

NEXUS ENERGY LIMITED



HIGHLIGHTS

DURING QUARTER ENDED 30 SEPTEMBER 2006

- Drilling, testing and completion for future production of the Longtom #3 well
- Capital raising - \$16.5 million

SUBSEQUENT EVENTS POST 30 SEPTEMBER 2006

- HOA signed with Shell for Echuca Shoals farmin – valued at US \$50 million
- Receipt of US\$40 million from Shell for Crux gas rights in 2021
- Longtom bridge finance with BOSI secured - \$30 million



31 October 2006
(ASX code: NXS)

“ACTIVITIES UPDATE”

Gippsland Basin Permits

VIC/P54 (Nexus 37.5%)

Longtom Sole Risk Appraisal Program (NEXUS 100%)

The Longtom #3 well was spudded on 11th July 2006 utilising the Ocean Patriot rig.

In September 2006, the company confirmed commercial production rates. The final appraisal objective of the Longtom #3 well was achieved with an estimated flow rate of over 75 MMscf/d recorded during the second production test over the 100, 200 and 300 sands. The testing of the Longtom #3 well through a production completion and Xmas tree means the well is now ready for production without any further rig intervention being required. The Longtom #3 appraisal well is part of the sole risk appraisal programme operated by Nexus.

Front engineering and design for the Longtom Gas Project field development was also completed during the quarter.

Nexus has a 100% interest in the Longtom Gas Project. However, Apache Northwest Pty Ltd has back in rights pursuant to a joint venture agreement which enables Apache Northwest Pty Ltd to participate in any potential Longtom development upon the payment of a back in penalty.

VIC/P56 (Nexus 40%)

Studies are underway to review remaining prospectivity in the permit following the drilling of the Culverin and Scimitar prospects.

VIC/P49 (Nexus 80%)

The withdrawal of Seoul City Gas and Korea National Oil Corporation during the last quarter has increased Nexus' interest in the permit to 80%.

CGG Australia Services Pty Ltd have been contracted to acquire up to 2000 km 2D seismic in the first half of 2007 with the majority of the data designed to define the large leads, Tiger and Leopard, which have been identified on regional seismic lines in the deep water part of the basin.

The extension of Basker oil field in to the permit has been also been identified. Ongoing mapping seismic and potentially appraisal drilling is being planned as part of the ongoing work program.

VIC/P39 (v) (Nexus 37.5%)

Following the results of the Galloway #1 exploration well work is underway to assess the remaining prospectivity in the permit before a decision is made to enter the secondary permit term early in 2007

Bonaparte Basin Permits

NT/P66 (Nexus 100%)

A permit suspension and extension was granted until March 27th 2007 to allow the company to access a suitable rig to complete its Primary Term work programme. The company is also progressing a farmout campaign for the permit.

Perth Basin Permit

WA-368-P (Nexus 50%)

The 300km² Catalina 3D seismic survey was completed on 10 September 2006. PGS Geophysical in Perth has begun processing of the seismic data which is expected to be available for interpretation in early 2007.

Browse Basin Permits

AC/P23 (Nexus 100%)

Front end Engineering and Design (FEED) of a gas condensate recycling project (Crux Liquids Project) continued with internationally recognized consulting firm Mustang Engineering.

In June 2006, Nexus announced that it had accepted an offer from Shell Development Australia Pty Ltd ("Shell") to purchase 100% of Nexus' rights in relation to the gas (excluding the condensate liquids) in the AC/P23 permit. Final documents were prepared during the quarter and statutory approval of agreements was subsequently granted.

In October 2006, the settlement for the Crux natural gas sale was completed with the full payment to Nexus of US\$40 million.

In October 2006, Nexus also terminated a previously announced Heads of Agreement to farmout an interest in the Crux Liquids project.

Nexus retains a 100% interest and operatorship of the Crux Liquids Project and any other liquid hydrocarbons in the permit. Preparations continued for the drilling of the appraisal well Crux #2 later in 2006. FEED for the liquids project is expected in January 2007 placing the company in a position to commit to the development of the Crux liquids project in mid 2007.

WA-377-P (Echuca Shoals – Nexus 100%)

Nexus continued seismic processing of the available 3D seismic data in preparation for the final interpretation prior to the selection of a drilling location for the Echuca Shoals 2 appraisal well scheduled for early 2007.

In October 2006, Nexus announced that it had signed a Heads of Agreement (HOA) with Shell Development Australia Pty Ltd (“Shell”) to jointly commence the appraisal of the Echuca Shoals gas discovery. The arrangements covered by the HOA include an initial payment of US\$20 million to purchase a 13.6% interest in the Echuca Shoals permit. As part of the deal, Shell will also commit to funding of US\$30 million towards the well cost of the next appraisal well to earn a further 20.4% interest. The agreement is subject to the completion of a joint operating agreement, farmin agreement and statutory approvals which are expected to take place by mid December 2007.

Funding

During the quarter the company successfully completed a \$15.1 million capital raising with the issue of 24.4 million ordinary shares at 62 cents per share. An additional \$1.5 million was received during the quarter via the exercising of 2.8 million options at various prices.

In October 2006, approximately \$A53 million was received in full payment from Shell Development Australia Pty Ltd for the sale of the natural gas resources contained in the Crux field.

In October 2006, the company secured a bridge funding facility of \$30 million to be drawn down and applied towards the company’s Longtom Asset from BOS International (Australia) Limited, part of the Bank of Scotland group.

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Appendix 5B

Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001.

Name of entity

Nexus Energy Ltd

ABN

64 058 818 278

Quarter ended ("current quarter")

September 2006

Consolidated statement of cash flows

	Current quarter \$A'000	Year to date (12 months) \$A'000
Cash flows related to operating activities		
1.1 Receipts from product sales and related debtors		
1.2 Payments for		
(a) exploration and evaluation	(19,049)	(19,049)
(b) development		
(c) production		
(d) administration	(2,062)	(2,062)
1.3 Dividends received		
1.4 Interest and other items of a similar nature received	438	438
1.5 Interest and other costs of finance paid	(164)	(164)
1.6 Income taxes paid		
1.7 Other – GST refunds	686	686
Net Operating Cash Flows	(20,151)	(20,151)
Cash flows related to investing activities		
1.8 Payment for purchases of:		
(a) prospects		
(b) equity investments		
(c) other fixed assets	(151)	(151)
1.9 Proceeds from sale of:		
(a) prospects		
(b) equity investments		
(c) other fixed assets		
1.10 Loans to other entities		
1.11 Loans repaid by other entities		
1.12 Other (provide details if material)		
Net investing cash flows	(151)	(151)
1.13 Total operating and investing cash flows (carried forward)	(20,302)	(20,302)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(20,302)	(20,302)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	16,539	16,539
1.15	Proceeds from sale of forfeited shares		
1.16	Proceeds from borrowings		
1.17	Repayment of borrowings		
1.18	Dividends paid		
1.19	Other		
	– borrowing transaction costs		
	– equity transaction costs	(799)	(799)
	– Finance lease repayments	(3)	(3)
	Net financing cash flows	15,737	15,737
	Net increase (decrease) in cash held	(4,565)	(4,565)
1.20	Cash at beginning of quarter/year to date	42,464	42,464
1.21	Exchange rate adjustments to item 1.20	(261)	(261)
1.22	Cash at end of quarter	37,638	37,638

Payments to directors of the entity and associates of the directors

Payments to related entities of the entity and associates of the related entities

		Current quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	73
1.24	Aggregate amount of loans to the parties included in item 1.10	Nil

1.25 Explanation necessary for an understanding of the transactions

Non-cash financing and investing activities

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

+ See chapter 19 for defined terms.

Financing facilities available

Add notes as necessary for an understanding of the position.

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities	30,000	7,000
3.2 Credit standby arrangements		

Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	40,000
4.2 Development	
Total	40,000

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.

	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	9,435	10,168
5.2 Deposits at call	28,203	32,296
5.3 Bank overdraft		
5.4 Other (provide details)		
Total: cash at end of quarter (item 1.22)	37,638	42,464

Changes in interests in mining tenements

	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1 Interests in mining tenements relinquished, reduced or lapsed				
6.2 Interests in mining tenements acquired or increased	VIC/P49	Increase in interest due to the withdrawal of Seoul City Gas and Korea National Oil Corporation	40%	80%

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

Issued and quoted securities at end of current quarter

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

	Total number	Number quoted	Issue price per security (see note 3)	Amount paid up per security (see note 3)
7.1 Preference securities <i>(description)</i>				
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3 +Ordinary securities	388,043,808	388,043,808		
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	1,060,000 1,870,000 24,408,349	1,060,000 1,870,000 24,408,349	50 cents 55 cents 62 cents	
7.5 +Convertible debt securities <i>(description)</i>				
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7 Options <i>(description and conversion factor)</i>	3,780,000 500,000 1,000,000 500,000 3,250,000 750,000 6,624,300		<i>Exercise price</i> 55 cents 90 cents 100 cents 150 cents 75 cents 77 cents 87 cents	<i>Expiry date</i> 31 October 2006 31 December 2006 31 December 2006 31 December 2006 30 April 2007 30 April 2007 31 October 2007
7.8 Issued during quarter	500,000 6,624,300		77 cents 87 cents	31 December 2007 31 October 2007
7.9 Exercised during quarter	1,060,000 1,870,000		50 cents 55 cents	
7.10 Expired during quarter				

+ See chapter 19 for defined terms.

7.11	Debentures <i>(totals only)</i>			
7.12	Unsecured notes <i>(totals only)</i>			

Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act [or other standards acceptable to ASX \(see note 4\)](#).
- 2 This statement does /does not* *(delete one)* give a true and fair view of the matters disclosed.

Sign here: Date: 31 October 2006
 Company secretary)

Print name: Susan Robutti

Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

Schedule of Exploratioon Permits
Held by Consolidated Entity
At 30 September 2006

<u>Permit</u>	<u>Basin</u>	<u>Interest %</u>
VIC/P54	Gippsland	37.5
Longtom Sole Risk Programme (VIC/P54)	Gippsland	100
VIC/P56	Gippsland	40
VIC/P49	Gippsland	80
VIC/P39(v)	Gippsland	37.5
NT/P66	Bonaparte	100
WA-368-P	Perth	50
AC/P23 (Crux)	Browse	100
WA-377-P (Echuca Shoals)	Browse	100

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+ See chapter 19 for defined terms.