

Neon Energy Limited

ABN 49 002 796 974

Appendix 4D – 31 December 2010 Half-Year Report

1. Reporting Period

The current reporting period is the period ended 31 December 2010 and the previous corresponding period is for the period ended 31 December 2009.

2. Results for Announcement to the Market.

	31 December 2010	31 December 2009	% Change
	\$	\$	
2.1 Revenue from ordinary activities.	4,613,460	3,387,956	Increased 36%
2.2 Profit (loss) from ordinary activities after tax attributable to members.	(1,500,874)	(1,078,625)	Loss increased by 39%
2.3 Net profit (loss) for the period attributable to members.	(1,500,874)	(1,078,625)	Loss increased by 39%
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 2010.		

3. Net Tangible Assets Per Security

	31 December 2010	31 December 2009
	Cents	Cents
Net tangible assets* per ordinary share	7.6	8.6

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

4. Gain or Loss of Control Over Entities

Not applicable.

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.



ABN 49 002 796 974

FINANCIAL REPORT
FOR THE HALF – YEAR ENDED
31 DECEMBER 2010

CORPORATE DIRECTORY

Directors

Alan Stein - Chairman
Kenneth Charsinsky - Managing Director
John Lander – Non Executive Director

Company Secretary

Gabriel Chiappini

Registered and Principal Office

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88 Colin Street
West Perth, WA, 6005
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Facsimile: +61 8 9481 7720
Website: 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
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Australia
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International: +61 8 9323 2000
Facsimile: +61 8 9323 2033
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 2010 ("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:

Alan Stein (Chairman)
Kenneth Charsinsky (Managing Director)
John Lander (Non Executive Director)
Ronald L Miller (Non Executive Director) – resigned 17 November 2010

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 2010 of \$1,500,874 compared to a loss of \$1,078,625 for the half-year ended 31 December 2009.

Revenues for the half-year from our Californian operations were substantially improved on the corresponding period, a combination of higher volume (up 27% to 61,187 barrels) and higher average price received (up 8% to A\$75/barrel).

Field operating expenses have increased (up 25%) as a result of costs associated with the commencement of field-wide cyclic steaming coupled with an unplanned field shutdown during the December quarter where the company used that event to perform opportunity maintenance work. Overheads have increased against the corresponding 6-month period as a result of the integration of Neon Energy (Australia) Pty Ltd into the group which was only included for two months in the 31 December 2009 period.

Operations remain cash flow positive through the half-year. With the focus on increasing production rates at the North San Ardo ("**NSA**") oil field through further field enhancements it is expected that production volumes and consequently revenues will increase in the second half of the financial year.

The Company's closing cash balance of \$2.3m is sufficient to meet all of the Company's obligations and with further improvements in production the company expects 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

With the acquisition of Neon Energy Australia fully integrated in to the business, the Board is now highly focussed on growth. After a period of portfolio assessment, prioritisation and rationalisation, the key areas for growth of the Company are as follows:

- Increasing production levels at the 100% owned NSA oil field;
- Proving the commercial significance of the large resource at Paris Valley
- Rejuvenation of Californian exploration drilling
- Farm out and drilling of Vietnamese assets, and
- Expansion in SE Asia

Drilling activity will be targeting continued production increases at NSA, which combined with the ongoing cyclic steaming program, should significantly add to the Company's bottom line. At the 100% owned Paris Valley oil field Neon is planning to drill up to three horizontal appraisal wells in the central compartment, in order to demonstrate commerciality ahead of finalising a full field development programme. Exploration activity will recommence in California with drilling of the Gujarral Hills prospect, and will continue later in 2011 with drilling of Paloma Deep and other prospects.

Exploration of Neon's offshore Vietnam acreage continues apace, with interpretation of the newly acquired seismic data now complete. In conjunction with finalising prospective resource estimates the Company plans to initiate a farmout programme in order to facilitate drilling of both Blocks 120 and 105 during H1 2012.

The outlook for the Company in the current oil price environment is extremely 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 minimal debt and remains committed to prudently funding its activity through cash flow wherever possible.

PROJECTS

Vietnam

Block 105-110/04 PSC – (Neon 50%)

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 50% working interest, having farmed out to KrisEnergy Ltd in order to fund the 2010 seismic programme.

Block 105 is located in the central Song Hong Basin and covers an area of 7,192 km² 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. Thus far a 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.

The new seismic data confirms 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 is an oil play in the western portion of the block.

Several of the large prospective drilling targets identified by Neon on the new seismic data appear to have seismic characteristics which are associated with gas accumulations. These Direct Hydrocarbon Indicators ("DHI's") are routinely used to identify and high-grade exploration prospects.

Block 120 PSC – (Neon 50%)

Block 120 covers an area of 8,469 km² 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 6 metre oil column and 32 metres of mud log shows, 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.

The 2010 acquired seismic program has proved up the presence of a number of significant exploration prospects, and the Company will be working to identify a farmin partner for the drilling phase of the exploration programme, which is currently planned for 2012.

Salinas Basin (California)

North San Ardo Oil Field – (Neon 100%)

For the half-year ended 31 December 2010, oil production at NSA was approximately 333 bopd (2009: 262 bopd) with 61,187 barrels of oil sold (2009: 48,144) at an average price of A\$75 per barrel (2009: A\$70/bbl).

Activity for the half-year included commencement of the field-wide cyclic steaming project, which has already produced encouraging results with significant production increases evidenced in three wells to date. An additional development well (Lombardi 15-27H) was drilled, providing a significant boost to field production. A subsequent re-drill well in January 2011 has given a further increase to production and helped to offset the field's natural decline. Looking forward, further development wells are planned together with facility and water injection upgrades in order to handle further increases in production and minimise downtime.

Paris Valley Oil Field – (Neon 100%)

The Company completed testing operations at the North Paris Valley-1 (NPV-1) appraisal well in January 2011 after failing to produce at commercial rates from the vertical well. Neon now plans to focus on the Central Paris Valley (CPV) compartment with the drilling of up to three horizontal appraisal wells. The objective at CPV is to demonstrate commercial rates of production via a combination of horizontal well completions and cyclic steam injection.

Exploration (California)

A thorough assessment of the Company's leaseholdings in the San Joaquin and Salinas Basins is complete, with a number of projects having been identified as priorities for drilling. The Guijarral Hills prospect will be drilled during February 2011, after a farmout designed to limit Neon's risked capital exposure. The Paloma Deep prospect is scheduled for drilling during H2 2011, and the Company will be seeking farmin partners in due course. Other exploration targets are being matured to drill-ready status and it is anticipated that 2011 will see a significant increase in Californian exploration activity by the Company.

Corporate

Mr Ron Miller resigned as a non executive director on 17 November 2010.

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.

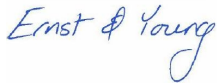
This report is made in accordance with a resolution of the Directors.

A handwritten signature in black ink, appearing to read 'K Charsinsky', written in a cursive style.

Kenneth Charsinsky
Managing Director
Perth, 23 February 2011

Auditor's Independence Declaration to the Directors of Neon Energy Limited

In relation to our review of the financial report of Neon Energy Limited for the half-year ended 31 December 2010, 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.

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

Ernst & Young

A handwritten signature in blue ink that reads 'D Lewsen'.

D Lewsen
Partner
Perth
23 February 2011

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 2010 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, 23 February 2011

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE HALF-YEAR ENDED 31 DECEMBER 2010

	Note	31 December 2010 \$	31 December 2009 \$
Continuing operations			
Revenue	3	4,613,460	3,387,956
Operating expenses		(1,418,566)	(1,138,762)
Royalty payments		(1,030,425)	(633,934)
Depreciation and amortisation expense		(803,604)	(782,591)
Cost of Sales		<u>(3,252,595)</u>	<u>(2,555,287)</u>
Gross Profit		1,360,865	832,669
Corporate and administration expenses		(2,660,389)	(1,648,721)
Business development expenses		(153,420)	(25,640)
Costs related to business acquisition		-	(219,583)
Other expenses		-	(11,948)
Finance costs		(47,930)	(5,402)
Loss before income tax expense		(1,500,874)	(1,078,625)
Income tax expense		-	-
Loss for the period		(1,500,874)	<u>(1,078,625)</u>
Other comprehensive income			
Foreign currency translation gain/(loss)		(4,736,080)	(2,794,434)
Total comprehensive income for the period attributable to members of the parent entity		(6,236,954)	<u><u>(3,873,059)</u></u>
Basic loss per share for the period (cents per share)		(0.5)	(0.4)
Diluted loss per share for the period (cents per share)		<u>(0.5)</u>	<u>(0.4)</u>

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2010

	Note	31 December 2010 \$	30 June 2010 \$
ASSETS			
Current assets			
Cash and cash equivalents	4	2,331,686	1,841,315
Trade and other receivables		1,478,646	993,220
Inventories		86,782	95,509
Total current assets		3,897,114	2,930,044
Non-current assets			
Available for sale investments		62,527	62,527
Property, plant and equipment		1,146,496	391,864
Exploration and evaluation assets	5	14,941,829	18,433,597
Oil and gas properties	6	21,535,473	25,016,584
Total non-current assets		37,686,325	43,904,572
Total assets		41,583,439	46,834,616
LIABILITIES			
Current liabilities			
Trade and other payables		1,435,575	687,474
Provisions		375,918	676,977
Interest Bearing Loans and Borrowings		495,015	-
Total current liabilities		2,306,508	1,364,451
Non-current liabilities			
Deferred tax liabilities		2,145,000	2,145,000
Provisions		1,493,914	1,715,666
Total non-current liabilities		3,638,914	3,860,666
Total liabilities		5,945,422	5,225,117
Net assets		35,638,017	41,609,499
EQUITY			
Contributed equity		112,582,667	112,582,667
Reserves		(3,785,421)	685,187
Accumulated losses		(73,159,229)	(71,658,355)
Total equity		35,638,017	41,609,499

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE HALF-YEAR ENDED 31 DECEMBER 2010

	<i>Issued Capital</i> \$	<i>Retained Earnings</i> \$	<i>Option & Rights Premium Reserve</i> \$	<i>Foreign Currency Translation Reserve</i> \$	<i>Total Equity</i> \$
Balance at 1 July 2009	100,526,627	(69,365,422)	1,742,755	(413,836)	32,490,124
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)
Balance at 31 December 2009	112,582,667	(70,444,047)	2,495,436	(3,208,270)	41,425,786
Balance at 1 July 2010	112,582,667	(71,658,355)	2,776,880	(2,091,693)	41,609,499
Loss for the period	-	(1,500,874)	-	-	(1,500,874)
Other comprehensive income	-	-	-	(4,736,080)	(4,736,080)
Total comprehensive income for the half year	-	(1,500,874)	-	(4,736,080)	(6,236,954)
Options Granted	-	-	265,472	-	265,472
Balance at 31 December 2010	112,582,667	(73,159,229)	3,042,352	(6,827,773)	35,638,017

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

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2010

	Note	31 December 2010 \$	31 December 2009 \$
Cash flows from operating activities			
Receipts from customers		4,423,672	3,298,347
Payments to suppliers and employees		(3,854,110)	(3,577,002)
Interest received		14,199	37,829
Finance costs paid		(47,930)	(5,402)
Net cash flows from/(used in) from operating activities		535,831	(246,228)
Cash flows from investing activities			
Development expenditure		(1,303,299)	(375,032)
Exploration and evaluation expenditure		(4,307,137)	(250,460)
Purchase of property, plant and equipment		(923,808)	-
Proceeds from sale of interest in Vietnamese assets	5	6,573,550	
Purchase of Neon Energy (Australia) net of cash acquired		-	(1,427,879)
Net cash flows from/(used in) investing activities		39,306	(2,053,371)
Cash flows from financing activities			
Proceeds from issue of shares		-	5,670,000
Transaction costs of issue of shares		-	(328,500)
Loan to Neon Energy (Australia) – pre acquisition		-	(80,570)
Net cash flows from/(used in) financing activities		-	5,260,930
Net increase in cash and cash equivalents		575,137	2,961,331
Net foreign exchange differences		(84,766)	(57,866)
Cash and cash equivalents at the beginning of the period		1,841,315	3,702,595
Cash and cash equivalents at the end of the financial period	4	2,331,686	6,606,060

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 2010

Note 1. Corporate information

The financial report of Neon Energy Limited (the Company) for the half-year ended 31 December 2010 was authorised for issue in accordance with a resolution of the directors on 23 February 2011.

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

Note 2. Summary of Significant Accounting Policies

Basis of preparation

This general purpose condensed financial report for the half-year ended 31 December 2010 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 2010 and considered together with any public announcements made by Neon Energy Limited during the half-year ended 31 December 2010 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.

Changes in Accounting Policy

From 1 July 2010 The Group has adopted the following Standards and Interpretations, mandatory for annual periods beginning on or after 1 July 2010. Adoption of these standards and interpretations did not have any significant effect on the financial position or performance of the Group.

- ▶ AASB 2009-5 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 8, 101, 107, 117, 118, 136 & 139]
- ▶ AASB 2009-8 Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions [AASB 2]
- ▶ AASB 2009-10 Amendments to Australian Accounting Standards – Classification of Rights Issues [AASB 132]
- ▶ AASB 2010-3 Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 3, AASB 7, AASB 121, AASB 128, AASB 131, AASB 132 & AASB 139]
- ▶ Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments

The Group has not elected to early adopt any new standards or amendments that are issued but not yet effective.

NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2010

	Consolidated	
	31 December 2010	31 December 2009
	\$	\$
Note 3. Revenue, Income and Expenses		
Revenue		
Oil Sales	4,588,800	3,350,876
Finance Income	13,680	30,700
Other Revenue	10,980	6,380
Total revenue	4,613,460	3,387,956

	Consolidated	
	31 December 2010	30 June 2010
	\$	\$
Note 4. Cash and cash equivalents		
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	2,017,802	1,140,987
Short-term deposits	313,884	700,328
	2,331,686	1,841,315

	Consolidated	
	31 December 2010	31 December 2009
	\$	\$
Note 5. Exploration and Evaluation assets		
Opening Balance	18,433,597	4,600,283
Foreign exchange differences	(1,475,454)	(458,123)
Current period expenditure	4,584,164	786,765
Acquisition of Neon Energy (Australia) assets	-	10,900,405
Sale of interest in Vietnamese assets	(6,573,550)	-
Depreciation of geoscience database	(26,928)	(26,928)
	14,941,829	15,802,402

NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2010

Note 6. Oil and Gas Properties

	Plant and Equipment	Rehabilitation Asset	Development	Total
	\$	\$	\$	\$
Opening Balance at 1 July 2010	7,533,925	1,270,110	16,212,549	25,016,584
Foreign exchange differences	(1,165,762)	(199,902)	(2,605,172)	(3,970,836)
Additions	-	33,579	1,184,913	1,218,492
Amortisation	-	(32,088)	(430,537)	(462,625)
Depreciation	(266,142)	-	-	(266,142)
Total oil and gas properties at 31 December 2010	6,102,021	1,071,699	14,361,753	21,535,473
Opening Balance at 1 July 2009	8,139,112	546,699	15,959,233	24,645,044
Foreign exchange differences	(767,660)	(51,598)	(1,520,567)	(2,339,825)
Additions	-	-	406,116	406,116
Amortisation	-	-	(432,772)	(432,772)
Depreciation	(273,936)	(17,242)	-	(291,178)
Total oil and gas properties at 31 December 2009	7,097,516	477,859	14,412,010	21,987,385

Note 7. Dividends Paid and Proposed

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

Note 8. Events after Balance Date

There have been no events of significance after balance date.

Note 9. Segment Reporting

The group has identified its operating segments based on the internal reports that are reviewed and used by the executive management team (the chief operating decision makers) in assessing performance and in determining the allocation of resources.

The operating segments are identified by management based on the country of origin, being the United States of America (USA) and Vietnam. Discrete financial information about each of these operating businesses is reported to the executive management team.

The reportable segments are based on aggregated operating segments determined by the similarity of the products produced and sold, as these sources are the Group's major risks and have the most effect on the rate of return.

Accounting policies and inter-segment transactions

The accounting policies used by the group in reporting segments internally are the same as those contained in note 2 to the accounts and in the prior period.

NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2010

Major customers

The Group had two major customers to which it provided 100% of the oil and gas produced being Conoco-Phillips and Lunday Thagard.

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 2010 \$	31 December 2009 \$	31 December 2010 \$	31 December 2009 \$
Business Segments				
United States of America	4,589,092	3,351,676	699,596	(28,462)
Vietnam	-	-	(169,267)	(12,346)
<i>Unallocated being made up of the following items:</i>				
Finance Income	13,388	29,900	13,388	29,900
Other Revenue	10,980	6,380	10,980	6,380
Admin & Corporate	-	-	(1,549,392)	(987,247)
Depreciation	-	-	(71,122)	(49,262)
Other	-	-	(435,057)	(37,588)
Consolidated	4,613,460	3,387,956	(1,500,874)	(1,078,625)

	Segment Assets	
	31 December 2010 \$	30 June 2010 \$
Business Segments		
United States of America	29,602,888	32,158,537
Vietnam	8,896,277	12,147,035
<i>Unallocated being made up of the following items:</i>		
Cash	1,797,688	1,372,248
Receivables	182,666	172,760
Investments	62,527	62,527
Other Non-Current Assets	1,041,393	921,509
Consolidated	41,583,439	46,834,616

Note 10. Commitments

During the period the group entered into a finance lease arrangement in order to purchase a portable steam generator for use in its Californian operations. The Group negotiated vendor finance to facilitate the payment over a 12 month period. At 31 December 2010 the Group had \$495,015 remaining to be paid.

To the members of Neon 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 2010, the statement of comprehensive income, statement of changes in equity and cash flow statement for the half-year ended on that date, notes comprising a description of accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at 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 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 internal controls as the directors determine are 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 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 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 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.

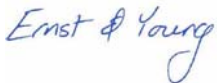
Independence

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:

- a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and of its performance for the half-year ended on that date; and
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

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

Ernst & Young

A handwritten signature in blue ink, appearing to read 'D S Lewsen'.

D S Lewsen
Partner
Perth
23 February 2011