

## Appendix 4D

### Half Year Report

### Period ended 31 December 2010

**1. Name of entity:**

ABN:

Half year Ended ('reporting period')

Half year Ended ('previous period')

<b>Nexus Energy Limited</b>
64 058 818 278
31 December 2010
31 December 2009

**2. Results for announcement to the market**

	\$A'000		\$A'000
Revenues	up 9,815	106%	to 19,079
Profit / (loss) after tax attributable to members	up 11,257	53%	to 32,452
Net Profit / (loss) after tax attributable to members	up 11,257	53%	to 32,452

**Dividends**

Final Dividend

Interim Dividend

Previous corresponding

	Amount per security	Franked amount per security
	Nil	Nil
	Nil	Nil
	Nil	Nil

No dividends have been declared or proposed.

Record date for determining entitlement to the dividends

N/A
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**3. Net tangible asset per security<sup>1</sup>**

Net tangible asset backing per ordinary security

<sup>1</sup> Net assets excludes exploration expenditure

	31 December 2010	30 June 2010
	\$0.56	\$0.53

**4. Brief explanation of reported figures**

A review of the consolidated entities operations during the half year ended 31 December 2010 and the results of those operations are included in the Nexus Energy Limited 31 December 2010 half year financial report Directors Report on pages 2 to 4.

**6. Control gained over entities having material effect**

No control over entities occurred during the reporting period. There was no loss of control of entities during the reporting period.

**7. Details of associates and joint venture entities**

The Company has no associates and joint venture entities.

**8. Compliance statement**

The information in this report has been prepared in accordance with the requirements of the Corporations Act 2001, applicable Accounting Standards and other mandatory professional reporting requirements

The Nexus Energy Limited financial report for the half year ended 31 December 2010 has been subject to review. A copy of the independent review report to members of Nexus Energy Limited is attached

NEXUS ENERGY LIMITED AND SUBSIDIARIES  
(ABN 64 058 818 278)

10  
31 DECEMBER

financial report for  
half year ended 31 December 2010

nexus  
ENERGY

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## **DIRECTORS' REPORT**

### **FOR THE HALF YEAR ENDED 31 DECEMBER 2010**

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The Directors present their report of Nexus Energy Limited and Subsidiaries ("Group") for the half-year ended 31 December 2010.

#### **Board of Directors**

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

Michael Fowler	(Executive Chairman)
Richard Cottee	(Managing Director)
Michael Arnett	(Deputy Chairman and Non-Executive Director)
Steven Lowden	(Non-Executive Director)
Ian Boserio	(Non-Executive Director)
Symon Drake-Brockman	(Non-Executive Director)

#### **Principal Activities**

The principal activities of the Group during the course of the half year were the investment in energy related projects. There were no significant changes in the nature of the principle activities of the Group during the half year ended 31 December 2010.

#### **Operating Results**

The consolidated profit after income tax of the Group for the half year ended 31 December 2010 was \$32.5 million (31 Dec 2009: \$21.2 million). The profit after income tax incorporates a gain on the extinguishment of financial liabilities of \$14.6 million and an income tax benefit of \$51.2 million.

#### **Financial Position**

The net assets of the Group have increased by \$57.2 million from 30 June 2010 to \$585.8 million as at 31 December 2010. The increase in net assets is mainly attributable to the increase in deferred tax assets and this was offset by the reduction in the borrowings as a result of the extinguishment of financial liabilities.

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

During the half year the Group recommenced production of hydrocarbons from the Longtom gas project. The Group also reached agreement on commercial terms with Shell Development (Australia) Pty Ltd to purchase an option for a three year extension of the gas rights handover date from 31 December 2020 to 31 December 2023. The agreement is subject to final legal documentation and requisite parties' approvals.

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

Likely developments, future prospects and business strategies for the operations of the Group 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 Group.

#### **Review of operations - production segment**

##### **Longtom gas project (Nexus 100%)**

##### **VIC/L29 – Gippsland Basin, Victoria**

In October 2010, Nexus recommenced production of hydrocarbons from the Longtom asset. 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 anticipated around March 2011. This will be used as the basis for a review of the full field development plan and the Longtom region has been an area of focus for our 3D seismic re-interpretation with encouraging results.

#### **Review of operations - development segment**

##### **Crux asset (Nexus 85%)**

##### **AC/L9 – Browse Basin, Western Australia**

Nexus is targeting FID by the second half of the 2011 calendar year. The Group has also reached agreement on commercial terms with Shell Development (Australia) Pty Ltd to purchase an option for a three year extension of the gas rights handover date from 31 December 2020 to 31 December 2023. The agreement is subject to final legal documentation and requisite parties' approvals. Negotiations are proceeding with all relevant parties on the provision of an FPSO, finance and to ensure sufficient production time for the extraction of condensate in accordance with the FID timeline.

#### **Review of operations - exploration segment**

##### **Echuca Shoals gas discovery (Nexus 100%)**

##### **WA-377-P – Browse Basin, Western Australia**

Multi client 3D seismic data was acquired during the quarter and integrated into the ongoing prospect evaluation. Prospects have now been mapped at several reservoir target levels with attractive estimated volume potential. The most likely gas in place at the Echuca Shoals-1 discovery is an estimated 0.4 Tcf, with an additional 1.7 Tcf at the same reservoir level in the Backmaker prospect to the north. Seismic mapping has identified potential drilling locations in the permit's north east where stacked reservoir targets could be tested. One such location tests the Backmaker/Cooper/Maltser prospect reservoirs and carries an estimated combined mean in place gas potential of circa 4 Tcf. Additionally, the combined potential for associated condensate in the permit is most likely more than 200 MMbbls. Further enhancement of the seismic data quality is being considered as the next step in the prospect evaluation process.

**VIC/P54 (Nexus 100%)**

**Gippsland Basin, Victoria**

Interpretation of the reprocessed seismic data focused on the maturing of the Longtom West exploration target. A gas discovery here could be tied into the Longtom production facilities. A five year permit renewal was accepted during the half year.

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

**Perth Basin, Western Australia**

Nexus continued to seek a farm-out in the permit prior to drilling the Yngling prospect. A further permit extension for the current year containing a commitment well was applied for during the half year. On 30 September 2010, the permit expired and in accordance with the standard requirements of the Western Australian Department of Mines and Petroleum, a renewal application for a permit extension has been lodged. The approval process is expected to be finalised in March 2011 and the Company is continuing efforts to secure a suitable drilling rig.

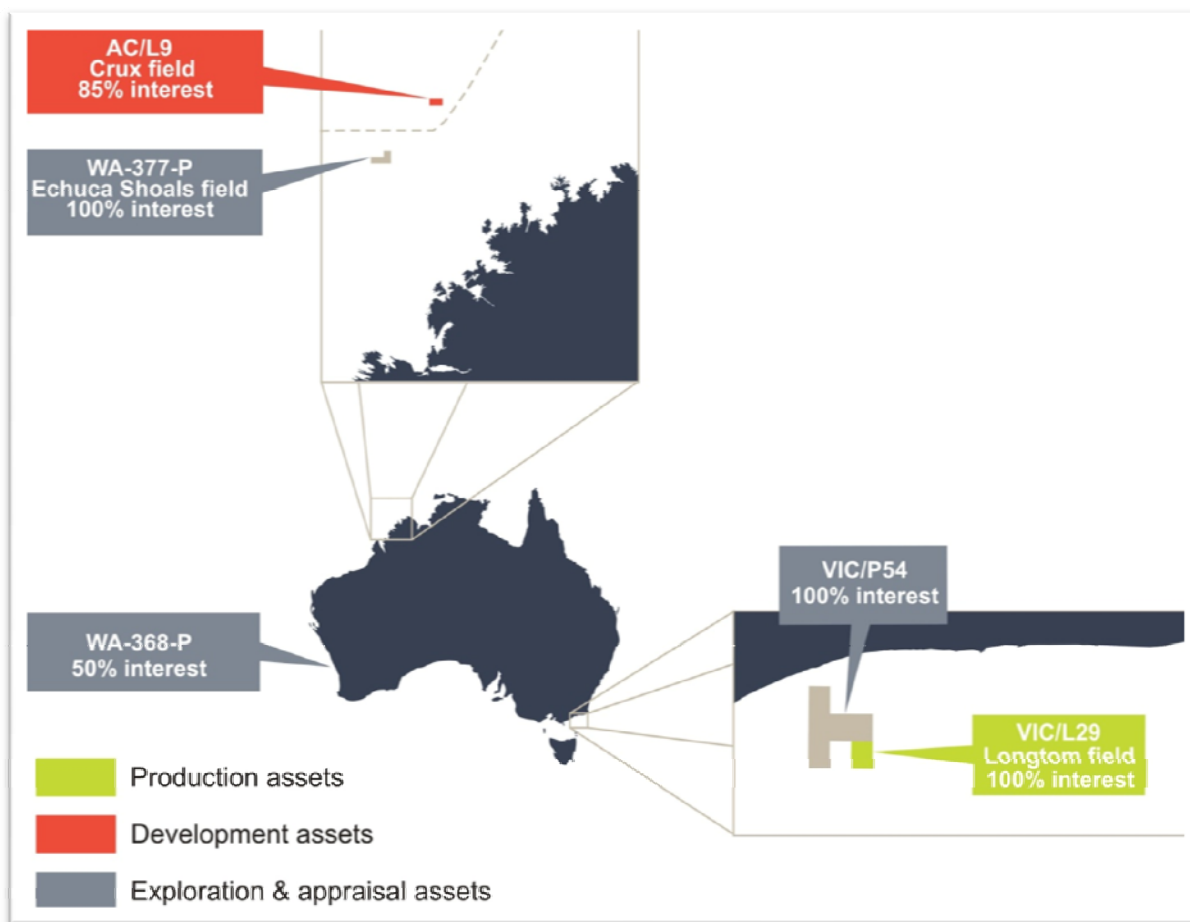
**WA-424-P (Nexus 0%)**

**Browse Basin, Western Australia**

During the half year Nexus finalised the transfer of the permit to a third party but retained an overriding royalty interest. On 5 October 2010 the documents were executed and approval provided by the Department.

**New ventures**

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



*Location of Nexus assets*

**Events Subsequent to Balance Date**

Since the end of the half year, the significant events referred to in Note 12 to the Financial Report have occurred. Except for the matters referred to in Note 12, 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 31 December 2010.

**Dividends**

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

**DIRECTORS' REPORT**  
FOR THE HALF YEAR ENDED 31 DECEMBER 2010

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**Rounding off of amounts**

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

**Auditor's Independence Declaration**

A copy of the auditor's independence declaration for the half year ended 31 December 2010 has been received as required under Section 307C of the Corporations Act 2001 and is included on page 5.

Signed in accordance with a resolution of the Board of Directors made pursuant to Section 306(3) of the Corporations Act 2001.

On behalf of the Directors



Richard Cottee  
Managing Director

Dated Melbourne this 28<sup>th</sup> day of February 2011

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**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 half-year ended 31 December 2010 there have been:

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



MOORE STEPHENS  
Chartered Accountants



Kevin W Neville  
Partner

Melbourne, 28 February 2011

# FINANCIAL STATEMENTS

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE HALF YEAR ENDED 31 DECEMBER 2010

	Note	31 Dec 2010 \$ 000	31 Dec 2009 \$ 000
Sales revenue	3	19,079	9,264
Operating costs	4	(22,117)	(10,210)
<b>Operating loss</b>		<b>(3,038)</b>	<b>(946)</b>
Other revenue	3	693	941
Exploration expenditure expensed		(810)	(323)
Employee benefits expense		(2,202)	(7,047)
Depreciation and amortisation		(134)	(440)
Finance costs		(18,395)	(17,136)
Mark-to-market adjustment on derivative financial instruments		1,428	2,370
Net foreign currency (losses) / gains		(86)	222
Inventory write down		(652)	(857)
Loss on disposal of inventory		(369)	(992)
Restoration provision (expense) / benefit		(5,925)	10,868
Gain on extinguishment of financial liabilities	8b	14,609	-
Other expenses		(3,884)	(3,721)
<b>Loss before income tax</b>		<b>(18,765)</b>	<b>(17,061)</b>
Income tax benefit	5	51,217	38,256
<b>Profit for the year</b>		<b>32,452</b>	<b>21,195</b>
Other comprehensive income		-	-
Other comprehensive income for the year, net of tax		-	-
Total comprehensive profit attributable to members of the parent entity		32,452	21,195
Basic earnings per share (cents)		3.27	2.69
Diluted earnings per share (cents)		3.25	2.67

The accompanying notes form an integral part of this half year financial report.

# FINANCIAL STATEMENTS

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2010

	Note	31 Dec 2010 \$ 000	30 Jun 2010 \$ 000
<b>Current Assets</b>			
Cash and cash equivalents	6	20,315	24,924
Trade and other receivables		8,004	12,176
Inventories		4,838	5,499
Other current assets		-	619
<b>Total Current Assets</b>		<b>33,157</b>	<b>43,218</b>
<b>Non-Current Assets</b>			
Trade and other receivables		6,085	5,809
Property, plant and equipment		124	208
Deferred tax asset	7	179,487	114,068
Intangible assets		11	158
Exploration and evaluation assets		16,656	16,821
Development assets		275,722	274,227
Production assets		441,408	447,969
Other non-current assets		25,896	16,883
<b>Total Non-Current Assets</b>		<b>945,389</b>	<b>876,143</b>
<b>Total Assets</b>		<b>978,546</b>	<b>919,361</b>
<b>Current Liabilities</b>			
Trade and other payables		12,325	11,361
Borrowings	8	29,350	-
<b>Total Current Liabilities</b>		<b>41,675</b>	<b>11,361</b>
<b>Non-Current Liabilities</b>			
Trade and other payables		11,562	11,562
Financial liabilities		2,125	3,554
Borrowings	8	243,385	290,270
Long-term provisions		41,712	35,825
Deferred tax liability		52,278	38,206
<b>Total Non-Current Liabilities</b>		<b>351,062</b>	<b>379,417</b>
<b>Total Liabilities</b>		<b>392,737</b>	<b>390,778</b>
<b>Net Assets</b>		<b>585,809</b>	<b>528,583</b>
<b>Equity</b>			
Issued capital	9	569,759	544,506
Reserves		8,112	8,591
Retained profits/(accumulated losses)		7,938	(24,514)
<b>Total Equity</b>		<b>585,809</b>	<b>528,583</b>

The accompanying notes form an integral part of this half year financial report.

# FINANCIAL STATEMENTS

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE HALF YEAR ENDED 31 DECEMBER 2010

	Issued capital \$ 000	Retained profits/ (accumulated losses) \$ 000	Share based payments reserve \$ 000	Hedge reserve \$ 000	Total equity \$ 000
<b>Balance as at 1 July 2009</b>	469,757	(25,545)	7,625	(241)	451,596
Shares issued during the financial year less transaction costs	73,152	-	-	-	73,152
Deferred tax credit on shares issued	1,597	-	-	-	1,597
Share based payments	-	-	559	-	559
Total other comprehensive income	-	-	-	241	241
Total comprehensive profit attributable to members of the parent entity	-	21,195	-	-	21,195
<b>Balance as at 31 December 2009</b>	544,506	(4,350)	8,184	-	548,340
<b>Balance as at 1 July 2010</b>	544,506	(24,514)	8,591	-	528,583
Shares issued during the financial year less transaction costs	25,124	-	-	-	25,124
Deferred tax credit on shares issued	129	-	-	-	129
Share based payments	-	-	(479)	-	(479)
Total other comprehensive income	-	-	-	-	-
Total comprehensive profit attributable to members of the parent entity	-	32,452	-	-	32,452
<b>Balance as at 31 December 2010</b>	569,759	7,938	8,112	-	585,809

The accompanying notes form an integral part of this half year financial report.

# FINANCIAL STATEMENTS

## CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE HALF YEAR ENDED 31 DECEMBER 2010

	Note	31 Dec 2010 \$ 000	31 Dec 2009 \$ 000
<b>Cash Flows from Operating Activities</b>			
Receipts from customers		23,829	280
Payments to suppliers and employees		(25,905)	(10,751)
Interest received		441	661
Finance costs		(9,808)	(3,669)
<b>Net Cash used in Operating Activities</b>		<b>(11,443)</b>	<b>(13,479)</b>
<b>Cash Flows from Investing Activities</b>			
Payments for plant and equipment and intangible assets		-	(35)
Proceeds from disposal of plant and equipment		3	-
Proceeds from sale of casing		541	-
Payments for exploration, development and production expenditure		(7,295)	(80,657)
<b>Net Cash Flows used in Investing Activities</b>		<b>(6,751)</b>	<b>(80,692)</b>
<b>Cash Flows from Financing Activities</b>			
Proceeds from issue of shares		14,080	74,517
Payments for transaction costs arising on share issues		(429)	(1,365)
Proceeds from borrowings		-	45,911
Repayment of deposit received on conditional sale of permit		-	(35,000)
<b>Net Cash Flows Provided by Financing Activities</b>		<b>13,651</b>	<b>84,063</b>
Net decrease in cash and cash equivalents held		(4,543)	(10,108)
Cash and cash equivalents at beginning of period		24,924	55,377
Effect of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies		(66)	(527)
<b>Cash and cash equivalents at end of period</b>	6	<b>20,315</b>	<b>44,742</b>

The accompanying notes form an integral part of these half year financial report.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 31 DECEMBER 2010

## 1. SIGNIFICANT ACCOUNTING POLICIES

### Statement of Compliance

The half-year financial report is a general purpose financial report prepared in accordance with the Corporations Act 2001 and AASB 134 Interim Financial Reporting. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 Interim Financial Reporting. The half year financial report does not include notes of the type normally included in an annual financial report and shall be read in conjunction with the most recent annual report.

### Basis of Preparation

The half-year consolidated financial report has been prepared on an accruals basis and is based on historical costs modified, when relevant, by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied. The Company is a company of the kind referred to in Australian Securities and Investments Commission Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the financial statements have been rounded off to the nearest thousand dollars, unless otherwise indicated. The same accounting policies and methods of computation have been followed in this interim financial report as were applied in the most recent annual financial statements. The following accounting policy has been applied in relation to the extinguishment of financial liabilities:

### Extinguishment of Financial Liabilities

The Group has applied guidance in AASB 139 to determine the existence of the extinguishment or modification of financial liabilities arising as part of changes to certain of its long term borrowings. Where such a change to the Group's long term borrowings occurs, a quantitative analysis, as prescribed by AASB 139, is undertaken to determine whether the change results in substantially different terms and therefore whether this is to be accounted for as a debt extinguishment or a debt modification. If the existence of substantially different terms is concluded from the quantitative analysis, the change is accounted for as a debt extinguishment. In instances where the quantitative analysis does not indicate debt extinguishment, the Company then undertakes a qualitative analysis. This qualitative analysis looks at those variables that affect the risk profile of the new financial liability compared to the original financial liability. If the qualitative analysis concludes that the terms of the new financial liability are substantially different the change will be accounted for as a debt extinguishment.

Where debt extinguishment is deemed to have occurred, a gain or loss is recorded in the Statement of Comprehensive Income equal to the difference between the carrying amount of the original financial liability and the consideration paid (net of any fees or costs), including any shares transferred and liabilities assumed.

## 2. GOING CONCERN

The Directors have undertaken a thorough review of all operations and 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 working capital requirements, operating results, cash flows and the successful satisfaction of the covenants as disclosed in Borrowings Note 8(a).

The Group has recommenced production and sale of hydrocarbons under the long term off take contract with Santos. The Group continues to pursue a variety of financing options and asset sales in order to strengthen its balance sheet. The shareholder base has continued to strengthen during the half 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 to meet corporate and working capital requirements. The Directors recognise there is uncertainty with respect to the successful completion of any asset sale, capital restructure and finance facility requirements.

Having considered these matters, the Directors, after making appropriate enquiries, have reasonable expectations that the Group 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 Group will have sufficient liquidity to meet their existing commitments as and when they become due and payable.

	31 Dec 2010	31 Dec 2009
	\$ 000	\$ 000
<b>3. REVENUE</b>		
Sale of gas and condensate	19,079	9,264
<b>Total revenue</b>	<b>19,079</b>	<b>9,264</b>
<b>Other Income</b>		
Interest income	441	661
Services revenue from joint venture operations	252	280
<b>Total other income</b>	<b>693</b>	<b>941</b>
<b>4. OPERATING COSTS</b>		
Production costs	9,862	5,320
Royalty expense	560	272
Amortisation of production asset	11,695	4,618
<b>Total operating costs</b>	<b>22,117</b>	<b>10,210</b>

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 31 DECEMBER 2010

	31 Dec 2010 \$ 000	31 Dec 2009 \$ 000
<b>5. INCOME TAX</b>		
Tax expense / (income) comprises:		
Deferred income tax	(5,719)	(4,906)
Deferred tax – Petroleum Resource Rent Tax (net of income tax benefits)	(45,793)	(33,350)
Recognition of temporary differences and tax losses not previously brought to account	295	-
	(51,217)	(38,256)

	31 Dec 2010 \$ 000	30 Jun 2010 \$ 000
<b>6. CASH AND CASH EQUIVALENTS</b>		
Cash at bank and on hand	8,294	17,840
Bank deposits at call	1,340	1,308
Restricted bank deposits	10,681	5,776
Total cash and cash equivalents	20,315	24,924
<b>7. DEFERRED TAX ASSET</b>		
Deferred Tax Assets	179,487	114,068
	179,487	114,068

The increase in the deferred tax asset for the half year ended 31 December 2010 is the result of augmentation of the PRRT balances.

## 8. BORROWINGS

### Current

Bank loan (secured)	(a)	29,350	-
		29,350	-

### Non-current

Bank loan (secured)	(a)	131,255	160,000
Senior subordinated notes (unsecured)	(b)	112,130	130,270
Total long-term borrowings		243,385	290,270

#### (a) Bank Loan

A \$160 million senior debt facility and a \$60 million 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 million development facility and \$15 million cost overrun facility maturing in 8 years and 6 months from the project completion date. During the half year end a waiver agreement was executed with BOS International (Australia) Limited extending the project completion date to 31 March 2011. By this date the Group will have needed to satisfy various requirements and covenants as specified within the facility agreement.

The non current classification of the senior debt facility considers the project completion date as well as the Group's compliance with covenants measured at the end of the reporting period. In the event that the covenants are breached and waivers are not obtained, non current debt may become current and payable. The Group believes it will satisfy project completion as defined under the agreement with principle repayments commencing thereafter. The current portion of the bank loan of \$29.4 million is based on a combination of contractual obligations plus a cash sweep mechanism as defined in the lending facility agreement. The Group has complied with and satisfied the requirements of the facility and is working towards meeting the project completion requirements.

As at 31 December 2010 the development facility and cost overrun facility had been fully drawn down (30 June 2010: \$160 million). Interest is charged at the Reuters BBSY bid rate on the first date of the period plus a margin of 3.50%. Interest is payable on the last day of each funding period being 1, 2 or 3 months.

As at 31 December 2010 the interest rate was 9.57% including a capitalised payment in kind (30 June 2010: 8.43%). 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 31 December 2010 was \$534.7 million (30 June 2010: \$533.2 million).
- (ii) mortgage over the issued capital in Nexus Energy Aust. NL, Nexus Energy VIC/P54, and Nexus Energy Corporate Pty Ltd.
- (iii) authority over a Cost Overrun Reserve Account established under the facility agreement.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 31 DECEMBER 2010

## 8. BORROWINGS (Continued)

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

- (i) maintain Shareholders' Funds of at least \$130 million.
- (ii) post project completion, maintain a Debt Service Reserve Account of at least three months' principal and interest payments.
- (iii) maintain project gearing below 75%.
- (iv) satisfy project completion requirements as specified within the facility agreement by 31 March 2011 unless extended.

Covenants (i), (ii) and (iii) were satisfied during the period ending 31 December 2010 and 30 June 2010.

### (b) Senior subordinated notes

On 3 August 2010 the Company completed the Exchange Offer with acceptance by 86.27% of its \$110 million 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"). Pursuant to the Exchange Offer, 30,195,455 ordinary shares of the Company were issued to the holders of the New Notes on the 3 August 2010. The shares issued to new note holders as a result of accepting the Exchange Offer are subject to a six month escrow period during which the shares may not be traded. The escrow period on these shares expired on 3 February 2011.

The terms of the Exchange Offer provided for the exchange of Existing Notes for (i) New Notes, Tranche A of which are due in 2017 and Tranche B of which are due in 2013 ("New Notes"), and (ii) Nexus ordinary shares. The new note holders agreed to forgo the interest payment that were due in July 2010 and January 2011. The key terms of the New Notes are included in the 30 June 2010 Financial Report.

A review and valuation of the New Unsecured Subordinated Notes was undertaken for the half year ended 31 December 2010. Upon review of the Exchange Offer and in accordance with accounting standards, the Exchange Offer was deemed to be an extinguishment of debt, with the gain on extinguishment recorded in the Statement of Comprehensive Income. The gain on extinguishment of debt is equal to the difference between the carrying amount of the Existing Notes and the fair value of the New Notes at the date of the exchange. A gain on extinguishment of financial liabilities of \$14.6 million has been taken to the Statement of Comprehensive Income.

Under the terms of the Notes the Group's gearing ratio must not exceed 55%. The Group was compliant with this covenant as at 31 December 2010.

	31 Dec 2010 Number	30 Jun 2010 Number	31 Dec 2010 \$	30 Jun 2010 \$
<b>9. ISSUED CAPITAL</b>				
<b>(a) Share capital</b>				
Ordinary shares, fully paid	1,020,257,304	958,061,849	550,998,830	525,745,195
<b>(b) Other equity securities</b>				
Value of warrants – (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
			569,759,364	544,505,729

During the half year ended 31 December 2010 the following share issues were undertaken:

- On 3 August 2010 a total of 30,195,455 shares were issued for no consideration as part of the Exchange Offer of the Unsecured Subordinated Notes.
- On 5 November 2010 the company completed the placement of 32,000,000 shares to institutional investors. The shares were issued at an issue price of \$0.44 which raised gross proceeds of \$14.1 million.

## 10. SHARE BASED PAYMENTS

During the half year ended 31 December 2010, 4,109,400 unlisted employee options were issued, pursuant to the Nexus Energy Limited Executive Director and Employee Option Plan, with zero exercise price and vesting date of 30 June 2013.

Also during the half year ended 31 December 2010 a total of 4,256,700 options expired as a result of employee resignations.

As at 31 December 2010 a total of \$478,597 was credited to the statement of comprehensive income.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 31 DECEMBER 2010

	31 Dec 2010 \$ 000	30 Jun 2010 \$ 000
<b>11. COMMITMENTS</b>		
<b>(a) Capital expenditure commitments</b>		
Contracts for capital expenditure in relation to assets which are not provided for in the financial statements:		
(i) Drilling and Completions		
Not later than 1 year	-	-
Later than 1 year but not later than 5 years	-	8,917
	-	8,917
(ii) Development Project		
Not later than 1 year	30,102	2,822
Later than 1 year but not later than 5 years	-	34,155
	30,102	36,977
Total capital expenditure commitments	30,102	45,894
<b>Joint venture operations</b>		
The above commitments include exploration and development expenditure commitments relating to joint venture operations:		
Not later than 1 year	28,820	1,173
Later than one year but not later than 5 years	-	34,155
Total joint venture operation development expenditure commitments	28,820	35,328
<b>(b) Operating lease rental commitments</b>		
<b>Operating Lease Rental Payable</b>		
Non-cancellable operating lease rentals not provided for in the financial statements and payable:		
Not later than 1 year	1,636	1,296
Later than 1 year but not later than 5 years	7,250	6,859
Later than 5 years	6,313	3,905
Total operating lease rental commitments	15,199	12,060

The Company has a 5-year lease on software that expires October 2011. Fees are paid annually in advance.

The Company has a photocopier lease with a primary 5-year term that expires during August 2013. Lease payments are made monthly in advance.

The Company has an office lease for Level 8 & 9 Freshwater Place Southbank with a 10-year term that expires in January 2019. Rent is payable monthly in advance.

The Company has executed an office lease for Level 23, 530 Collins Street Melbourne with an 11-year term commencing March 2011. Rent is payable monthly in advance.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 31 DECEMBER 2010

31 Dec 2010  
\$ 000

30 Jun 2010  
\$ 000

## 11. COMMITMENTS (Continued)

### (b) Operating lease rental commitments (continued)

#### Operating Lease Rental Receivable

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

Not later than 1 year	300	196
Later than 1 year but not later than 5 years	5,112	858
Later than 5 years	3,842	-
<b>Total operating lease rental commitments</b>	<b>9,254</b>	<b>1,054</b>

The Company has sub-let level 8 Freshwater Place Southbank to a third party on the term of 7 years and 11 months commencing March 2011. Rent is payable monthly in advance.

The Company has sub-let level 9 Freshwater Place Southbank to a third party on a 5 year term that commenced in March 2010. Rent is payable monthly in advance.

### (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 (2009:VIC/P54, WA-368-P, WA-377-P and WA-424-P)

Not later than 1 year	3,025	17,475
Later than 1 year but not later than 5 years	950	200
Later than 5 years	-	-
<b>Total exploration expenditure commitments</b>	<b>3,975</b>	<b>17,675</b>

#### Joint venture operations

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

Not later than 1 year	2,600	2,600
Not later than 1 year but not later than 5 years	-	-
Later than 5 years	-	-
<b>Total joint venture operation exploration expenditure commitments</b>	<b>2,600</b>	<b>2,600</b>

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 31 December 2010, the amount will be included in both categories (a) and (c) above.

## 12. EVENTS SUBSEQUENT TO BALANCE SHEET DATE

### Exchange Offer

As part of the Exchange Offer completed on 3 August 2010, 30,195,455 ordinary shares were issued subject to a six month escrow period during which the shares may not be traded. The escrow period on these shares expired on 3 February 2011.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 31 DECEMBER 2010

## 13. SEGMENT REPORTING

### Segment Performance

Year Ended 31 December 2010	Production \$000	Development \$000	Exploration \$000	Other \$000	Total \$000
<b>Revenue</b>					
Sale of gas and condensate	19,079	-	-	-	19,079
<b>Total segment revenue</b>	<b>19,079</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>19,079</b>

#### Reconciliation of segment revenue to group revenue

Total group revenue	19,079	-	-	-	19,079
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<b>Segment net profit / (loss) before tax</b>	<b>(3,038)</b>	<b>(163)</b>	<b>(813)</b>		<b>(4,014)</b>
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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	-	-	-	(134)	(134)
• Inventory write downs	-	(624)	(28)	-	(652)
• Finance costs	(9,484)	-	-	(8,911)	(18,395)
• Restoration provision expense	(5,029)	(896)	-	-	(5,925)
• Mark-to-market adjustment on derivative financial instruments	1,428	-	-	-	1,428

#### Unallocated items:

• Interest and other revenue					693
• Employee benefits expense					(2,202)
• Foreign exchange movements					(86)
• Gain on extinguishment of financial liabilities					14,609
• Other					(4,087)

<b>Net profit / (loss) before tax</b>					<b>(18,765)</b>
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### Segment Performance

Year Ended 31 December 2009	Production \$000	Development \$000	Exploration \$000	Other \$000	Total \$000
<b>Revenue</b>					
Sale of gas and condensate	9,264	-	-	-	9,264
<b>Total segment revenue</b>	<b>9,264</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>9,264</b>

#### Reconciliation of segment revenue to group revenue

Total group revenue	9,264	-	-	-	9,264
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<b>Segment net profit / (loss) before tax</b>	<b>(946)</b>	<b>(913)</b>	<b>(122)</b>	<b>-</b>	<b>(1,981)</b>
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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	-	-	-	(440)	(440)
• Inventory write downs	-	(533)	(324)	-	(857)
• Finance costs	(4,444)	-	-	(12,635)	(17,079)
• Restoration provision benefits	9,339	1,529	-	-	10,868
• Mark-to-market adjustment on derivative financial instruments	2,370	-	-	-	2,370

#### Unallocated items:

• Interest and other revenue					661
• Employee benefits expense					(7,047)
• Foreign exchange movements					222
• Other					(3,778)

<b>Net profit / (loss) before tax</b>					<b>(17,061)</b>
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# NOTES TO THE FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 31 DECEMBER 2010

## 13. SEGMENT REPORTING (Continued)

### Segment Assets

Year Ended 31 December 2010	Production \$000	Development \$000	Exploration \$000	Total \$000
<b>Segment assets</b>	478,143	283,228	16,793	778,164
<i>Segment assets increased for the period:</i>				
• Capitalised costs	5,133	1,554	644	7,331
<i>Reconciliation of segment assets to group assets</i>				
<i>Unallocated items:</i>				
• Other assets				20,884
• Deferred tax assets				179,487
• Intangibles				11
<b>Total group assets</b>				<b>978,546</b>

### Segment Assets

Year Ended 30 June 2010	Production \$000	Development \$000	Exploration \$000	Total \$000
<b>Segment assets</b>	476,420	285,521	17,461	779,402
<i>Segment assets increased for the period:</i>				
• Capitalised costs	68,125	6,083	2,632	76,840
<i>Reconciliation of segment assets to group assets</i>				
<i>Unallocated items:</i>				
• Other assets				25,733
• Deferred tax assets				114,068
• Intangibles				158
<b>Total group assets</b>				<b>919,361</b>

## 14. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

There has been no change in contingent liabilities since the 30 June 2010 annual report with the exception of the following:

### Litigation

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 into liquidation in December 2009. TDJV's liquidators and Nexus Energy Corporate Pty Ltd have communicated about good faith settlement negotiations to resolve both parties' claims. Trident Australasia Pty Ltd (Trident) who formed part of the TDJV contractor consortium has issued separate proceedings in the Federal Court (WA Registry) claiming \$2.52 million for its part in completing the offshore installation works. This matter is ongoing and Nexus will continue to vigorously defend this claim.

## 15. SUMMARY OF INTEREST IN PERMITS

Schedule of Exploration Permits Held by the Group as at 31 December 2010:

Permit	Basin	Interest %
VIC/P54	Gippsland	100
VIC/L29	Gippsland	100
WA-368-P	Perth	50
AC/L9	Browse	85
WA-377-P	Browse	100

### Exploration Permit WA-368-P

On 30 September 2010, the permit expired and, in accordance with the standard requirements of the Western Australian Department of Mines and Petroleum, a renewal application for a permit extension has been lodged. The approval process is expected to be finalised in March 2011 and the Company is continuing efforts to secure a suitable drilling rig. Exploration and evaluation expenditure attributed to WA-368-P as at 31 December 2010 is \$7,507,072.

# DIRECTOR'S DECLARATION

FOR THE HALF YEAR ENDED 31 DECEMBER 2010

The Directors of the Company declare that:

1. The financial statements and notes, as set out on pages 6 to 16, are in accordance with the Corporations Act 2001 including:
  - (a) comply with Accounting Standard AASB134: Interim Financial Reporting; and
  - (b) give a true and fair view of the Group's financial position as at 31 December 2010 and of its performance for the half 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;

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

On behalf of the Directors:



Richard Cottee  
Managing Director

Dated at Melbourne this 28<sup>th</sup> day of February 2011

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Melbourne VIC 3000

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

### **Report on the Half-Year Financial Report**

We have reviewed the accompanying half-year financial report of Nexus Energy Limited and controlled entities ("the Group") which comprises the consolidated statement of financial position as at 31 December 2010, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

#### *Directors' Responsibility for the Half-Year Financial Report*

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

#### *Auditor's Responsibility*

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2010 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Nexus Energy Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

#### *Independence*

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

#### *Conclusion*

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

- (i) giving a true and fair view of the Group's financial position as at 31 December 2010 and of its performance for the half-year ended on that date; and
- (ii) complying with AASB 134: Interim Financial Reporting and the Corporations Regulations 2001.

*Significant Uncertainty Regarding Accounting Estimate*

Without qualification to the conclusion expressed above, we draw your attention to the following matter. The impairment analysis performed on the production asset is based upon cash flow projections that use a range of assumptions and accounting estimates which are subject to change. Given the current economic uncertainty, it is extremely difficult to forecast future cash flows with the degree of confidence required to be able to state that the production asset is fully recoverable at the amount disclosed in the half-year financial report.

Notwithstanding the directors' belief that the production asset is fully recoverable, this matter indicates the existence of a material uncertainty which may cast doubt on whether the Group will realise the value of the production asset at the amount disclosed in the half-year financial report.

*Material Uncertainty Regarding Going Concern*

Without qualification to the opinion expressed above, we draw your attention to Note 2 in the half-year financial report, which indicates that there are material uncertainties over the future working capital requirements, operating results, cash flows and the successful satisfaction of the covenants. The Directors of Nexus Energy Limited, after making appropriate enquiries, have reasonable expectations that the Group has sufficient funding in the near term to meet their existing commitments as and when they become due and payable.

These conditions, along with other matters set forth in Notes 2 and 8 (a), indicate the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern and therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

*Matters Relating to the Electronic Publication of the Financial Report*

This auditor's review report relates to the half-year financial report of Nexus Energy Limited and controlled entities for the period ended 31 December 2010 included on Nexus Energy Limited's website. The company's directors are responsible for the integrity of Nexus Energy Limited's website. We have not been engaged to report on the integrity of the Nexus Energy Limited's website. The auditor's review report refers only to the subject matter described above. It does not conclude on any other information which may have been hyperlinked to/from these statements. If users of the financial report are concerned with the inherent risks arising from publication on a website, they are advised to refer to the hard copy of the half-year financial report to confirm the information contained in this website version of the financial report.



Moore Stephens  
Chartered Accountants



Kevin W Neville  
Partner

Melbourne 28 February 2011

## 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
km <sup>2</sup>	square kilometres
KPI	key performance indicator
lead	a potential petroleum trap which has been identified but has not been adequately defined

## GLOSSARY OF TERMS

LNG	liquefied natural gas
LOI	Letter of Intent
MM	million
Nexus, Nexus Energy and company operator	Nexus Energy Limited 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.
PRRT	Petroleum Resource Rent Tax
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