

Update for the December 2009 Quarterly

Investment Highlights

- First gas at Longtom.** Production commenced at its cornerstone asset on the 21st of October, with quarter end production of 2.07PJ of sales gas and 27.3kbbbls of condensate, yielding revenue of A\$9.0m. Gas sales averaged 30TJ/day for the quarter due to seasonal demand, below 68TJ/d which is a yearly average determined from the annual contracted quantity of 25PJ/a.
- Reserves upgrade at Longtom.** 1P reserves were revised up 63% to 282PJ following interpretation of the Garfish and Longtom-4 wells. 2P reserves remained unchanged at 350PJ.
- Farmout of Crux needed in H1 2010 to progress liquids project.** NXS has finished a review of the asset based on the reducing life of the field, concluding that 65mmbbls (of the 75mmbbls of 2P) could be recovered in the remaining timeframe, with the potential for successful appraisal at Auriga to lift this to 75mmbbls. The company is reportedly continuing the farm-out process in order to progress a liquids stripping project. While considerable value remains in the ground, any potential farm-in partner will require reward for a considerably risky project and a diminishing value. We believe that a farmout needs to be completed in early 2010.
- Crux fall back options long-dated.** Participation in a Shell operated regional gas and condensate development is unlikely to provide any near term value with the tie-in of Crux to a unitised development a longer term possibility. The potential for an FLNG development of the Crux and surrounding fields is an alternative and possibly more timely outcome, but is also reliant on Shell and an unproven and high-cost development.
- We maintain our Speculative BUY recommendation with a price targeted of \$0.60/sh.** The fully appraised Crux field presents a high value asset – but largely worthless without a timely and funded development option. A farm-out or sale of the asset has the potential to unlock substantial upside from the current share price but we highlight that a deal needs to be achieved in H1 2010.

8 February 2010

12mth Rating

BUY

Price	A\$	0.25
Target Price	A\$	0.60
12m Total Return	%	142.9

RIC: **NXS.AX**

BBG: **NXS AU**

Shares o/s	m	742.2
Free Float	%	100.0
Market Cap.	A\$m	181.8
Net Debt (Cash)	A\$m	251.6
Net Debt/Equity	%	54.3
3m Av. D. T'over	A\$m	2.76
52wk High/Low	A\$	0.44/0.24
2yr adj. beta		1.81

Valuation:

Methodology		NPV
Value per share	A\$	0.60

Analyst:

Scott Simpson

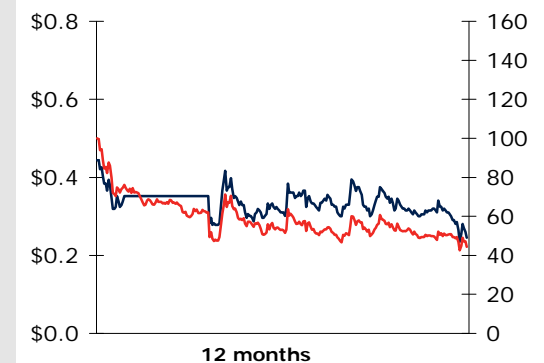
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12 Month Share Price Performance



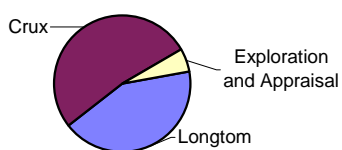
Performance %	1mth	3mth	12mth
Absolute	-19.4	-20.6	-41.9
Rel. S&P/ASX 300	-12.6	-19.5	-55.7

Year End June 30	2008A	2009A	2010F	2011F	2012F
Reported NPAT (\$m)	24.9	(50.4)	(42.9)	(19.5)	(15.8)
Recurrent NPAT (\$m)	24.9	12.4	(42.9)	(19.5)	(15.8)
Recurrent EPS (cents)	4.4	1.9	(4.5)	(2.0)	(1.6)
EPS Growth (%)	(41.6)	(56.6)	na	na	na
PER (x)	5.5	12.7	(5.5)	(12.1)	(14.9)
EBITDA (\$m)	33.2	38.4	(7.8)	30.1	35.9
EV/EBITDA (x)	3.5	8.5	(19.6)	5.1	8.6
Capex (\$m)	101.5	280.5	79.5	0.0	158.2
Free Cashflow	(310.7)	(286.0)	(109.5)	(2.1)	(154.5)
FCFPS (cents)	(55.3)	(44.2)	(11.4)	(0.2)	(16.0)
PFCF (x)	(0.4)	(0.6)	(2.2)	(111.5)	(1.5)
DPS (cents)	0.0	0.0	0.0	0.0	0.0
Yield (%)	0.0	0.0	0.0	0.0	0.0
Franking (%)	0.0	0.0	0.0	0.0	0.0

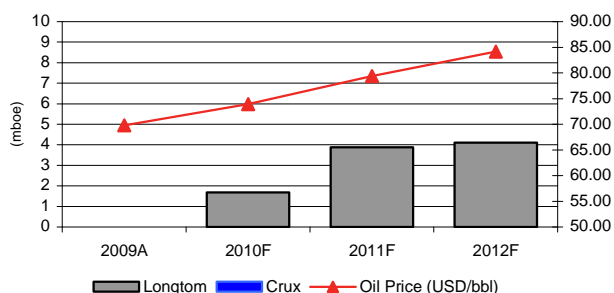
Nexus Energy (NXS)		\$0.25	
Valuation	A\$m	A\$/sh	
Longtom	393	0.41	
Crux	489	0.51	
Exploration and Appraisal	52	0.05	
Corporate	(109)	(0.11)	
Cash	45	0.05	
Debt	(296)	(0.31)	
Other	0	0.00	
Total @ 10% Discount Rate	573	0.60	
Price Target		0.60	

Price Target Sensitivity	-10%	0%	+10%
Oil Price Sensitivity (A\$/sh)	0.52	0.60	0.66
Exchange Rate Sensitivity (A\$/sh)	0.67	0.60	0.53

Valuation Summary of Operating Assets



Production Summary



Reserves & Resources

Reserves - Net NXS	Oil/Cond (mmbbl)	Gas (bcf)	Total (mboe)
2P Reserves			
Longtom	4.0	350.0	64.2
Crux	63.9	0.0	63.9
Total Group	67.9	350.0	128.1

Directors

Name	Position
Michael Fowler	Executive Chairman
Neil Ferguson	Executive Director
Michael Arnett	Non Executive Director
Symon Drake-Brockman	Non Executive Director
Ian Boserio	Non Executive Director
Steven Lowden	Non Executive Director

Substantial Shareholders

Shareholder	Shares (m)	%
Viking Shipping	68.7	9.3

Commodity Assumptions	2009A	2010F	2011F	2012F
A\$:US\$	0.75	0.90	0.91	0.89
Crude Oil - WTI (USD/bbl)	69.78	73.91	79.38	84.17
Gas Sales - East Coast Assumpti	3.50	3.50	3.56	3.63

Production Summary	2009A	2010F	2011F	2012F
Longtom	0.0	1.7	3.9	4.1
Oil/Condensate (mmbbl)	0.0	0.1	0.3	0.3
Gas (PJ)	0.0	9.2	21.1	22.3
Total (mboe)	0.0	1.7	3.9	4.1
Crux	0.0	0.0	0.0	0.0
Oil/Condensate (mmbbl)	0.0	0.0	0.0	0.0
Gas (PJ)	0.0	0.0	0.0	0.0
Total (mboe)	0.0	0.0	0.0	0.0
Total (mboe)	0.0	1.7	3.9	4.1

Profit & Loss (A\$m)	2009A	2010F	2011F	2012F
Sales Revenue	0.0	28.1	87.2	97.0
Other Income	85.4	2.6	1.6	1.6
Operating Costs	0.0	20.2	43.9	47.4
Exploration Exp.	16.8	0.0	0.0	0.0
Corporate/Admin	30.3	17.4	12.3	12.5
PRRT Cost	0.0	0.0	0.0	0.0
EBITDA	38.4	(7.0)	32.7	38.8
Depn & Amort	1.0	15.2	35.0	37.0
EBIT	37.4	(22.2)	(2.3)	1.8
Interest	34.8	19.8	14.7	14.7
Abnormals Pre-Tax	89.8	0.0	0.0	0.0
Operating Profit	(87.2)	(42.1)	(17.0)	(12.9)
Tax expense	(36.8)	0.0	0.0	0.0
Minorities	0.0	0.0	0.0	0.0
Discontinued Operations	0.0	0.0	0.0	0.0
NPAT	(50.4)	(42.1)	(17.0)	(12.9)
Normalised NPAT	(50.4)	(42.9)	(19.5)	(15.8)

Cash Flow (A\$m)	2009A	2010F	2011F	2012F
Adjusted Net Profit	(50.4)	(42.9)	(19.5)	(15.8)
+ Interest/Tax/Expl Exp	14.8	19.8	14.7	14.7
- Interest/Tax/Expl Inc	55.2	26.8	32.2	32.2
+ Depn/Amort	1.0	15.2	35.0	37.0
+/- Other	88.9	4.7	0.0	0.0
Operating Cashflow	(1.0)	(29.9)	(2.1)	3.7
- Capex (+asset sales)	215.5	(235.4)	0.0	158.2
- Working Capital Increase	0.0	0.0	0.0	0.0
Free Cashflow	(216.5)	205.5	(2.1)	(154.5)
- Dividends (ords & pref)	0.0	0.0	0.0	0.0
+ Equity raised	8.2	73.2	0.0	0.0
+ Debt drawdown (repaid)	39.6	45.9	0.0	0.0
+ Other	0.0	0.0	0.0	0.0
Net Change in Cash	(168.8)	324.5	(2.1)	(154.5)
Exchange Rate effects	0.3	(0.5)	0.0	0.0
Cash at End Period	55.4	379.4	377.3	222.8
Net Cash/(Debt)	(169.6)	83.1	81.0	(73.5)

Balance Sheet (A\$m)	2009A	2010F	2011F	2012F
Cash	55.4	379.4	377.3	222.8
Total Assets	824.7	866.7	835.6	808.3
Total Debt	225.0	296.3	296.3	296.3
Total Liabilities	373.1	384.9	373.3	361.8
Shareholders Funds	451.6	481.9	462.3	446.5

Ratios

Net Debt/Equity (%)	37.6	na	na	16.5
Interest Cover (x)	1.1	na	na	0.1
Return on Equity (%)	na	na	na	na

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