (unsecured)			19,305,120	19,305,120
Deferred tax liability component			233,394	233,394
Less: transaction costs			(777,980)	(777,980)
			18,760,534	18,760,534
			544,505,729	469,756,885

There was no movement in other equity securities during the year.

(c) Movements in ordinary share capital 30 June 2009 to 30 June 2010

Details		Number of shares	Issue price	\$
30 June 2008	Opening balance	639,504,369		442,791,721
16 July 2008	Share purchase plan	5,845,814	\$1.42	8,301,056
	Add: Deferred tax credit balance recognised directly in equity			33,587
	Less: transaction costs on share issue			(130,013)
30 June 2009	Closing	645,350,183		450,996,351
8 September 2009	Institutional placement	96,800,000	\$0.32	30,976,000
21 October 2009	Rights issue	197,911,666	\$0.22	43,540,566
13 November 2009	Rights issue	18,000,000	\$0.22	3,960,000
	Add: Deferred tax credit balance recognised directly in equity			1,597,593
	Less: transaction costs on share issue			(5,325,315)
30 June 2010	Closing balance	958,061,849		525,745,195

notes to the financial statements continued

for the year ended 30 June 2010

22. Issued capital (continued)

The Company has authorised share capital amounting to 958,061,849 (2009: 645,350,183) ordinary shares of no par value.

Ordinary shares participate in dividends and the proceeds on winding up of the Company in proportion to the number of shares held.

At shareholders meetings, on a show of hands every holder of ordinary shares present at a meeting in person or by proxy is entitled to one vote, and upon a poll each share is entitled to one vote.

The warrant holders do not participate in dividends or any other distribution or right declared and have no voting rights. On winding up of the company the warrant holders have the option to convert to ordinary shares at an exercise price of \$2.04 and would assume the same rights as an ordinary shareholder.

23. Reserves

Share based payments reserve

The share based payment reserve is used to recognise the fair value of options and shares granted under the Director and Executive Share Option Plan.

Hedge reserve

The hedge reserve is used to recognise the fair value of foreign exchange contracts yet to be exercised as at the end of the reporting period. Amounts are recognised in the statement of comprehensive income when the associated hedge transaction affects the profit and loss.

24. Controlled entities

Name	Country of incorporation	Percentage of equity and voting interests held	
		2010 %	2009 %
Parent entity			
Nexus Energy Limited	Australia		
Subsidiaries			
Nexus Energy Aust. NL	Australia	100.0	100.0
Nexus Energy VICP54 Pty Ltd	Australia	100.0	100.0
Nexus IT Investments Pty Ltd	Australia	100.0	100.0
Nexus Energy Services Pty Ltd	Australia	100.0	100.0
Nexus Energy WA Pty Ltd	Australia	100.0	100.0
Nexus Energy Corporate Pty Ltd	Australia	100.0	100.0
Nexus Energy ACP41 Pty Ltd	Australia	100.0	100.0
Nexus Energy NTP66 Pty Ltd	Australia	100.0	100.0
Nexus Energy VICP56 Pty Ltd	Australia	100.0	100.0
Nexus Energy VICP49 Pty Ltd	Australia	100.0	100.0
Nexus Energy WA377P Pty Ltd	Australia	100.0	100.0
Nexus Energy WA368P Pty Ltd	Australia	100.0	100.0
Nexus Energy (Bass Strait) Pty Ltd	Australia	100.0	100.0
Nexus Energy NV Pty Ltd	Australia	100.0	100.0
Shelf Investment Pty Ltd	Australia	100.0	100.0
Nexus Energy VICT29 Pty Ltd	Australia	100.0	100.0

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

notes to the financial statements continued

for the year ended 30 June 2010

25. Financial risk management

The Group has exposure to credit, foreign currency, price, liquidity, and interest rate risks from its use of financial instruments. The Group's financial instruments consist mainly of deposits with banks, accounts receivable and payable, bank loans, subordinated notes and derivatives. The main purpose of non-derivative financial instruments is to raise finance for Group operations. The Group may enter into various derivative financial instruments to manage its exposure to the risks associated with non-derivative instruments. The Group does not enter into or trade in derivative financial instruments for speculative purposes.

The use of financial instruments and the overall risk management strategy of the Group is governed by the Board of Directors and is primarily focused on ensuring that the Group is able to finance its business plans. Risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

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

Credit risk refers to the risk that a counter-party will default on its contractual obligations resulting in financial loss to the Group. 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 statement of financial position and notes to the financial statements. Such guarantees are only provided in exceptional circumstances and are subject to Board approval.

To minimise credit risk, the Group trades with recognised, creditworthy third parties. 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. Receivable balances are monitored on an ongoing basis with the result being that the Group's exposure to bad debts is not significant. Credit risk for derivative financial instruments arises from the potential failure by counter-parties to the contract to meet their obligations. The credit risk exposure to forward exchange contracts and interest rate swaps is the net fair value of these contracts as discussed below.

(b) Price risk

During the 2009 financial year the Group disposed of all its available-for-sale investments.

(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 to United States dollars. The Group manages foreign exchange risk by monitoring forecast cash flows in currencies other than Australian dollars and maintaining certain cash balances in United States dollars.

Forward exchange contracts

In the 2009 financial year the Group had in place a forward exchange contract to buy specified amounts of foreign currencies in the future at stipulated exchange rates. The objective of entering into this forward exchange contract was to protect the Group against unfavourable exchange rate movements for purchases undertaken in foreign currencies. The contracts did not satisfy the requirements for hedge accounting and were recognised at fair value through the profit and loss.

As at 30 June 2010 no forward exchange contracts were in place.

notes to the financial statements continued
for the year ended 30 June 2010

	2010 \$	2009 \$
25. Financial risk management (continued)		
Buy United States Dollars		
Settlement less than six months	-	581,285
Average exchange rate	-	0.8126

Foreign currency sensitivity analysis

The Group is mainly exposed to US dollars. The following table details the Group's sensitivity to a 10% increase or decrease in the Australian dollar against the US dollar. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 10% change in the exchange rate.

	2010 \$	2009 \$
Change in profit		
- Improvement in AUD to USD by 10%	109,697	695,603
- Decline in AUD to USD by 10%	(109,697)	(695,603)
Change in equity		
- Improvement in AUD to USD by 10%	109,697	695,603
- Decline in AUD to USD by 10%	(109,697)	(695,603)

(d) Liquidity risk

The Group manages liquidity risk through the preparation and maintenance of rolling forecast cash flows and ensuring that adequate borrowing facilities are maintained. Emphasis is placed on ensuring there is sufficient funding in place to meet the ongoing requirements of the Group's exploration and development activities. The following table illustrates the contractual maturities of the Group's financial liabilities.

	2010 \$	2009 \$
6 months or less	11,361,482	55,852,518
6 to 12 months	-	-
1 to 5 years	145,386,037	117,845,562
Over 5 years	160,000,000	114,089,400

notes to the financial statements continued
for the year ended 30 June 2010

25. Financial risk management (continued)

(e) Market risk

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:

2010	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 \$
Financial assets						
Cash and cash equivalents	3.06	23,616,386	1,307,471	-	-	24,923,857
Trade and other receivables		-	-	-	17,985,461	17,985,461
Total financial assets		23,616,386	1,307,471	-	17,985,461	42,909,318
Financial liabilities						
Trade and other payables		-	-	-	22,923,545	22,923,545
Bank loans	7.26	160,000,000	-	-	-	160,000,000
Subordinated notes	15.87	130,270,202	-	-	-	130,270,202
Interest rate swaps ⁽ⁱ⁾		3,553,772	-	-	-	3,553,772
Total financial liabilities		293,823,974	-	-	22,923,545	316,747,519

2009	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 \$
Financial assets						
Cash and cash equivalents	2.68	55,376,991	-	-	-	55,376,991
Trade and other receivables		-	-	-	9,327,590	9,327,590
Total financial assets		55,376,991	-	-	9,327,590	64,704,581
Financial liabilities						
Trade and other payables		-	-	-	55,670,044	55,670,044
Bank loans	6.20	114,089,400	-	-	-	114,089,400
Subordinated notes	15.87	110,906,868	-	-	-	110,906,868
Interest rate swaps ⁽ⁱ⁾		6,938,694	-	-	-	6,938,694
Foreign currency forward contracts		-	-	-	182,474	182,474
Total financial liabilities		231,934,962	-	-	55,852,518	287,787,480

(i) Interest rate swaps

The Group had an interest rate swap in place at 30 June 2010 to provide protection against interest rate fluctuations on Longtom project finance borrowings. The swap is based on a notional total debt balance of \$101,500,000 commencing on 2 January 2009 and expires on 1 July 2014. The notional total debt balance declines throughout the life of the instrument. The contract requires settlement of net interest receivable or payable quarterly based on the Group paying a fixed rate of 7.68% and receiving the floating rate. The contracts do not satisfy the requirements for hedge accounting and have been recognised at fair value through the profit and loss.

notes to the financial statements continued
for the year ended 30 June 2010

25. Financial risk management (continued)

Interest rate sensitivity analysis

Based on the average balance of debt during the year, if interest rates increased or decreased by 1% the effect on profit and equity as a result of changes in the interest rate, with all other variables remaining constant, would be as follows. Note there is no effect on profit or equity for borrowings capitalised as part of the Group's exploration and development activities.

	2010	2009
	\$	\$
Change in profit		
Increase interest rate by 1%	(2,902,702)	(2,249,963)
Decrease interest rate by 1 %	2,902,702	2,249,963
Change in equity		
Increase interest rate by 1%	(2,902,702)	(2,249,963)
Decrease interest rate by 1 %	2,902,702	2,249,963

(f) Fair values of financial instruments

The fair values of financial assets and liabilities are determined as follows:

- (i) The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current bid price.
- (ii) The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short term nature.
- (iii) The fair value of other financial assets and liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.
- (iv) Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts.
- (v) Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

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

(g) Financial instruments measured at fair value

The financial instruments recognised at fair value in the statement of financial position have been analysed and classified using a fair value hierarchy reflecting the significance of the inputs used in making the measurements. The fair value hierarchy consists of the following levels:

- quoted prices in active markets for identical assets or liabilities (Level 1);
- inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2); and
- inputs for the asset and liability that are not based on observable market data (unobservable inputs) (Level 3).

notes to the financial statements continued

for the year ended 30 June 2010

25. Financial risk management (continued)

2010	Level 1	Level 2	Level 3	Total
Financial liabilities				
Financial liabilities at fair value through the profit or loss:				
- Financial liabilities – interest rate swap	-	3,553,772	-	3,553,772
- Borrowings – senior subordinated notes	-	130,270,202	-	130,270,202
	-	133,823,974	-	133,823,974

2009	Level 1	Level 2	Level 3	Total
Financial liabilities				
Financial liabilities at fair value through the profit or loss:				
- Financial liabilities – interest rate swap	-	6,938,694	-	6,938,694
- Financial liabilities – foreign currency forward contracts	-	182,474	-	182,474
- Borrowings – senior subordinated notes	-	110,906,868	-	110,906,868
	-	118,028,036	-	118,028,036

Included in Level 2 are the fair value of the interest rate swap contracts and the senior subordinated notes in place at 30 June 2010.

(h) Capital management

The Board of Directors controls the capital of the Group in order to maintain debt within levels specified in financial covenants and to ensure that the Group can fund its operations and continue as a going concern. The Group's debt and capital includes ordinary share capital and financial liabilities which are supported by financial assets. The Group is required under certain of its borrowing covenants to maintain shareholders' funds of at least \$130,000,000 and not to exceed a project gearing ratio (defined for this purpose as total liabilities to total assets) of 75%. The Group was compliant with this covenant as at 30 June 2010.

The Group's capital is managed by maintaining adequate banking facilities, monitoring future rolling cash flows and adjusting its capital structure as required to meet business objectives.

26. Joint operations

The Group has an interest in the following joint operations as at 30 June 2010:

Petroleum exploration permit/licence	Unincorporated interest		Principal activities	Operator of joint venture operation
	2010 %	2009 %		
VIC/P49	0 ⁽¹⁾	80	Oil and gas exploration	Nexus Energy Services Pty Ltd
WA-368-P	50	50	Oil and gas exploration	Nexus Energy Services Pty Ltd
WA-377-P	100 ⁽²⁾	66	Oil and gas exploration	Nexus Energy WA377P Pty Ltd
AC/L9	85	85	Oil and gas exploration	Nexus Energy WA Pty Ltd

(1) The permit has reverted to the Government.

(2) Shell has formally withdrawn from WA-377-P leaving Nexus with a 100% interest.

notes to the financial statements continued
for the year ended 30 June 2010

26. Joint operations (continued)

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

	2010	2009
	\$	\$
Cash and cash equivalents	9,420	3,289
Receivables	6,086,854	-
Inventories	2,044,117	2,770,173
Total current assets	8,140,391	2,773,462
Exploration and evaluation expenditure carried forward	159,133,985	160,141,957
Total non-current assets	159,133,985	160,141,957
Share of assets employed in joint venture operations	167,274,376	162,915,419

Contingent liabilities in respect of joint venture operations are detailed in Note 34. Exploration expenditure commitments and capital commitments in respect of joint venture operations are detailed in Note 27.

27. Commitments

(a) Capital expenditure commitments

Contracts for capital expenditure in relation to assets which are not provided for in the financial statements:

(i) Drilling and completions

Not later than one year	-	-
Later than one year but not later than five years	8,917,048	9,366,526
	8,917,048	9,366,526

(ii) Development project

Not later than one year	2,821,874	62,559,427
Later than one year but not later than five years	34,154,688	6,208,849
	36,976,562	68,768,276
Total capital expenditure commitments	45,893,610	78,134,802

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

Not later than one year	1,173,296	36,610,667
Later than one year but not later than five years	34,154,688	15,575,376
Total joint venture operation development expenditure commitments	35,327,984	52,186,043

notes to the financial statements continued
for the year ended 30 June 2010

	2010	2009
	\$	\$
27. Commitments (continued)		
(b) Operating lease rental commitments		
Non-cancellable operating lease rentals not provided for in the financial statements and payable:		
Not later than one year	1,296,416	1,773,374
Later than one year but not later than five years	6,859,079	6,175,540
Later than five years	3,904,892	6,464,670
Total operating lease rental commitments	12,060,387	14,413,584

The Company has a five year lease on software that expires October 2011. Fees are paid annually in advance.

The Company has a photocopier lease with a primary five year term that expires during August 2013. Lease payments are made monthly in advance.

The Company has an office lease for Level 8 Freshwater Place Southbank with a ten year term that expires in January 2019. Rent is payable monthly in advance.

Non-cancellable operating lease rentals not provided for in the financial statements and receivable:

Not later than one year	196,109	-
Later than one year but not later than five years	858,168	-
Later than five years	-	-
Total operating lease rental commitments	1,054,277	-

The Company has sub-let level 9 Freshwater Place Southbank to a third party on a five year term that commenced in March 2010.

(c) Exploration expenditure commitments

Exploration expenditure commitments are estimates for work commitments pursuant to the award of petroleum exploration permits WA-368-P, VIC/P54, WA-377-P and WA-424-P (2009: VIC/P54, VIC/P49, NT/P66, WA-368-P, WA-377-P and WA-424-P)

Not later than one year	17,475,000	32,291,000
Later than one year but not later than five years	200,000	21,010,000
Later than five years	-	-
Total exploration expenditure commitments	17,675,000	53,301,000

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

Not later than one year	2,600,000	31,576,000
Not later than one year but not later than five years	-	160,000
Later than five years	-	-
Total joint venture operation exploration expenditure commitments	2,600,000	31,736,000

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.

Where exploration expenditure included in this category relates to an existing contract for expenditure as at 30 June 2010, the amount will be included in both categories (a) and (c) above.

notes to the financial statements continued
for the year ended 30 June 2010

	2010 \$	2009 \$
28. Notes to the cash flow statements		
(a) Reconciliation of profit/(loss) after income tax to cash flow from operations		
Profit/(loss) after income tax	1,031,157	(50,420,139)
Add/(subtract) non-cash items		
Depreciation of plant and equipment and amortisation of computer software	747,925	959,129
Amortisation of Longtom production asset	16,956,580	-
Inventory write-down	1,702,118	5,678,548
Loss on sale of inventory	1,619,002	294,403
Share based payments expensed	965,645	707,895
Net unrealised foreign currency losses (gains)	506,905	(336,645)
Doubtful debts expense	-	329,521
Deferred tax on equity raising costs included in income tax expense	1,597,593	-
Items classified as investing/financing activities		
(Gain)/loss on disposal of plant and equipment	(469)	385
Gain on sale of area of interest	-	(80,424,402)
Exploration and evaluation expenditure expensed	7,590,855	16,814,148
Loss on available for sale investments	-	89,800,752
Net foreign currency losses (gains)	(550,208)	9,986,097
Finance lease and interest expense repayments	19,363,334	16,363,205
Change in operating assets and liabilities		
(Increase)/decrease in assets		
Trade and other receivables – current	(10,646,754)	(61,568)
Other assets – current	(456,431)	386,563
Other financial assets – non-current	58,137	(1,995,990)
Deferred tax asset	(52,592,625)	(43,180,243)
Other assets – non current	(16,882,929)	-
Increase/(decrease) in liabilities		
Trade and other payables – current	17,626,078	(1,423,523)
Financial liabilities – non-current	(3,384,922)	6,938,694
Long term provisions	(10,539,435)	9,113,876
Deferred tax liability	(774,492)	6,391,967
Net cash used in operating activities	(26,062,936)	(14,077,327)

29. Share based payments

(a) Share option plan

(i) Employee share option plan

The Company has an Executive Director and Employee Share Option Plan (“ESOP”) which was approved by shareholders in September 2008. Options expire not more than five years after they are granted and the exercise price of options, issued during the financial year, is determined by the Directors. If there is a change of control of the Company, all unexercised options will become immediately exercisable. Options granted under the ESOP carry no dividend or voting rights. When exercisable, each option is convertible into one ordinary share of the Company.

Vesting of the options issued in the 2009 financial year will be subject to performance test. A proportion (between nil and 100%) of the options (as determined by the performance test), will vest at the end of the vesting period expiring on 30 June 2011 (the vesting date) with the Board having the discretion to vary the vesting conditions in certain circumstances.

notes to the financial statements continued

for the year ended 30 June 2010

29. Share based payments (continued)

The options will be exercisable in the 12 month period commencing on the vesting date.

The performance test measures the Total Shareholder Return ("TSR") of Nexus ordinary shares relative to the TSR of a comparative group of other oil and gas companies and the ASX Energy Index over the vesting period. Vesting of the options issued in the 2009 financial year will be as follows: top quartile ranking is required for all options to vest while no options would vest if Nexus ranks in the fourth quartile of TSR rankings at the end of the vesting period, with proportionate vesting between those levels.

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

	2010		2009	
	Number	Weighted average exercise price \$	Number	Weighted average exercise price \$
Balance at beginning of financial year	8,461,600	0.67	6,646,500	1.71
Granted during the financial year	-	-	8,392,100	0.46
Exercised during the financial year	-	-	-	-
Forfeited during the financial year	-	-	(725,400)	-
Expired during the financial year	(1,409,300)	0.00	(5,851,600)	1.64
Balance at end of financial year	7,052,300	0.74	8,461,600	0.67
Exercisable at end of financial year	-	-	197,100	2.29

The Executive Director and Employee Share Option Plan options outstanding as at 30 June 2010 had a weighted average exercise price of \$0.74 (2009: \$0.67) with a weighted average remaining contractual life of 761 days (2009: 1,097 days). Details of ESOP options outstanding at the end of the financial year:

Grant date	Expiry and exercise date	Exercise price	Number
28 April 2008	28 April 2011	2.25	90,000
23 May 2008	23 May 2011	2.19	148,000
23 May 2008	23 May 2011	2.25	359,800
24 December 2008	24 December 2012	1.47	2,590,700
9 January 2009	30 June 2012	Zero	3,863,800
			7,052,300

During the financial year, employees made redundant had rights over 1,683,300 zero priced options. These options were granted on 9 January 2009. These options will not expire for twelve months from the date of redundancy and will not be exercisable unless a change in control occurs.

notes to the financial statements continued
for the year ended 30 June 2010

29. Share based payments (continued)

(ii) Other options

The Company issued 31,884,058 warrants during the financial year ending 30 June 2008. These warrants expire on 15 January 2013. The exercise price of the warrants is \$2.04. Refer to Note 22(b) for further details. The following reconciles the outstanding other share options granted at the beginning and end of the financial year:

	2010		2009	
	Number	Weighted average exercise price \$	Number	Weighted average exercise price \$
Balance at beginning of financial year	31,884,058	2.04	31,884,058	2.04
Granted during the financial year	-	-	-	-
Exercised during the financial year	-	-	-	-
Forfeited during the financial year	-	-	-	-
Expired during the financial year	-	-	-	-
Balance at end of financial year	31,884,058	2.04	31,884,058	2.04
Exercisable at end of financial year	-	-	-	-

(b) Fair value of options

No options were granted during the year ending 30 June 2010. Included under employee benefits expense in the statement of comprehensive income is \$965,645 relating to the ESOP (2009: \$707,895).

The weighted average fair value of the Executive Director and ESOP options granted during the 2009 financial year was \$0.276. The fair value of each option granted during the 2009 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	\$0.74 (2009: \$0.67)
Weighted average life of options	761 days (2009: 1,097 days)
Weighted average share price	\$0.46 (2009: \$0.46)
Expected share price volatility	70.0% (2009: 70%)
Risk-free interest rate	5.1% (2009: 3.42%)

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

notes to the financial statements continued

for the year ended 30 June 2010

30. Related party transactions

Subsidiaries

Interests in subsidiaries are set out in Note 24. During the financial year, the Company provided accounting, administrative and technical services to subsidiaries at cost. Other transactions that occurred were advancement of intercompany loans at nil interest rate and no fixed term for repayment. Loans are unsecured. All inter-company transactions are eliminated on consolidation.

Summary of Directors and key management personnel

Directors and key management personnel of Nexus Energy Limited as at 30 June 2010 include:

Directors	Position	
Michael Fowler	Executive Chairman	
Michael Arnett	Non-Executive Director	
Steven Lowden	Non-Executive Director	Appointed 18 November 2009
Ian Boserio	Non-Executive Director	Appointed 18 November 2009
Symon Drake-Brockman	Non-Executive Director	Appointed 18 November 2009
Ian Tchacos	Managing Director	Ceased 21 December 2009
Alastair Haydock	Non-Executive Director	Ceased 31 December 2009
Neil Ferguson	Non-Executive Director	Ceased 24 February 2010

Executive team	Position	Contract details
Richard Cottee	Managing Director	Appointed Chief Executive Officer on 3 May 2010 and subsequently appointed as Managing Director on 22 July 2010
Keith Edwards	GM Business Development and Corporate Planning	
Philip Smith	GM Exploration and Geotechnical	
John Ah-Cann	Drilling & Longtom Asset Manager	
Stuart Jones	Finance Executive	Appointed 1 September 2009
Mike Maloney	GM Operations, Engineering & Commercial	Appointed 18 December 2009
Moss Daemi	GM Commercial and Partnership Relations	Ceased employment effective 31 December 2009
Dave Nolan	Chief Operating Officer	Ceased employment effective 1 July 2009

Directors and key management personnel compensation

	2010	2009
	\$	\$
Short term employee benefits	4,370,870	3,485,495
Post-employment benefits	484,426	619,182
Termination benefits	3,148,027	-
Share-based payments	-	1,045,185
	8,003,323	5,149,862

Other transactions with the parent entity

On 10 November 2009 an agreement for consultancy services was executed with Ian Boserio Oil & Gas Consultants which is a Director related entity of Ian Boserio. The value of transactions during the period was \$129,192 (2009: Nil). These transactions were made on normal commercial terms and conditions and at market rates.

On 5 January 2010 an agreement for consultancy services was executed with Palmer Investments which is a Director related entity of Steven Lowden. During the period a total of \$120,000 in consultancy fees were paid to Palmer Investments (2009: Nil). In addition to the consultancy fees a total of \$38,180 was paid for reimbursement of expenses. These transactions were made on normal commercial terms and conditions and at market rates.

notes to the financial statements continued

for the year ended 30 June 2010

30. Related party transactions (continued)

Michael Fowler (Executive Chairman) has an interest in Maximum Capital Pty Ltd. No consultancy services were provided to the Group by Maximum Capital Pty Ltd during the 2010 financial year (2009: \$85,000). During the 2009 financial year Maximum Capital Pty Ltd had provided consulting services to the Group; these transactions were made on normal commercial terms and conditions and at market rates.

Directors and key management personnel disclosures

Remuneration disclosures required by AASB 124 Related Party Disclosures are disclosed in the Remuneration Report section of the Directors' Report. These disclosures have been audited.

31. Segment reporting

Identification of reportable segments

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

Types of products and services by segment

(a) Production

The production segment relates to the sale of gas and condensate. At 30 June 2010, the Longtom asset is reported in this segment which has a sale agreement with Santos for the sale of gas and condensate.

(b) Development

The development segment holds assets which have confirmed resources and are currently in development phase. At 30 June 2010, the Crux asset is reported in this segment.

(c) Exploration

The exploration segment holds assets which are currently in exploration and evaluation phase. All remaining assets and permits are reported in this segment.

Basis of accounting for purposes of reporting by operating segments

Accounting policies adopted

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

Inter-segment transactions

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

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

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

Segment assets

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

notes to the financial statements continued

for the year ended 30 June 2010

31. Segment reporting (continued)

Segment liabilities

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

Unallocated items

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

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

Comparative information

This is the first reporting period in which AASB 8: Operating Segments has been adopted. Comparative information has been restated to conform to the requirements of the Standard.

notes to the financial statements continued
for the year ended 30 June 2010

31. Segment reporting (continued)

Segment performance

Year ended 30 June 2010	Production \$000	Development \$000	Exploration \$000	Other \$000	Total \$000
Revenue					
Sale of gas and condensate	28,552	-	-	-	28,552
Total segment revenue	28,552	-	-	-	28,552

**Reconciliation of segment
revenue to group revenue**

Total group revenue	28,552	-	-	-	28,552
Segment net profit/(loss) before tax	(2,930)	(1,540)	(7,162)	-	(11,632)

**Reconciliation of segment result to group
net profit/(loss) before tax**

**Amounts not included in segment result
but reviewed by the Board:**

- Depreciation and amortisation	-	-	-	(748)	(748)
- Inventory write downs	-	(1,698)	(4)	-	(1,702)
- Finance costs	(12,886)	-	-	(20,337)	(33,223)
- Restoration provision benefits	9,097	1,444	-	-	10,541
- Mark-to-market adjustment on derivative financial instruments	3,384	-	-	-	3,384

Unallocated items:

- Interest and other revenue					1,350
- Employee benefits expense					(12,644)
- Foreign exchange movements					263
- Other					(6,327)

Net profit/(loss) before tax					(50,738)
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notes to the financial statements continued
for the year ended 30 June 2010

31. Segment reporting (continued)

Segment performance

Year ended 30 June 2009	Production \$000	Development \$000	Exploration \$000	Other \$000	Total \$000
Total segment revenue	-	-	-	-	-

Reconciliation of segment revenue to group revenue

Total group revenue	-	-	-	-	-
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Segment net profit/(loss) before tax	-	935	63,846	-	64,781
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Reconciliation of segment result to group net profit/(loss) before tax

Amounts not included in segment result but reviewed by the Board:

- Depreciation and amortisation	-	-	-	(959)	(959)
- Inventory write downs	-	(5,678)	-	-	(5,678)
- Finance costs	-	(39)	-	(17,498)	(17,537)
- Restoration provision benefits	-	(9,169)	-	-	(9,169)
- Mark-to-market adjustment on derivative financial instruments	-	(7,080)	-	-	(7,080)

Unallocated items:

- Interest and other revenue					3,555
- Employee benefits expense					(10,059)
- Foreign exchange movements					(5,556)
- Loss on available for sale investments					(89,801)
- Other					(9,705)

Net profit/(loss) before tax					(87,208)
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Segment assets

Year ended 30 June 2010	Production \$000	Development \$000	Exploration \$000	Total \$000
Segment assets	476,420	285,521	17,461	779,402
Segment assets increased for the period:				
- Capitalised costs	68,125	6,083	2,632	76,840

Reconciliation of segment assets to group assets:

Unallocated items:

- Other assets				25,733
- Deferred tax assets				114,068
- Intangibles				158

Total group assets				919,361
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notes to the financial statements continued
for the year ended 30 June 2010

31. Segment reporting (continued)

Segment assets

Year ended 30 June 2009	Production \$000	Development \$000	Exploration \$000	Total \$000
Segment assets	-	662,714	33,342	696,056
Segment assets increased for the period:				
- Capitalised costs	-	299,183	19,551	318,734

Reconciliation of segment assets to group assets:

Unallocated items:

- Other assets				66,627
- Deferred tax assets				61,475
- Intangibles				570

Total group assets				824,728
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Segment liabilities

Year ended 30 June 2010	Production \$000	Development \$000	Exploration \$000	Total \$000
Segment liabilities	211,433	9,803	8	221,244
Reconciliation of segment liabilities to group assets:				

Unallocated items:

- Deferred tax liability				38,206
- Other liabilities				131,328

Total group liabilities				390,778
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Segment liabilities

Year ended 30 June 2009	Production \$000	Development \$000	Exploration \$000	Total \$000
Segment liabilities	-	186,203	119	186,322
Reconciliation of segment liabilities to group assets:				

Unallocated items:

- Deferred tax liability				38,981
- Other liabilities				147,829

Total group liabilities				373,132
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Major customers

The Group supplies gas and condensate to a single supplier in the production segment which accounts for 100% of the Group's external revenue (2009: Nil). The Group has a gas sale agreement with Santos for the supply of gas and condensate.

notes to the financial statements continued
for the year ended 30 June 2010

	2010	2009
	\$	\$
32. Auditor's remuneration		
Remuneration of the auditor of the Group for:		
Auditing or reviewing the financial report	182,050	137,000
Other services	5,010	7,685
Total auditor's remuneration	187,060	144,685

33. Subsequent events

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

Longtom production

On 1 July 2010 the company announced that an Authority for Expenditure for an amount of \$2.1 million has been executed with Santos Limited for the mercury removal facilities at Santos' Patricia Baleen Facilities. The project works are currently under way in relation to the mercury removal from the gas, with production targeted to resume in late September 2010.

Options issued

On 7 July 2010 2,250,000 options (performance rights) were granted to Richard Cottee in accordance with the offer of employment executed in May 2010. The performance rights are issued under the terms of the Executive Director and Employee Option Plan ("the Option Plan") as previously approved by shareholders. The performance rights, with a zero exercise price, are only exercisable subject to Richard Cottee being employed by Nexus at the end of the three year vesting period namely 30 June 2013, the vesting date, with the Board having the discretion to vary the vesting period in certain circumstances or as a result of a change of control event.

In addition, the performance rights will be subject to a performance test of Total Shareholder Return ("TSR") of Nexus ordinary shares relative to the TSR of a comparative group of other oil and gas companies and the ASX Energy Index over the vesting period; top quartile ranking is required for all the options to vest while no options would vest if Nexus ranks in the third and fourth quartile of TSR rankings at the end of the 3 year vesting period, with proportionate vesting between those levels. The primary objective of Nexus' Remuneration Policy, as regards the issue of securities under the Option Plan, is to provide employees with long term incentives for participation in Nexus' growth, directly aligned with the creation of value for shareholders over the long term.

Richard Cottee appointed managing director

On 22 July 2010, Nexus appointed Mr Richard Cottee as Managing Director.

Exchange of existing 2013 unsecured senior subordinated notes

On 3 August 2010, the company completed the exchange of 86.27% of its \$110,000,000 Unsecured Senior Subordinated Notes due 2013 (Existing Notes) for new unsecured Senior Subordinated Notes and Nexus ordinary shares in accordance with the exchange offer announced on 15 July 2010 ("Exchange Offer"). The key terms of the New Notes, on the basis of 86.27% acceptance of the Exchange Offer, and other material details of the Exchange Offer, are as follows:

notes to the financial statements continued
for the year ended 30 June 2010

33. Subsequent events (continued)

Aggregate principal amount of New Notes issued	\$131.7 million in two tranches: Tranche A – \$117.5 million due 2017. Tranche B – \$14.2 million due 2013. Note holders participation is pro-rata Tranches A and B.
Interest Rate	Tranche A – Zero coupon to January 2011 then 8.5% fixed rate coupon to July 2014 then 13% fixed rate coupon to Maturity. First paid coupon July 2011. Coupons paid semi-annually in arrears. Tranche B – Zero Coupon.
Interest Payment Date	Each 15 January and 15 July, commencing 15 July 2011.
Repayment	Tranche A – Amortising 10% per semi annual period commencing July 2014 with 50% bullet at Maturity. Tranche B – Bullet repayment 15 January 2013.
Issuer Call Date	Not callable before July 2014. Nexus may call the New Notes from that point at 105% of face value, thereafter the call premium reduces by 1% at each semi-annual period to Maturity.
Other	Nexus has the right to repay these New Notes on an Interest Payment Date after 15 July 2014 by giving 30 days notice based upon the maturity amount at that time, being an amount ranging from 105% of the face value of the New Notes in 2014 to 101% of face value of the New Notes on an Interest Payment Date in July 2016.
Aggregate number of new shares issued under the Exchange Offer	30,195,455. The shares issued under the Exchange Offer are subject to a six month escrow period during which the shares may not be traded.
Aggregate principal amount of Existing Notes outstanding at the conclusion of the Exchange Offer	\$15.1 million.

Employee options

On 4 August 2010 860,200 unlisted employee options were issued, pursuant to the Nexus Energy Limited Executive Director and Employee Option Plan, with zero exercise price and expiry date of 30 June 2013.

Exercise of the options (performance rights) are subject to a performance test. A proportion (between nil and 100%) of the options as determined by the performance test, will vest at the end of a vesting period expiring on 30 June 2013 (the Vesting Date) with the Board having the discretion to vary the vesting conditions in certain circumstances.

BOS international Longtom senior facility

As security for payments to be made during the period in which the mercury removal units are being installed (gas anticipated commissioning late September 2010, condensate – February 2011) the Group has given a number of draw down notices under the YA Global Master Trust Equity Line of Credit Facility (ELOC) to BOS International (Australia) Limited (BOSI) as lender to the project along with a Power of Attorney (POA) to sign such notices up to a value of A\$16 million.

notes to the financial statements continued

for the year ended 30 June 2010

33. Subsequent events (continued)

These draw downs cannot be exercised under the POA if the Group otherwise pays this amount when due. The POA expires on 31 March 2011.

The amount of shares which would be issued if the security were to be exercised would depend on the Volume Weighted Average Price (VWAP) of Nexus' shares as measured by ten day period of trading subsequent to the relevant drawdown notice being given. No draw downs have been made in relation to the security.

Financial report

The financial report was authorised for issue on 30 August 2010.

34. Contingent liabilities and contingent assets

Contingent liabilities

The Consolidated Group had contingent liabilities as at 30 June 2010 that may become payable in respect of:

Letter of credit provided by subsidiaries

The subsidiaries Nexus Energy Aust. NL and Nexus Energy VICP54 Pty Ltd have entered into an agreement to supply raw gas to Santos Offshore Pty Ltd (Santos). As security for the supply of raw gas, Santos has access to a letter of credit capped at \$60,000,000 (2009: \$60,000,000). The letter of credit has been provided on behalf of the Group by BOS International (Australia) Limited. Should the subsidiaries not meet their obligations under the agreement to supply raw gas, Santos may at this time have access to draw on the letter of credit.

Joint venture arrangements

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

Contractual obligations

As disclosed in the 31 December 2009 interim financial report, Nexus has a potential liability to Sedco Forex International Inc (Sedco) in relation to Sedco's termination of the Transocean Legend drilling rig contract between Nexus and Sedco. Nexus has disputed Sedco's entitlement to terminate the contract and Sedco has foreshadowed a damages claim in relation to termination of the Transocean Legend drilling rig contract. Further, Sedco has claimed that Nexus has additional liability to Sedco because Sedco terminated its drilling contract with Oilex (JPDA 06-103) Limited (Oilex) as a result of termination of the Nexus drilling rig contract. This matter is still in progress with no change from 31 December 2009. Nexus recognises that risks exist in relation to the magnitude and timing of Sedco's claims. Nexus will vigorously defend any claims brought by Sedco in relation to either the Nexus contract or the Oilex contract.

T-D Joint Venture Pty Ltd

In 2007, Nexus entered into an offshore installation contract with T-D Joint Venture Pty Ltd ("TDJV") in relation to the Longtom Gas Project. TDJV was placed in liquidation in December 2009. Nexus has not received any particulars of any claim from TDJV's liquidators.

Bank guarantee

Nexus Energy Limited as parent entity has provided a bank guarantee of \$1,214,355 to Australand in relation to the leased offices at Level 8 Freshwater Place Southbank. The bank guarantee will be in place for the term of the lease.

Mercury removal equipment – Longtom

Nexus Energy Limited has executed an Authority For Expenditure ("AFE") with Santos Limited in the sum of \$2.1 million for mercury removal facilities. At 30 June 2010 a total of \$451,422 has been invoiced by Santos to Nexus which has been taken up as a liability at year end.

Further works in relation to mercury removal from the condensate and additional works in relation to the gas are still under consideration and may involve additional expenditure of up to \$3.9 million.

notes to the financial statements continued

for the year ended 30 June 2010

35. Change in accounting policy

The following Australian Accounting Standards have been issued or amended and are applicable to the Group but are not yet effective. They have not been adopted in the preparation of the financial statements as at 30 June 2010.

The AASB has issued new and amended accounting standards and interpretations that have mandatory application dates for future reporting periods and which the Group has decided not to early adopt. A discussion of those future requirements and their impact on the Group is as follows:

AASB 9: Financial Instruments and AASB 2009-11: Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12] (applicable for annual reporting periods commencing on or after 1 January 2013)

These standards are applicable retrospectively and amend the classification and measurement of financial assets. The Group has not yet determined any potential impact on the financial statements.

The changes made to accounting requirements include:

- simplifying the classifications of financial assets into those carried at amortised cost and those carried at fair value;
- simplifying the requirements for embedded derivatives;
- removing the tainting rules associated with held-to-maturity assets;
- removing the requirements to separate and fair value embedded derivatives for financial assets carried at amortised cost;
- allowing an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument; and
- financial assets will need to be reclassified where there is a change in an entity's business model as they are initially classified based on (a) the objective of the entity's business model for managing the financial assets; and (b) the characteristics of the contractual cash flows.

AASB 2009-5 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 8, 101, 107, 117, 118, 136 & 139] (applicable for annual reporting periods commencing from 1 January 2010)

This standard details numerous non-urgent but necessary changes to accounting standards arising from the IASB's annual improvements project.

AASB 2009-8 Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions [AASB 2] (applicable for annual reporting periods commencing on or after 1 January 2010)

These amendments clarify the accounting for group cash-settled share-based payment transactions in the separate or individual financial statements of the entity receiving the goods or services when the entity has no obligation to settle the share-based payment transaction. The amendments incorporate the requirements previously included in Interpretation 8 and Interpretation 11 and as a consequence these two Interpretations are superseded by the amendments.

AASB 2009-9 Amendments to Australian Accounting Standards – Additional Exemptions for First-time Adopters [AASB 1] (applicable for annual reporting periods commencing on or after 1 January 2010)

These amendments specify requirements for entities using the full cost method in place of retrospective application of Australian Accounting Standards for oil and gas assets and exempt entities with existing leasing contracts from reassessing the classification of those contracts in accordance with Interpretation 4 when the application of their previous accounting policies would have given the same outcome.

notes to the financial statements continued

for the year ended 30 June 2010

35. Change in accounting policy (continued)

AASB 2009-10: Amendments to Australian Accounting Standards – Classification of Rights Issues [AASB 132] (applicable for annual reporting periods commencing on or after 1 February 2010)

The amendments clarify that rights, options or warrants to acquire a fixed number of an entity's own equity instruments for a fixed amount in any currency are equity instruments if the entity offers the rights, options or warrants pro-rata to all existing owners of the same class of its own non-derivative equity instruments.

AASB 2009-12: Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052] (applicable for annual reporting periods commencing on or after 1 January 2011)

This standard makes a number of editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRSs by the IASB. The standard also amends AASB 8 to require entities to exercise judgement in assessing whether a government and entities known to be under the control of that government are considered a single customer for the purposes of certain operating segment disclosures.

AASB 2009-13: Amendments to Australian Accounting Standards arising from Interpretation 19 [AASB 1] (applicable for annual reporting periods commencing on or after 1 July 2010)

This standard makes amendments to AASB 1 arising from the issue of Interpretation 19. The amendments allow a first-time adopter to apply the transitional provisions in Interpretation 19.

AASB 2009-14: Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement [AASB Interpretation 14] (applicable for annual reporting periods commencing on or after 1 January 2011)

This standard amends Interpretation 14 to address unintended consequences that can arise from the previous accounting requirements when an entity prepays future contributions into a defined benefit pension plan.

AASB 2010-1: Amendments to Australian Accounting Standards – Limited Exemption from Comparative AASB 7 Disclosures for First-time Adopters [AASB 1 & AASB 7] (applicable for annual reporting periods commencing on or after 1 July 2010)

This standard permits first-time adopters of Australian Accounting Standards to use the same transition provisions permitted for existing preparers of financial statements prepared in accordance with Australian Accounting Standards that are included in AASB 2009-2.

AASB 2010-3: Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 3, AASB 7, AASB 121, AASB 128, AASB 131, AASB 132 & AASB 139] (applicable for annual reporting periods commencing on or after 1 July 2010)

This standard details numerous non-urgent but necessary changes to accounting standards arising from the IASB's annual improvements project.

AASB 2010-4: Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1, AASB 7, AASB 101 & AASB 134 and Interpretation 13] (applicable for annual reporting periods commencing on or after 1 January 2011)

This standard details numerous non-urgent but necessary changes to accounting standards arising from the IASB's annual improvements project.

AASB Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments (applicable for annual reporting periods commencing from 1 July 2010)

This Interpretation deals with how a debtor would account for the extinguishment of a liability through the issue of equity instruments. The Interpretation states that the issue of equity should be treated as the consideration paid to extinguish the liability, and the equity instruments issued should be recognised at their fair value unless fair value cannot be measured reliably in which case they shall be measured at the fair value of the liability extinguished. The Interpretation deals with situations where either partial or full settlement of the liability has occurred. This Interpretation is not expected to impact the Group.

The Group does not anticipate early adoption of any of the above Australian Accounting Standards.

director's declaration for the financial year ended 30 June

The Directors of the Company declare that:

1. The financial statements and notes, as set out on pages 45 to 92, 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 Group's financial position as at 30 June 2010 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 financial statements also comply with International Financial Reporting Standards issued by the International Accounting Standards Board, as disclosed in Note 1; and
4. the Executive Chairman and the Managing Director have declared that:
 - (a) the financial records of the company for the financial year have been properly maintained in accordance with s286 of the Corporations Act 2001;
 - (b) The financial statements and notes for the financial year comply with Accounting Standards; and
 - (c) The financial statements and notes for the financial year give a true and fair view.

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
Executive Chairman



Richard Cottee
Managing Director

Dated Melbourne this 30th day of August 2010

MOORE STEPHENS

ACCOUNTANTS & ADVISORS

Level 10, 530 Collins Street
Melbourne VIC 3000

T +61 (0)3 8635 1800

F +61 (0)3 8102 3400

www.moorestephens.com.au

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

We have audited the accompanying financial report of Nexus Energy Limited and Subsidiaries (the consolidated entity), which comprises the statement of financial position as at 30 June 2010, the statement of comprehensive income, statement of changes in equity and statement of cash flows 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.

Directors' Responsibility for the Financial Report

The directors of Nexus Energy Limited 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 controls 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 that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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.

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 judgment, 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 controls 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 controls. 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.

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

Matters Relating to the Electronic Presentation of the Audited Financial Report

This audit report relates to the financial report of the consolidated entity for the year ended 30 June 2010 included on the website of Nexus Energy Limited. The directors of Nexus Energy Limited are responsible for the integrity of the website and we have not been engaged to report on its integrity.

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This audit report refers only to the financial report identified above and it does not provide an opinion on any other information which may have been hyperlinked to or from the financial report. If users of this financial report are concerned about the inherent risks arising from electronic data communications, they are advised to refer to the hard copy of the audited financial report to confirm the information included in the audited financial report presented on the group's website.

Independence

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

Auditor's Opinion

In our opinion:

- (a) the financial report of Nexus Energy Limited and Subsidiaries is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the financial position of Nexus Energy Limited and Subsidiaries as at 30 June 2010 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.

Significant Uncertainty Regarding Accounting Estimate

Without qualification to the opinion expressed above, we draw your attention to Note 17 in the financial statements. The impairment analysis performed on the production asset is based on cash flow projections that use a range of assumptions and accounting estimates which are subject to change. The recoverable amount of the production asset is sensitive to reasonable possible changes in key assumptions.

Notwithstanding the directors' belief that the production asset is fully recoverable, the sensitivity analysis indicates the existence of a material uncertainty should key assumptions change which may cast doubt on whether the consolidated entity will realise the value of the production asset at the amount disclosed in the financial statements.

Material Uncertainty Regarding Going Concern

Without qualification to the opinion expressed above, we draw your attention to Note 1(a) to the financial statements, which indicates that the current economic environment presents significant risks to the consolidated entity's ongoing ability to fund its capital expenditures. The Directors of Nexus Energy Limited have reasonable expectations that the consolidated entity has sufficient funding in the near term through the ability to pursue a variety of financing options and asset sales in order to meet their existing commitments as and when they become due and payable.

These conditions, along with other matters set forth in Note 1(a), indicate the existence of a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business.

MOORE STEPHENS
ACCOUNTANTS & ADVISORS

Material Uncertainty Regarding Going Concern

Without qualification to the opinion expressed above, we draw your attention to Note 1(a) to the financial statements, which indicates that the current economic environment presents significant risks to the consolidated entity's ongoing ability to fund its capital expenditures. The Directors of Nexus Energy Limited have reasonable expectations that the consolidated entity has sufficient funding in the near term through the ability to pursue a variety of financing options and asset sales in order to meet their existing commitments as and when they become due and payable.

These conditions, along with other matters set forth in Note 1(a), indicate the existence of a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 26 to 33 of the Report of the Directors for the year ended 30 June 2010. The directors of Nexus Energy Limited are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of Nexus Energy Limited for the year ended 30 June 2010, complies with section 300A of the *Corporations Act 2001*.



MOORE STEPHENS
Chartered Accountants



Kevin W Neville
Partner
Melbourne, 30 August 2010

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 22 September 2010.

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	1,136	449,775
1,001 to 5,000	2,619	7,673,070
5,001 to 10,000	1,964	15,267,396
10,001 to 100,000	4,714	147,993,290
More than 100,000	701	816,873,773
Total	11,134	988,257,304

There were 1,232 shareholders of less than a marketable parcel of ordinary shares.

Substantial shareholders

Shareholder	Number of shares
Viking Shipping Ltd Group*	112,127,155*
Credit Suisse Holdings (Australia) Limited	86,588,568
M&G Investment Funds	59,893,879
Total	258,609,602

* As provided by analysis of the Company's share register as at 24 August 2010. The last notice of change of interests of substantial holder was lodged by the Viking Shipping Ltd Group on 2 August 2007 and reflected a holding of 68,700,000 shares.

Top 20 shareholders

Size of shareholding	Number of shares	% of issued capital
HSBC Custody Nominees	178,129,287	18.02
Credit Suisse Securities (Europe) Ltd	84,670,000	8.57
Viking Shipping Limited	68,700,000	6.95
Citicorp Nominees Pty Limited	48,050,763	4.86
JP Morgan Nominees Australia Limited	42,798,938	4.33
National Nominees Limited	19,745,860	2.00
ANZ Nominees Limited	17,778,517	1.80
Harbour Nominees Pty Ltd	13,853,001	1.40
Lujeta Pty Ltd	11,800,000	1.19
Lost Ark Nominees Pty Ltd	8,500,000	0.86
BDH Nominees Pty Ltd	7,640,663	0.77
P & J Watt Pty Ltd	7,223,958	0.73
Nomura Capital Markets PLC	6,968,182	0.71
VBS Investments Pty Ltd	6,818,980	0.69
Vilo Finance Pty Ltd	6,357,520	0.64
Mr BD Hannon & Mrs AID Hannon	6,333,334	0.64
Pan Australian Nominees Pty Limited	5,862,394	0.59
Goldman Sachs International	5,663,636	0.57
Robhar Pty Ltd Robhar SF No 2	5,188,584	0.53
Harmony Investment Fund Ltd	4,772,727	0.48
Total	556,856,344	56.35

ASX additional information continued

Issued capital

Type		Number of securities on issue	Number of holders
Fully paid ordinary shares		988,257,304	11,134
Employee Share Options			
Exercisable at	\$2.25	90,000	1
	\$1.47	2,590,700	1
	Zero	3,863,800	39
	Zero	860,200	4
	Zero	2,250,000	1
	\$2.19	148,000	2
	\$2.25	359,800	1
Convertible Warrants			
Exercisable at	\$2.04	31,884,058	16

Substantial warrant holders

A list of substantial warrant holders (who held 20% or more of the issued warrants) are set out below:

Type	Number warrants	% of issued warrants
Citicorp Nominees Pty Ltd	8,695,652	27.27
HSBC Custody Nominees (Australia) Limited	7,246,377	22.72
Total	15,942,029	49.99

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 title

Title	Basin	Interest %
VIC/L29 (Longtom)	Gippsland	100
AC/L9 (Crux)	Browse	85
WA-377-P (Echuca Shoals)	Browse	100
WA-424-P	Browse	100
VIC/P54	Gippsland	100
WA-368-P	Perth	50
VIC/P49	Gippsland	0
NT/P66	Bonaparte	0

Other information

Nexus Energy Limited 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 Level 8, 28 Freshwater Place, Southbank, Victoria 3006.
Telephone (03) 9600 2500.

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

glossary of terms

2D	two-dimensional (seismic)
2P	proved and probable reserves
3D	three-dimensional (seismic)
\$ or cents	units of Australian currency
AIFRS	Australian International Financial Reporting Standards
appraisal well	a well drilled to evaluate the size or quality of a hydrocarbon discovery
ASX	Australian Securities Exchange
ATO	Australian Taxation Office
bbl	barrel of oil or condensate (equivalent to 159 litres)
bbl/d	barrel of oil or condensate per day
Bcf	billion cubic feet of natural gas
boe	barrel of oil equivalent
capex	capital expenditure
condensate	light hydrocarbon compounds that condense into liquid at surface temperatures and pressures, generally produced with natural gas
contingent resources	as defined by the SPE/WPC/AAPG Petroleum Resources Management System are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations, but which are not yet considered mature enough for commercial development due to technological or business hurdles
ELOC	Equity line of credit
exploration	the process of identifying prospective hydrocarbon regions and structures, mainly by reference to regional and specific geochemical, geological and geophysical surveys
farm-in/farm-out	the commercial arrangement in which an incoming participant earns an interest in a permit by funding a proportion of the exploration costs
FEED	front end engineering and design
FID	final investment decision
field	an area consisting of a single reservoir or multiple reservoirs all grouped on or related to the same individual geological structural feature or stratigraphic condition
FLNG	floating liquefied natural gas
FPSO	floating production storage and offloading vessel
gas in place ("GIP")/ oil in place ("OIP")	an estimated measure of the total amount of gas (or oil) contained in a reservoir and, as such, a higher figure than recoverable gas (or oil)
Group or Consolidation	Nexus Energy Limited and its subsidiaries
GSA	Gas Sales Agreement
GST	Australian Goods and Services Tax
HSEC	health, safety, environment and community
hydrocarbon	organic compounds of carbon and hydrogen including natural gas, liquefied petroleum gas, crude oil and condensate
Joint Authority	decision-making body responsible for the administration of the Offshore Petroleum Act 2006, comprised of the relevant State/Territory Minister and the Commonwealth Minister
km	kilometre
km²	square kilometres
KPI	key performance indicator
lead	a potential petroleum trap which has been identified but has not been adequately defined
LNG	liquefied natural gas

glossary of terms continued

LOI	Letter of Intent
MM	million
Nexus, Nexus Energy and company	Nexus Energy Limited
operator	one of the companies in a joint venture which has been appointed to carry out all operations on behalf of the other joint venture participant/s
permit	a hydrocarbon tenement, lease, licence or block
PJ	petajoules
probable	means in respect of reserves, those additional reserves which analysis of geoscience and engineering data indicate are more likely than not to be recoverable. In this context, when probabilistic methods are used, there should be at least a 50% probability that the quantities actually recovered will equal or exceed the sum of estimated proved plus probable reserves.
prospect	a geological or geophysical anomaly that has been surveyed and defined, usually by seismic data, to the degree that its configuration is fairly well established, and on which further exploration such as drilling can be recommended
proved	means in respect of reserves, those quantities of oil and gas which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under defined economic conditions, operating methods and government regulations. If probabilistic methods are used, there should be at least a 90% probability that the quantities actually recovered will equal or exceed the estimate
reserves	quantities of economically recoverable hydrocarbons
reservoir	a porous and permeable rock formation to store and transmit fluids such as gas, oil and water.
rig	equipment used for drilling a well
risk	an expression of uncertainty relating to the presence of principal geological factors controlling hydrocarbon accumulation
Santos	Santos Offshore Pty Ltd
scf	standard cubic feet of gas
seismic survey	a type of geophysical survey where the travel times of artificially created seismic waves are measured as they are reflected in a near-vertical sense back to the surface from subsurface boundaries. This data is typically used to determine the depths to the tops of stratigraphic units and in making subsurface structural contour maps and ultimately in delineating prospective structures
spud	to start drilling a well
structure	a geological formation of sedimentary rocks which, if sealed, could form a potential trap for storage of hydrocarbons
sub-sea well	a well with a wellhead installed on the sea floor and controlled remotely
Tcf	trillion cubic feet of gas
TJ/d	terrajoules per day
tpa	tonnes per annum
US\$	United States dollars
WTI	West Texas Intermediate, a type of crude oil used as a benchmark in oil pricing

corporate directory

Directors

Michael Fowler

Executive chairman

Richard Cottee

Managing director

Michael Arnett

Non-executive director

Steven Lowden

Non-executive director

Ian Boserio

Non-executive director

Symon Drake-Brockman

Non-executive director

Company secretary

Susan Robutti

Registered & principal office

Level 8, 28 Freshwater Place
Southbank Victoria 3006
Tel: (03) 9660 2500
Fax: (03) 9654 9303
Email: nexus@nxs.com.au
Website: www.nexusenergy.com.au

Auditors

Moore Stephens
Level 10, 530 Collins Street
Melbourne Victoria 3000

Bankers

National Australia Bank Limited
330 Collins Street
Melbourne Victoria 3000

Share registry

Computershare Investor Services Pty Ltd
Yarra Falls
452 Johnston Street
Abbotsford Victoria 3067
Tel: (03) 9415 5000
Website: www.computershare.com.au

Securities exchange listing

The company is listed on the
Australian Securities Exchange Limited
Home exchange is Perth
ASX Code: NXS

