

# Neon Energy Limited

ABN 49 002 796 974

## Appendix 4D – 31 December 2009 Half-Year Report

### 1. Reporting Period

The current reporting period is the period ended 31 December 2009 and the previous corresponding period is for the period ended 31 December 2008.

### 2. Results for Announcement to the Market.

	<b>31 December 2009</b>	31 December 2008	<b>% Change</b>
	<b>\$</b>	<b>\$</b>	
2.1 Revenue from ordinary activities.	<b>3,387,956</b>	14,686,101	<b>Down 77%</b>
2.2 Profit (loss) from ordinary activities after tax attributable to members.	<b>(1,078,625)</b>	(2,652,626)	<b>Loss reduced by 59%</b>
2.3 Net profit (loss) for the period attributable to members.	<b>(1,078,625)</b>	(2,652,626)	<b>Loss reduced by 59%</b>
2.4 Amount per security and franked amount per security of interim dividend.	No interim dividends have been paid or provided for during the period		
2.5 Record date for determining entitlements to the dividends and payment date.	Not applicable		
2.6 Brief explanation of any of the figures in 2.1 to 2.4 necessary to enable the figures to be understood.	See Directors Report – Financial Report for the Half-Year Ended 31 December 2009.		

### 3. Net Tangible Assets Per Security

	<b>31 December 2009</b>	31 December 2008
	<b>Cents</b>	<b>Cents</b>
Net tangible assets* per ordinary share	<b>8.6</b>	16.4

\* Net tangible assets = net assets excluding deferred tax assets and liabilities and capitalised exploration expenditure

#### **4. Gain or Loss of Control Over Entities**

On 28 October 2009, Neon Energy Limited acquired 100% of the share capital of the following entities:

- a) Neon Energy (Australia) Pty Ltd
- b) Neon Energy (Song Hong) Pty Ltd
- c) Neon Exploration Pty Ltd
- d) Neon Energy (Browse) Pty Ltd
- e) Neon Energy (Ko Kra) Pty Ltd
- f) Neon Energy (Indonesia) Pty Ltd

On 1 December 2009, Neon Energy Limited acquired 100% of the share capital of Neon Energy (Paris Valley) LLC

None of these entities had a material contribution to the Company's loss for the half-year.

#### **5. Details of Dividend and Distribution Payments**

No dividends or distributions have been paid or provided for during the period.

#### **6. Dividend Reinvestment Plans**

There are no dividend or distribution reinvestment plans in operation.

#### **7. Associates and Joint Venture Entities**

Not applicable.

#### **8. Foreign Entities**

Not applicable.

#### **9. Audit Dispute or Qualification**

None.



(formerly Salinas Energy Limited)

ABN 49 002 796 974

**FINANCIAL REPORT**  
**FOR THE HALF – YEAR ENDED**  
**31 DECEMBER 2009**

## CORPORATE DIRECTORY

### **Directors**

Alan Stein - Chairman  
Kenneth Charsinsky - Managing Director  
Dougal Ferguson  
John Lander  
Ronald L Miller  
Ian Middlemas

### **Company Secretary**

Dougal Ferguson

### **Registered and Principal Office**

Ground Floor  
88 Colin Street  
West Perth, WA, 6005  
Australia  
International: +61 8 9481 1176  
Facsimile: +61 8 9481 7720  
Website: [www.neonenergy.com](http://www.neonenergy.com)

### **US Operations Office**

#### ***Bakersfield Office***

3400 Calloway Drive, Bldg. 100  
Bakersfield, California, United States

### **Auditors**

Ernst & Young

### **Bankers**

Westpac Banking Corporation  
Limited

### **Stock Exchange Listing**

Neon Energy Limited is listed on the  
Australian Securities Exchange  
(Symbol: NEN).

### **Share Register**

Computershare Investor Services  
Level 2, Reserve Bank Building  
45 St Georges Terrace  
Perth WA 6000  
Australia  
Telephone: 1300 557 010  
International: +61 8 9323 2000  
Facsimile: +61 8 9323 2033  
[www.computershare.com.au](http://www.computershare.com.au)

## DIRECTORS' REPORT

The Board of Directors of Neon Energy Limited present their report on the consolidated entity of Neon Energy Limited ("the Company" or "Neon") and the entities it controlled during the half-year ended 31 December 2009 ("Consolidated Entity" or "Group").

### Directors

The names of the Directors of Neon Energy Limited in office during or since the end of the half-year until the date of this report were:

### Directors

Alan Stein (Chairman) – appointed 27 October 2009  
Kenneth Charsinsky (Managing Director) – appointed 27 October 2009  
Dougal Ferguson  
John Lander – appointed 27 October 2009  
Ian Middlemas  
Ronald L Miller  
John Begg – resigned 27 October 2009

Unless otherwise indicated, all Directors held their position as a director throughout the entire half-year and up to the date of this report.

### Financial Results

The Group recorded a loss for the half-year ended 31 December 2009 of \$1,078,625 compared to a loss of \$2,652,626 for the half-year ended 31 December 2008.

Operating costs and overheads have been reduced substantially over the last twelve months with only a small operating loss before depreciation and amortisation (approximately \$76,000) being incurred for the half-year. This loss includes an increase in overhead costs over the last two months of the half-year, which were associated with the acquisition of Neon Energy (Australia) Pty Ltd ("**NEA**"), further details of which are provided in this report.

Revenues for the half-year from our Californian operations were down substantially on the previous corresponding period as a direct result of volume (down 64%) and average price received (down 36%). A strong focus on reducing operating costs (down 42%) has ensured that the operations remained cash flow positive through the half-year, and with the focus now on increasing production rates at the North San Ardo ("**NSA**") oil field it is expected that both production volumes and revenues will increase in the second half of the financial year.

The acquisition of NEA by Neon in October 2009 resulted in a cash outlay of \$1.5 million together with the issue of 44.7 million shares and 8.75 million options issued to NEA shareholders. The Company subsequently raised \$5.67 million in working capital to fund further growth of the business by issuing an additional 42 million shares at 13.5 cents per share through a placement to institutional and sophisticated investor clients of Paterson Securities Limited.

On 5 January, the Company signed a Production Sharing Contract ("**PSC**") for Block 105/110-04 offshore Vietnam. Neon has a 90% working interest in the 7,192 km<sup>2</sup> PSC which has been acquired for a total cost of US\$1.125 million net to Neon and is the first step in the growth phase of the Company post the acquisition of NEA.

The Company is well funded with cash on hand of \$6.6 million as at 31 December 2009 which is available to fund organic growth from Neon's extensive asset portfolio in Vietnam and California as well as other new venture opportunities in South East Asia.

## Forward Strategy and Outlook

Having scaled down its operations following the adverse economic conditions experienced in late 2008 and early 2009, the Company has refocused its efforts on growth both organically and through acquisition.

The prime focus of the Company's strategy in the short term is:

- increasing production levels at the 100% owned NSA oil field;
- managing exposure to exploration expenditure through appropriate farm-out of activity in both Vietnam and California;
- proving the commercial significance of the large resource at Paris Valley; and
- adding value through early identification and acquisition of exploration and production opportunities, utilising the Company's extensive geoscience database.

With the acquisition of NEA now fully integrated into the business, the Board is completely focussed on further growth of the business. Early drilling activity will be concentrated on increasing production at NSA with potentially some follow up exploration drilling at some of the Company's larger projects in California later in the year.

The Paris Valley oil field, now owned 100% by Neon, also remains a short term focus for the Company. The recent drilling of the North Paris Valley-1 appraisal well has confirmed the presence of an oil column in the northern fault block and further exploration and appraisal activity is being scheduled with the target of booking reserves within this financial year.

Neon has been actively seeking joint venture partners to facilitate early exploration of the Vietnam assets. This process is well underway and the Board is confident it will be able to conclude a farm-out deal in the near future.

The outlook for the Company in the current oil price environment is positive with the Company's current oil production volumes expected to increase and generate sufficient free cash flow to allow Neon to fund further activity in California, whilst continuing an active new ventures programme in Southeast Asia. The Company has no debt and remains committed to prudently funding the majority of its activity through cash flow wherever possible.

## PROJECTS

### *Vietnam*

#### **Block 105-110/04 PSC – (Neon 90%)**

Neon was awarded exploration Block 105-110/4 ("**Block 105**") in the Song Hong Basin offshore Vietnam on 5 January 2010. Neon is Operator of the block and holds a 90% working interest.

Block 105 is located in the central Song Hong Basin and covers an area of 7,192 km<sup>2</sup> in water depths of less than 50 metres. There have been discoveries nearby within the same sedimentary basin however Block 105 has had very little exploration activity. A widely spaced grid of 2D seismic data exists but there has been no exploration drilling to date on the block.

Premier Oil, MOECO and CNOOC hold participating interests in the acreage immediately to the north of the block, and the Chinese producing Dongfang and LeDong gas fields lie approximately 35 kms from the block's eastern boundary. These fields are estimated to contain ultimate recoverable reserves of 1.5 Tcf and 0.9 Tcf respectively.

Neon made a direct application to the Government for the award of Block 105 following a review of regional data held within the Company's proprietary geoscience database. The data currently available over the block demonstrates the presence of a very thick sedimentary basin which is proven to have generated hydrocarbons. A variety of trapping styles are present including analogues of the Chinese gas fields to the east. The basin has clear potential to host commercially significant gas reserves, and Neon believes there may also be an oil play in the western portion of the block.

Several of the prospective features identified by Neon on existing seismic data appear to have anomalous seismic characteristics. These Direct Hydrocarbon Indicators (“DHI’s”), are routinely used to identify and high-grade exploration prospects. Neon will reprocess existing seismic data and acquire new 2D seismic using acquisition and processing parameters specifically designed to optimise the imaging of potential DHI’s.

Block 105 PSC has an initial term of four years during which time Neon is obliged to acquire 2D seismic data and drill at least one exploration well. Neon is seeking the appropriate approvals to conduct seismic operations within Block 105 and Block 120 during 2010, which will involve mid-year acquisition of around 3,500 km of new 2D data over the most prospective areas of the two exploration blocks.

### **Block 120 PSC – (Neon 100%)**

Block 120 covers an area of 8,469 km<sup>2</sup> in water depths of 50m to 1,100m. Over the most prospective parts of the basin sediment thickness is up to 6,500m and water depths range from 50m to 500m. The block overlies a north-south trend of Tertiary-aged sedimentary basins, but primarily overlies the Quang Ngai Graben. The area was previously explored by BHP Petroleum Limited who acquired an extensive 2D seismic survey in 1991 and drilled one well in 1993. The well targeted a Miocene reef complex and encountered a minimum 6 metre oil column, demonstrating the presence of an active petroleum system. The well was not fully tested or evaluated and further data acquisition over this prospect will be required to determine the full extent of the oil accumulation and its potential for commercial development. Miocene reef reservoirs are prolific producers in many locations in Southeast Asia.

### ***Salinas Basin (California)***

#### **North San Ardo Oil Field – (Neon 100%)**

For the half-year ended 31 December 2009, oil production at NSA was approximately 262 bopd (2009: 729 bopd) with 48,144 barrels of oil sold (2009: 134,204) at an average price of A\$70 per barrel (2008: A\$110/bbl).

Activity for the half-year included upgrades to the processing facilities and the water disposal limitations that existed previously have now been addressed. The Company’s focus for the short term is to increase production through the drilling of an additional production well in the central part of the field, together with other production enhancement operations which may include further cyclic steam trials on existing production wells.

The first cyclic steam trial ever undertaken by the Company was completed on an existing vertical production well, Lombardi 1-27, and has provided valuable information. The well’s production rate has more than doubled and analysis indicates that improvements can be made to the way in which wells are cyclically steamed in future. These improvements comprise a combination of parameter changes including the amount of steam injection, steam quality, “soak time”, and the rate at which wells are “pumped off” before heat and pressure disperse within the reservoir. The total investment for the steam trial was less than US\$75,000 and has already been recovered through incremental production. Further cyclic steam trials, including one on a horizontal well, are planned in the near future.

#### **Paris Valley Oil Field – (Neon 100%)**

Neon announced during November 2009 that it had reached agreement with Nations Petroleum to acquire its entire interest in the Paris Valley oil field redevelopment project. As part of the transaction, Neon’s previous financial commitments to the project have been altered in that Neon is now at liberty to progress the project in its own timeframe and in accordance with its own objectives. The transaction was completed in early December and Neon now holds a 100% working interest in the project.

Following the acquisition the Company commenced its first appraisal well on the project at North Paris Valley. The well was drilled, cored and completed ready for production testing at a cost of approximately US\$275,000, consistent with the pre-drill estimate.

Prior to drilling NPV-1 no samples of the reservoir or the oil were available. The samples of both reservoir and oil recovered from NPV-1 will assist in providing more accurate estimates of potential recoverable resource, well deliverability and the likely effectiveness of steam stimulation in this northern sector of the field. A detailed evaluation of all well data is being performed in order to determine how best to accelerate further appraisal of the resource. The Company has permits in place to allow for the drilling of up to five additional wells in several different locations.

### **San Joaquin Basin (California)**

Neon's core acreage in the Southern San Joaquin Basin remains under lease and farmout efforts have now commenced. The technical team has been evaluating prior work, conducted as part of the Company's proprietary basin-wide study. Enhancement of existing prospects as well as identification of new opportunities is underway with the objective being to seek strategic partnerships in the region.

### **Corporate**

The Company announced the acquisition of NEA in August 2009 and the transaction completed on 28 October 2009 following Neon shareholder approval. The acquisition has resulted in an expansion of the Company's portfolio with the addition of the high impact Vietnam acreage to compliment the existing cash flow positive Californian production assets together with strengthening of the Neon Board with the addition of Dr Alan Stein, Mr Ken Charsinsky and Mr John Lander as directors of the Company.

Following the completion of the acquisition of NEA, Mr Ian Middlemas stepped down as non-executive Chairman of Neon in favour of Dr Alan Stein. Dr Stein was a founder of Neon Energy Pty Ltd and also founded successful African exploration companies Fusion Oil and Gas plc, and Ophir Energy plc.

On 26 November 2009, Neon announced that it had raised \$5.67 million before costs, with the issue of 42 million shares to institutional and sophisticated investors at a price of 13.5 cents per share. The funds will be used to further expand the Southeast Asian asset portfolio together with providing additional working capital to accelerate short term development and appraisal activities in California.

Neon moved offices on 1 February 2010 to Ground Floor, 88 Colin Street, West Perth.

### **Auditor's Independence Declaration**

Section 307C of the Corporations Act 2001 requires our auditors, Ernst & Young, to provide the directors of Neon Energy Limited with an Independence Declaration in relation to the review of the half-year financial report. This Independence Declaration is set out on page six.

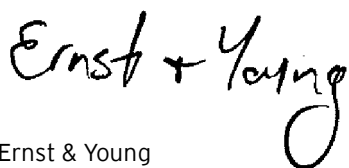
This report is made in accordance with a resolution of the Directors.



**Kenneth Charsinsky**  
**Managing Director**  
**Perth, 26 February 2010**

## Auditor's Independence Declaration to the Directors of Neon Energy Limited (previously Salinas Energy Limited)

In relation to our review of the financial report of Neon Energy Limited (previously Salinas Energy Limited) for the half-year ended 31 December 2009, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.



Ernst & Young



P Mclver  
Partner  
Perth

26 February 2010

## DIRECTORS' DECLARATION

In accordance with a resolution of the directors of Neon Energy Limited, I state that:

In the opinion of the directors:

- (a) the financial statements and notes of the consolidated entity are in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the financial position as at 31 December 2009 and the performance for the half-year ended on that date of the consolidated entity; and
  - (ii) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

On behalf of the Board



**KENNETH CHARINSKY**  
Managing Director

**Perth, 26 February 2010**

## STATEMENT OF COMPREHENSIVE INCOME

FOR THE HALF-YEAR ENDED 31 DECEMBER 2009

		<b>Consolidated</b>	
	<b>Note</b>	<b>31 December 2009</b>	<b>31 December 2008</b>
		<b>\$</b>	<b>\$</b>
<b>Continuing operations</b>			
<b>Revenue</b>	<b>3</b>	<b>3,387,956</b>	14,686,101
Operating expenses		<b>(1,138,762)</b>	(1,988,810)
Royalty payments		<b>(633,934)</b>	(2,908,878)
Depreciation and amortisation expense		<b>(782,591)</b>	(2,437,218)
Costs related to renewable energy inventory sale		-	(150,000)
Cost of Sales		<b>(2,555,287)</b>	(7,484,906)
<b>Gross Profit</b>		<b>832,669</b>	7,201,195
Impairment of exploration and evaluation assets		-	(2,212,292)
Impairment of oil and gas properties		-	(4,849,424)
Corporate and administration expenses		<b>(1,648,721)</b>	(2,190,961)
Business development expenses		<b>(25,640)</b>	(488,331)
Costs related to business acquisition		<b>(219,583)</b>	-
Other expenses		<b>(11,948)</b>	(110,421)
Finance costs		<b>(5,402)</b>	(2,392)
<b>Loss before income tax expense</b>		<b>(1,078,625)</b>	(2,652,626)
Income tax expense		-	-
<b>Loss for the period</b>		<b>(1,078,625)</b>	(2,652,626)
<b>Other comprehensive income</b>			
Foreign currency translation gain/(loss)		<b>(2,794,434)</b>	12,216,666
<b>Total comprehensive income for the period attributable to members of the parent entity</b>		<b>(3,873,059)</b>	9,564,040
Basic loss per share for the period (cents per share)		<b>(0.4)</b>	(1.1)
Diluted loss per share for the period (cents per share)		<b>(0.4)</b>	(1.1)

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

**STATEMENT OF FINANCIAL POSITION**

AS AT 31 DECEMBER 2009

		<b>Consolidated</b>	
	<b>Note</b>	<b>31 December 2009 \$</b>	<b>30 June 2009 \$</b>
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	4	6,606,060	3,702,595
Trade and other receivables		842,759	756,810
Inventories		132,402	233,984
<b>Total current assets</b>		<u>7,581,221</u>	<u>4,693,389</u>
<b>Non-current assets</b>			
Available for sale investments		62,527	62,527
Property, plant and equipment		439,329	316,948
Exploration and evaluation assets	5	15,802,402	4,600,283
Oil and gas properties	6	21,987,385	24,645,044
<b>Total non-current assets</b>		<u>38,291,643</u>	<u>29,624,802</u>
<b>Total assets</b>		<u>45,872,864</u>	<u>34,318,191</u>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables		1,438,963	858,824
Provisions		69,212	368,058
<b>Total current liabilities</b>		<u>1,508,175</u>	<u>1,226,882</u>
<b>Non-current liabilities</b>			
Provisions		793,903	601,185
Deferred tax liabilities		2,145,000	-
<b>Total non-current liabilities</b>		<u>2,938,903</u>	<u>601,185</u>
<b>Total liabilities</b>		<u>4,447,078</u>	<u>1,828,067</u>
<b>Net assets</b>		<u>41,425,786</u>	<u>32,490,124</u>
<b>EQUITY</b>			
Contributed equity	9	112,582,667	100,526,627
Reserves		(712,834)	1,328,919
Accumulated losses		(70,444,047)	(69,365,422)
<b>Total equity</b>		<u>41,425,786</u>	<u>32,490,124</u>

The above Balance Sheet should be read in conjunction with the accompanying notes.

## STATEMENT OF CHANGES IN EQUITY

FOR THE HALF-YEAR ENDED 31 DECEMBER 2009

	<i>Issued Capital \$</i>	<i>Retained Earnings \$</i>	<i>Option &amp; Rights Premium Reserve \$</i>	<i>Foreign Currency Translation Reserve \$</i>	<i>Total Equity \$</i>
<b>Balance at 1 July 2009</b>	<b>100,526,627</b>	<b>(69,365,422)</b>	<b>1,742,755</b>	<b>(413,836)</b>	<b>32,490,124</b>
Loss for the period	-	(1,078,625)	-	-	(1,078,625)
Other comprehensive income	-	-	-	(2,794,434)	(2,794,434)
Total comprehensive income for the half year	-	(1,078,625)	-	(2,794,434)	(3,873,059)
Shares Issued	12,384,540	-	-	-	12,384,540
Rights Granted	-	-	5,327	-	5,327
Options Granted	-	-	747,354	-	747,354
Share Issue Expenses	(328,500)	-	-	-	(328,500)
<b>Balance at 31 December 2009</b>	<b>112,582,667</b>	<b>(70,444,047)</b>	<b>2,495,436</b>	<b>(3,208,270)</b>	<b>41,425,786</b>
<b>Balance at 1 July 2008</b>	<b>101,301,355</b>	<b>(58,506,286)</b>	<b>1,216,871</b>	<b>(7,033,154)</b>	<b>36,978,786</b>
Loss for the period	-	(2,652,626)	-	-	(2,652,626)
Other comprehensive income	-	-	-	12,216,666	12,216,666
Total comprehensive income for the half year	-	(2,652,626)	-	12,216,666	9,564,040
Rights Granted	-	-	155,513	-	155,513
Options Granted	-	-	274,254	-	274,254
Share buy-back	(774,728)	-	-	-	(774,728)
<b>Balance at 31 December 2008</b>	<b>100,526,627</b>	<b>(61,158,912)</b>	<b>1,646,638</b>	<b>5,183,512</b>	<b>46,197,865</b>

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

**CASH FLOW STATEMENT**

FOR THE HALF-YEAR ENDED 31 DECEMBER 2009

<b>Consolidated</b>		
<b>Note</b>	<b>31 December 2009</b>	<b>31 December 2008</b>
	<b>\$</b>	<b>\$</b>
<b>Cash flows from operating activities</b>		
Receipts from customers	<b>3,298,347</b>	17,568,894
Payments to suppliers and employees	<b>(3,577,002)</b>	(8,147,556)
Interest received	<b>37,829</b>	152,771
Finance costs paid	<b>(5,402)</b>	(2,392)
<b>Net cash flows (used in) from operating activities</b>	<b>(246,228)</b>	9,571,717
<b>Cash flows from investing activities</b>		
Development expenditure	<b>(375,032)</b>	(6,539,385)
Exploration and evaluation expenditure	<b>(250,460)</b>	(2,064,077)
Purchase of property, plant and equipment	-	(1,488)
Purchase of Neon Energy (Australia) net of cash acquired	<b>(1,427,879)</b>	-
<b>Net cash flows used in investing activities</b>	<b>(2,053,371)</b>	(8,604,950)
<b>Cash flows from financing activities</b>		
Proceeds from issue of shares	<b>5,670,000</b>	-
Transaction costs of issue of shares	<b>(328,500)</b>	-
Share buy-back payments	-	(815,109)
Loan to Neon Energy (Australia) – pre acquisition	<b>(80,570)</b>	-
<b>Net cash flows from/(used in) financing activities</b>	<b>5,260,930</b>	(815,109)
<b>Net increase in cash and cash equivalents</b>	<b>2,961,331</b>	151,658
Net foreign exchange differences	<b>(57,866)</b>	347,556
Cash and cash equivalents at the beginning of the period	<b>3,702,595</b>	6,073,425
<b>Cash and cash equivalents at the end of the financial period</b>	<b>6,606,060</b>	6,572,639

The above Cash Flow Statement should be read in conjunction with the accompanying notes.

## NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2009

### Note 1. Corporate information

The financial report of Neon Energy Limited (the Company) for the half-year ended 31 December 2009 was authorised for issue in accordance with a resolution of the directors on 26 February 2010.

Neon Energy Limited (previously Salinas Energy Limited) is a company incorporated in Australia and limited by shares which are publicly traded on the Australian Securities Exchange.

### Note 2. Basis of preparation and accounting policies

#### (a) Basis of preparation

This general purpose condensed financial report for the half-year ended 31 December 2009 has been prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

The half-year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report.

It is recommended that the half-year financial report be read in conjunction with the annual report for the year ended 30 June 2009 and considered together with any public announcements made by Neon Energy Limited during the half-year ended 31 December 2009 in accordance with the continuous disclosure obligations of the ASX Listing Rules.

Apart from the changes in accounting policy noted below, the accounting policies and methods of computation are the same as those adopted in the most recent annual financial report.

#### (b) Changes in accounting policy

From 1 July 2009 the Group has adopted all Accounting Standards and Interpretations mandatory for annual period beginning on or after 1 July 2009 including:

- AASB 101 (Revised), AASB 2007-8 and AASB 2007-10 *Presentation of Financial Statements and consequential amendments to other Australian Accounting Standards* – the revised standard separates owner and non-owner changes in equity and introduces the statement of comprehensive income which presents all items of recognised income and expense in either one statement or in two linked statements. The Group has decided to present one statement.
- AASB 2008-1 *Share Based Payments (Revised)*: This amendment clarifies the definition of vesting conditions and prescribes the accounting treatment of an award that is cancelled due to a non-vesting condition not being satisfied.
- AASB 3 (Revised) *Business Combinations*: The revised Standard introduces a number of changes to the accounting for business combinations. Changes affect the valuation of non-controlling interests, the accounting for transaction costs and the initial recognition and subsequent measurement of contingent consideration. In accordance with the transitional provisions the Group has applied the amended standard prospectively from 1 July 2009.
- AASB 127 (Revised)
- AASB 8 *Operating Segments* which adopts a management reporting approach to segment reporting.

Adoption of these new and amending standards and interpretations did not have any effect on the financial position or performance of the Group, other than AASB 3 which resulted in \$219,583 of transaction costs being expensed that would otherwise have been capitalised as part of the

## **NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS**

FOR THE HALF-YEAR ENDED 31 DECEMBER 2009

acquisition of Neon Energy (Australia) Pty Ltd. The effect on earnings per share of expensing transaction costs during the period was less than \$0.01.

### ***Business combination from 1 July 2009***

Business combinations are accounted for using the acquisition method. The cost of any acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. Acquisition costs incurred are expensed.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

### ***Basis of consolidation from 1 July 2009***

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2009.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which Group obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, income and expenses, unrealised gains and losses and dividends resulting from intra-group transactions are eliminated in full.

The Group has not elected to early adopt any new standards or amendments.

**NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS**

FOR THE HALF-YEAR ENDED 31 DECEMBER 2009

	<b>Consolidated</b>	
	<b>31 December 2009</b>	31 December 2008
	\$	\$
<b>Note 3. Revenue, Income and Expenses</b>		
<b>Revenue</b>		
Oil Sales	3,350,876	13,638,726
Finance Income	30,700	152,771
Other Revenue <sup>(i)</sup>	6,380	894,604
<b>Total revenue</b>	<b>3,387,956</b>	<b>14,686,101</b>

<sup>(i)</sup> During the previous half year inventories in the renewable energy business to the value of \$150,000 were sold for \$894,604. This resulted in a profit of \$744,604.

	<b>Consolidated</b>	
	<b>31 December 2009</b>	30 June 2008
	\$	\$
<b>Note 4. Cash and cash equivalents</b>		
For the purpose of the half-year cash flow statement, cash and cash equivalents are comprised of the following:		
Cash at bank and in hand	793,326	592,112
Short-term deposits	5,812,734	3,110,483
	<b>6,606,060</b>	<b>3,702,595</b>

**Note 5. Exploration and Evaluation assets**

Opening Balance	4,600,283	5,467,151
Foreign exchange differences	(458,123)	1,194,224
Current period expenditure	786,765	3,147,628
Acquisition of Neon Energy (Australia) assets	10,900,405	-
Depreciation of geoscience database	(26,928)	-
Impairment of exploration and evaluation assets	-	(5,208,720)
	<b>15,802,402</b>	<b>4,600,283</b>

During the half year, the Group acquired Neon Energy (Australia) Pty Ltd and its wholly owned subsidiaries for approximately \$9 million. These companies owned certain exploration assets which have been allocated a fair value of \$10,900,405 (see Note 8). This fair value is provisional and has been determined using the latest available information that could be reasonably used to value these exploration assets at the date of this report.

**NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS**

FOR THE HALF-YEAR ENDED 31 DECEMBER 2009

**Note 6. Oil and Gas Properties**

	<b>Plant and Equipment</b>	<b>Rehabilitation Asset</b>	<b>Development</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Opening Balance</b>	8,139,112	546,699	15,959,233	<b>24,645,044</b>
Foreign exchange differences	(767,660)	(51,598)	(1,520,567)	<b>(2,339,825)</b>
Additions	-	-	406,116	<b>406,116</b>
Amortisation	-	-	(432,772)	<b>(432,772)</b>
Depreciation	(273,936)	(17,242)	-	<b>(291,178)</b>
<b>Total oil and gas properties</b>	<b>7,097,516</b>	<b>477,859</b>	<b>14,412,010</b>	<b>21,987,385</b>

**Note 7. Share-based Payment Plans***a) Neon Energy Share Incentive Plan*

During the half year 150,000 shares were issued to staff pursuant to the Neon Energy Share Incentive Plan. The shares were issued to staff that had been made redundant in accordance with the provisions within the Share Incentive Plan.

No further rights to shares (Achievement Rights) have been issued to staff although it is the intention of the Board to adopt an appropriate incentive scheme which may or may not include use of the existing Share Incentive Plan.

The fair value of the Achievement Rights previously granted was determined by taking into consideration the following factors:

- The relative share price volatility of Neon and the stocks that make up the appropriate index;
- The temporal relationship between the share price volatility of Neon and its peer stocks; and
- The distribution of Neon's relative performance over time which enables the calculation of the probability of vesting conditions being met.

*b) Neon Energy Employee Share Option Plan*

Options totalling 12,625,000 were issued in November 2009 to selected senior management and directors pursuant to the terms and conditions of the Neon Energy Share Option Plan ("ESOP") as approved by shareholders on 27 October 2009. Options issued during the half-year have expiry dates and exercise prices as per the following table:

<b>Option Tranche</b>	<b>Exercise Price</b>	<b>Grant Date</b>	<b>Number Granted</b>	<b>Expiry Date</b>
Incentive Options – Tranche A	\$0.20	06/11/09	3,512,500	06/11/12
Incentive Options – Tranche B	\$0.20	06/11/09	3,512,500	06/11/12
Incentive Options – Tranche A	\$0.40	06/11/09	2,800,000	06/11/12
Incentive Options – Tranche B	\$0.40	06/11/09	2,800,000	06/11/12

**NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS**

FOR THE HALF-YEAR ENDED 31 DECEMBER 2009

**Note 7. Share-based Payment Plans (continued)**

The terms of the ESOP provide that options issued pursuant to the plan will vest as follows;

- a) as to 50% of any options issued (Tranche A), 12 months from the date the options are issued,
- b) as the total amount of options issued (Tranche A and B), any time after the expiration of 24 months from the date of issue.

The options have a life of three years from the date of issue, after which time they will expire. Participants ceasing to be Eligible Employees will be offered three months from the date of cessation of holding office, employment and/or consulting as the case may be in which to exercise the relevant outstanding options, failing which said options will lapse and be cancelled.

Other terms relevant to the ESOP are as follows;

- No monies will be payable for the issue of the Options.
- Each Option shall carry the right in favour of an Eligible Employee to subscribe for one Share.
- The issue price of Shares, the subject of the Options, shall be payable in full on exercise of the Options.
- Options shall not be listed for official quotation on the Australian Securities Exchange.
- Shares allotted pursuant to an exercise of Options shall rank, from the date of allotment, equally with existing Shares of the Company in all respects.
- Option holders shall not be entitled, by virtue of the unexercised Options, to participate in rights issues or bonus Share entitlements in the same manner as holders of ordinary shares.

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on the Black-Sholes model. The following tables detail the factors and assumptions that were used in determining the fair value of options on grant date:

Grant Date	Expiry Date	Fair Value per Option	Exercise Price	Share Price on Grant Date	Expected Volatility	Risk Free Interest Rate	Dividend Yield
06/11/09	06/11/12	\$0.067	\$0.20	\$0.15	75%	4.84%	0.00%
06/11/09	06/11/12	\$0.041	\$0.40	\$0.15	75%	4.84%	0.00%

The expected volatilities for the options were determined by BDO Kendalls using the GARCH (1,1) model, the EWMA model and the standard deviation of the quoted share price. For the purpose of the valuation, BDO Kendall considered a volatility of 75% was reflective of the future volatility over the life of the options and was adopted in the option pricing model.

**Note 8. Business Combinations****Acquisition of Neon Energy (Australia) Pty Ltd**

On 28 October 2009, the Company acquired 100% of the voting shares of Neon Energy (Australia) Pty Ltd, a private unlisted Australian company which owned exploration assets in Southeast Asia. Neon Energy (Australia) Pty Ltd Group controls (a) Neon Exploration Pty Ltd; (b) Neon Energy (Browse) Pty Ltd; (c) Neon Energy (Song Hong) Pty Ltd; (d) Neon Energy (Indonesia); and (e) Neon Energy (Ko Kra) Pty Ltd.

The consideration for the acquisition was \$1.5 million plus the issue of 44,763,600 shares in the Company plus 8,750,000 options exercisable at \$0.20 per share on or before 31 August 2012. The fair value of the cash, shares and options was \$8.78 million on the date the transaction was completed.

**NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS**

FOR THE HALF-YEAR ENDED 31 DECEMBER 2009

**Note 8. Business Combinations (continued)**

The Group has recognised the provisional fair values of the identifiable assets and liabilities of the Neon Energy (Australia) Pty Ltd group of companies based upon the information available as of the date of acquisition and as detailed in the following table.

	<b>Consolidated</b>	
	<b>Provisional Fair Value</b>	<b>Carrying Value</b>
	<b>\$</b>	<b>\$</b>
Cash at bank and in hand	72,121	72,121
Receivables	46,446	46,446
Property, plant and equipment	82,218	82,218
Exploration and evaluation expenditure	10,991,795	-
	<b>11,192,580</b>	<b>200,785</b>
Trade and other payables	(171,220)	(171,220)
Loan payable to Neon Energy Limited	(80,570)	(80,570)
Provision for employee benefits	(12,500)	(12,500)
Deferred tax liability	(2,145,000)	-
	<b>(2,409,290)</b>	<b>(264,290)</b>
	<b>\$</b>	
Provisional fair value of identifiable net assets	<b>8,783,290</b>	
<b>Total consideration represented by:</b>		
Cash paid	1,500,000	
Shares issued at fair value	6,714,540	
Fair value of options issued	568,750	
	<b>8,783,290</b>	
<b>Direct costs relating to acquisition</b>	<b>219,583</b>	
<b>The cash outflow on acquisition is as follows:</b>		
Net cash acquired with the subsidiary	72,121	
Cash paid	(1,500,000)	
Net consolidated cash flow	<b>(1,472,879)</b>	

The receivables acquired are expected to be fully recovered within the next 12 months.

The consolidated statement of comprehensive income includes sales revenue and loss for the half year ended 31 December 2009 of \$38 and \$54,485 respectively, as a result of acquisition of Neon Energy (Australia) Group. Had the acquisition of Neon Energy (Australia) Group occurred at the beginning of the reporting period, the consolidated statement of comprehensive income would have included revenue and profit of \$3,758 and \$828,426 respectively.

The provisional nature of the fair values relates only to the exploration and evaluation expenditure and the estimated deferred tax liability. These are provisional as the acquisition has happened recently and the management is still in process of evaluating the final fair value.

**NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS**

FOR THE HALF-YEAR ENDED 31 DECEMBER 2009

**Note 8. Business Combinations (continued)****Acquisition of Nations Petroleum (Paris Valley) LLC (“NPPV”)**

On 1 December 2009 the Company acquired from Nations Petroleum U.S.A. LLC (“the seller”) 100% equity interest in NPPV which owns an interest in oil & gas leases situated in Paris Valley, California.

The consideration for the acquisition was (a) \$1 cash, (b) an overriding royalty interest of two percent (2%) of 8/8ths (“Overriding Royalty”) in and to all oil and gas leases for which NPPV owns of record as of October 29, 2009; and (c) assumption of any future obligation of the seller and its affiliated companies arising in relation to plugging and abandoning (clean-up) of the old production facilities that exist at the field.

The Company has provisionally assessed that the fair value of the purchase consideration (which includes assumption of the obligation for clean-up and the contingent consideration of the royalty) is of nil value. The Company has provisionally assessed that the fair value of the assets and liabilities acquired are individually and in total nil value.

The directors will re-assess the provisional accounting within 12 months of the acquisition.

**Note 9. Contributed Equity****Ordinary Shares**

<b>Date</b>	<b>Details</b>	<b>Number</b>	<b>\$</b>
<b>1 July 2009</b>	<b>Opening Balance</b>	<b>237,081,078</b>	<b>100,526,627</b>
9 July 2009	Achievement Rights converted to shares	150,000	-
28 October 2009	Acquisition of Neon Energy Australia	44,763,600	6,714,540
1 December 2009	Share Placement	42,000,000	5,670,000
1 December 2009	Share issue expenses	-	(328,500)
<b>31 Dec 2009</b>	<b>Closing Balance</b>	<b>323,994,678</b>	<b>112,582,667</b>

**Note 10. Contingent Assets and Liabilities**

On 1 December 2009 the Company acquired 100% of the issued capital of Neon Energy (Paris Valley) LLC from Nations Petroleum for consideration of \$1. As part of the share sale agreement, the Company assumed a future obligation for clean-up of the old production facilities that exist at the field. Based on an environmental report and a visual assessment, the Directors believe that no material obligation exists. As part of the update to provisional fair value assessment, the directors will commission a report to confirm any obligation.

**Note 11. Dividends Paid and Proposed**

No dividend has been paid or proposed during the half year.

**NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS**

FOR THE HALF-YEAR ENDED 31 DECEMBER 2009

**Note 12. Events after Balance Date**

Neon was awarded exploration Block 105 offshore Vietnam on 5 January 2010. Neon is Operator of the block and holds a 90% working interest as detailed in the Director's Report. Neon will be required to pay net acquisition costs of US\$1.125 million on or about the date of signing this half yearly report.

**Note 13. Segment Reporting**

The Group identifies its operating segments based on the internal reports that are reviewed and used by the executive management team in assessing performance and in determining the allocation of resources. The operating segments are determined based on areas of operation, being California and Vietnam.

In the event that a segment has taxable income in the country of operation, a tax expense is charged to that segment. All other tax expenses (if any) are unallocated.

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

- Net gains/losses on available for sale investments
- Foreign exchange gains/losses
- Finance income/costs
- Head office corporate, administration and business development costs

The following table presents revenue and profit information for reportable segments.

	Segment Revenue		Segment Result	
	31 December 2009	31 December 2008	31 December 2009	31 December 2008
California	<b>3,351,676</b>	13,638,726	<b>(28,462)</b>	(1,846,671)
Vietnam	-	-	<b>(12,346)</b>	-
Unallocated being made up of the following items:				
Finance Income	<b>29,900</b>	152,771	<b>29,900</b>	152,771
Other Revenue	<b>6,380</b>	894,604	<b>6,380</b>	894,604
Admin and Corporate	-	-	<b>(987,247)</b>	(1,183,593)
Business Development	-	-	<b>(25,640)</b>	(488,331)
Exploration Expense	-	-	<b>(11,948)</b>	-
Inventory (REL)	-	-	-	(150,000)
Depreciation	-	-	<b>(49,262)</b>	(31,406)
Consolidated	<b>3,387,956</b>	14,686,101	<b>(1,078,625)</b>	(2,652,626)

**NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS**

FOR THE HALF-YEAR ENDED 31 DECEMBER 2009

**Note 13. Segment Reporting (continued)**

The following table presents segment asset information for reportable segments.

	<b>Segment Assets</b>	
	<b>31 December 2009</b>	30 June 2009
California	<b>28,669,405</b>	30,900,057
Vietnam	<b>11,008,191</b>	-
Unallocated being made up of the following items:		
Cash	<b>5,713,887</b>	3,154,310
Receivables	<b>158,272</b>	91,998
Investments	<b>62,527</b>	62,527
Property, plant and equipment	<b>260,582</b>	109,299
Consolidated	<b>45,872,864</b>	34,318,191

To the members of Neon Energy Limited (previously Salinas Energy Limited)

## Report on the Half-Year Financial Report

We have reviewed the accompanying half year financial report of Neon Energy Limited, which comprises the statement of financial position as at 31 December 2009, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half year ended on that date, other selected explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half year.

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

The directors of the company are responsible for the preparation and fair presentation of the half year 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 half year 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.

### Auditor's Responsibility

Our responsibility is to express a conclusion on the [period] financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of Interim and Other Financial Reports 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 consolidated entity's financial position as at 31 December 2009 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 Neon Energy Limited and the entities it controlled during the half year, 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.

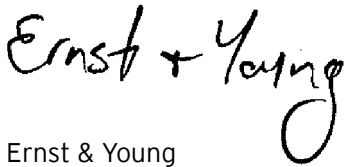
### Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the Directors' Report.

## 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 Neon Energy Limited is not in accordance with the *Corporations Act 2001*, including:

- i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2009 and of its performance for the half year ended on that date; and
- ii) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A handwritten signature in black ink that reads 'Ernst & Young'.

Ernst & Young

A handwritten signature in black ink that reads 'P Mclver'.

P Mclver  
Partner  
Perth

26 February 2010