



ANNOUNCEMENT TO THE AUSTRALIAN SECURITIES EXCHANGE: 26 AUGUST 2009

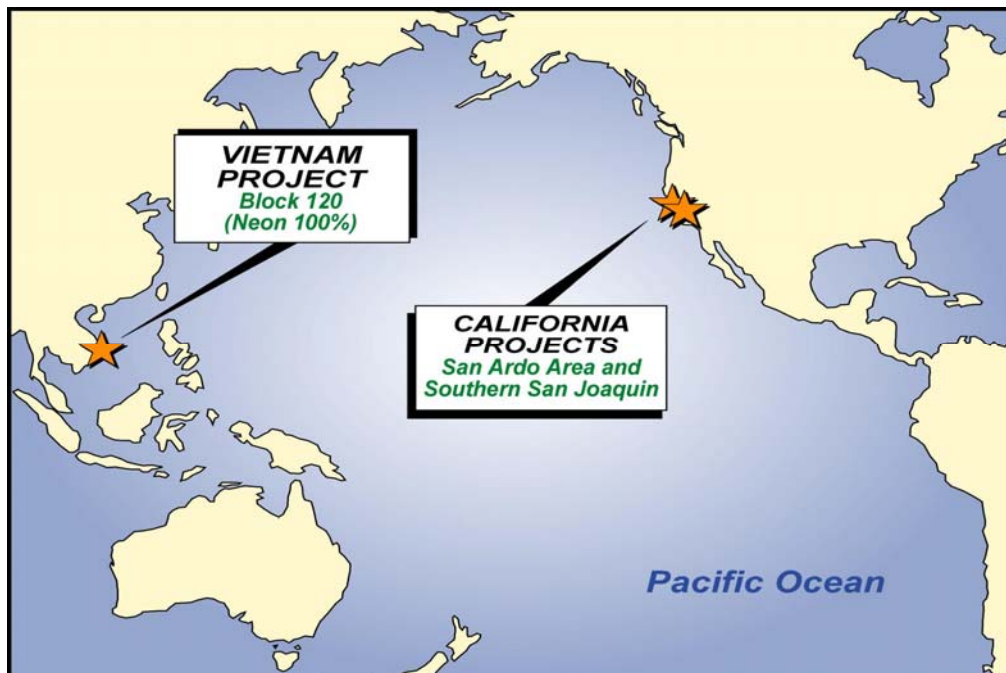
## SALINAS TO ACQUIRE NEON ENERGY AND ITS HIGHLY PROSPECTIVE VIETNAM OIL AND GAS ACREAGE

Salinas Energy Limited (“Salinas” or the “Company”) proposes to acquire all the shares and assets of unlisted Neon Energy Pty Ltd (“Neon”) through a principally share based transaction with Neon’s shareholders.

Neon is a Perth based company which has built a portfolio of highly prospective oil and gas interests in Southeast Asia. Neon has a 100% working interest in a Production Sharing Contract (Block 120) offshore Vietnam in a highly competitive exploration trend and is currently in negotiations concerning other exploration interests in the region.

The transaction will result in:

- Salinas diversifying outside of California and balancing its existing profitable production with growth opportunities in Southeast Asia which offer significant exploration upside.
- Salinas becoming an Operator in Vietnam with a 100% working interest in a Production Sharing Contract containing an existing oil discovery and a diverse range of prospects with the potential to host very large reserves of oil and gas.
- Strengthening of the Company’s corporate presence and management team through the appointment of Dr Alan Stein, Mr John Lander and Mr Ken Charsinsky to the Salinas Board.
- Access to a unique and extensive oil and gas database covering many of the oil and gas provinces of Australasia and Southeast Asia that will support further growth in the region.
- A return in the near term to drilling and production enhancements associated with low risk oil projects in California including the large Paris Valley oil field redevelopment project.





## Transaction Summary

Salinas proposes to acquire approximately 40% of Neon's issued capital for A\$1.5 million cash and the remaining Neon shareholders will receive three (3) Salinas shares for each Neon share resulting in the issue of 44,763,600 Salinas shares valuing the total consideration for Neon at approximately A\$5.7 million. Approximately 75% of the new Salinas shares to be issued pursuant to this transaction will be escrowed for 12 months. Total shares on issue post completion of the transaction will be approximately 282 million shares.

In addition, Salinas will issue to Neon option holders up to 9.4 million options over Salinas shares exercisable at \$0.20 on or before 31 August 2012, which equates to a 1:1 exchange of existing Neon options. These options will be subject to a twelve month vesting period. Salinas also proposes to issue up to 15 million management options to the new Salinas management group of which half will be exercisable at \$0.20 per share and half will be exercisable at \$0.40 per share on terms and conditions in accordance with the Salinas Employee Share Option Plan.

The transaction is subject only to Salinas' shareholder approval and is expected to complete by mid October 2009.

## Board and Management Changes

It is proposed that Dr Alan Stein and Mr John Lander who currently serve on the Neon Board will be appointed to the Board of Salinas. Dr Stein was a founder of the successful African exploration companies Fusion Oil and Gas plc and Ophir Energy plc which made discoveries offshore Mauritania and Equatorial Guinea respectively. Ophir Energy plc is a substantial, private unlisted company operating in Africa. Mr John Lander has over 37 years international experience including directorships in a number of successful oil and gas companies listed in the United Kingdom.

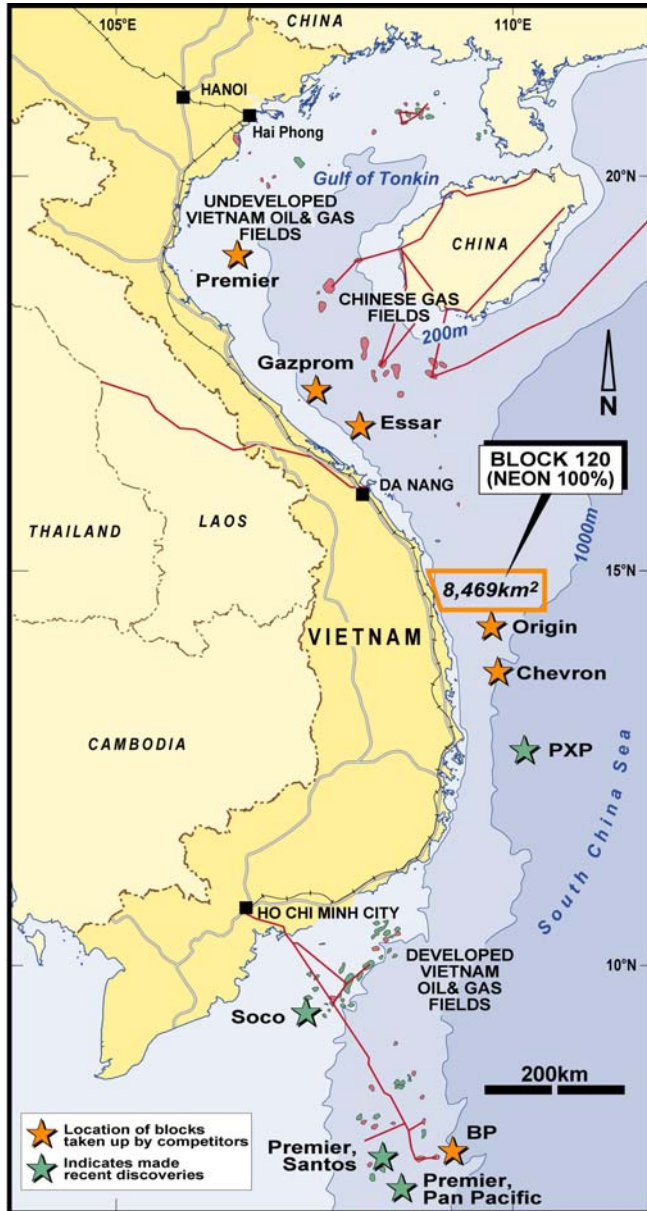
It is also proposed that Mr Ken Charsinsky will be appointed as Managing Director of Salinas upon completion and upon him ceasing employment with Noble Energy Inc, Neon's largest shareholder. Mr Charsinsky has over 30 years experience in the international and domestic US oil industry with major operating oil companies, most recently as Exploration Director of International New Ventures for Noble Energy Inc. He has also served as Managing Director of operating subsidiary companies for CMS Oil and Gas in Congo and Tunisia.

Current Managing Director, Mr John Begg will step down from the Board upon completion of the transaction. The Board expresses its appreciation to Mr Begg for building Salinas into an oil production company over the past three years.

## Vietnam Block 120

Block 120 covers an area of 8,469 square kilometres 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 which is north of the Phu Khanh Basin.

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 6m 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 (Orbea) 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.



In addition to the well documented Miocene reef plays, a variety of other play systems have been identified which are yet to be tested. Some 16 Leads and Prospects are currently mapped in Block 120 with unrisked recoverable resource potential of more than two billion barrels of oil. The most mature prospects are another very large reef prospect (Merida Prospect) and a very large anticlinal trap (Masi Prospect) in which the reservoir is anticipated to consist of deepwater sandstone facies. Seismic data over the latter prospect exhibit amplitude anomalies that may be interpreted as Direct Hydrocarbon Indicators (“DHI’s”).

There have been a number of recent oil and gas discoveries offshore Vietnam partially attributable to increased activity levels as a result of the attractive fiscal environment provided by the Vietnamese government which promotes international investment.

The basins offshore central Vietnam, where Block 120 is located, have only been very lightly explored however there has been an upsurge in interest as evidenced by nearby well known multinational companies such as Gazprom, Santos, Premier, Chevron, Essar and Origin Energy.

It is anticipated that Salinas will continue farmout efforts for Block 120 which have already been commenced by Neon. With the introduction of partners, the Company will be able to balance the financial exposure to the work program with the risk/reward of the highly prospective acreage.

Key metrics for the three prospects mapped so far, two of which have the potential to host giant scale resources of oil and gas are detailed in the table below.

Prospect Name	Water Depth (m)	Target depth (m)	Closure (km <sup>2</sup> )	Unrisked Prospective Resource (million bbls recoverable)
Orbea	260	1140	33	50
Merida	400	1150	108	624
Masi	250	650	250	685



## Regional Database

Neon owns the rights to an extensive collection of oil and gas information (the "Database") covering most of the oil and gas basins of Australasia and Southeast Asia. The Database includes over 4,000 reports, maps and well files plus 22,000km<sup>2</sup> of 3D seismic and 2 million line km of 2D seismic. Neon has built its own digital archive to enable efficient access to the information contained in the Database. The Database is unique and could not be replicated without considerable expenditure and investment of time and effort.

## New Ventures

The Database provides Neon with a competitive advantage in conducting new ventures activities in the region and has already proved advantageous during the acquisition of the Vietnam asset. Salinas proposes to fully utilise both the Database and the experience of the Neon team to seek additional investment opportunities in Australasia and Southeast Asia. Neon has an active portfolio of new venture opportunities and is in an advanced stage of discussion for a second exploration block in the Southeast Asia region.

## California

Salinas' existing Californian operations will continue to be a focus area for the Company, with short term drilling plans well advanced. It is expected that a number of projects will be ready for sanction over the coming months including (but not limited to):

- the first cyclic steam trial on one of the North San Ardo producing wells;
- further development/production drilling at North San Ardo; and
- the first Paris Valley appraisal well.

These projects have been delayed due to a combination of weak economic conditions, lower oil prices during the first half of 2009 and various permitting requirements that have recently been fulfilled. The Neon management team has reviewed these projects and is excited with the potential that they can deliver to the Company.

## Enquiries:

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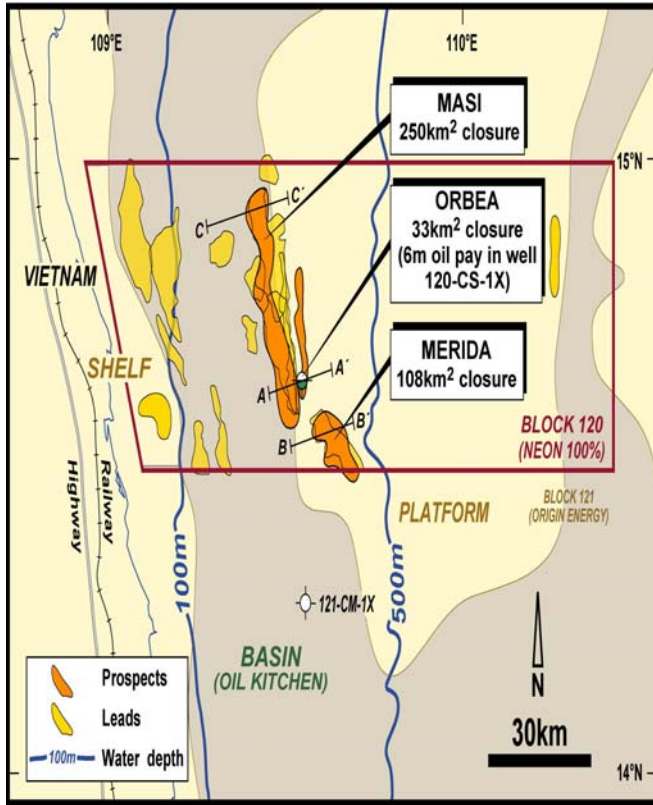
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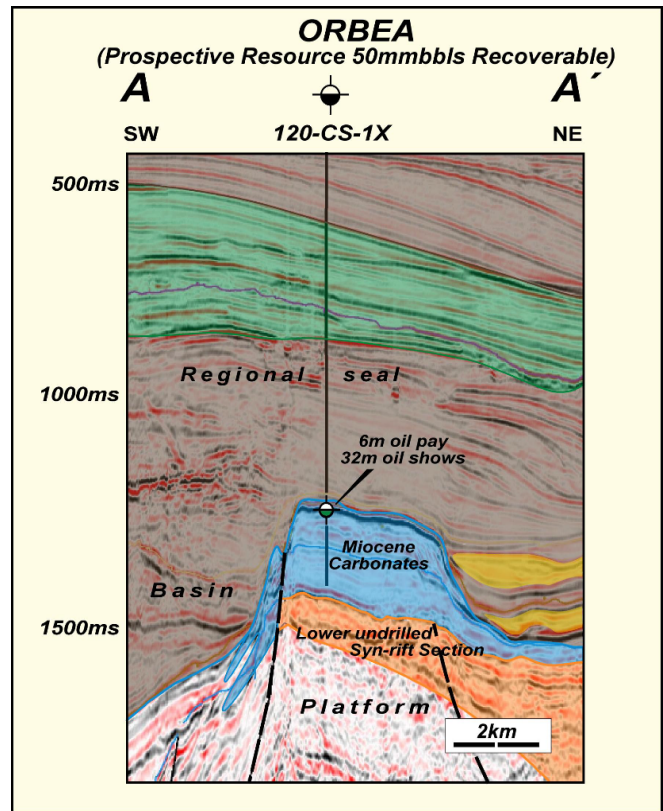
[www.neonenergy.com](http://www.neonenergy.com)



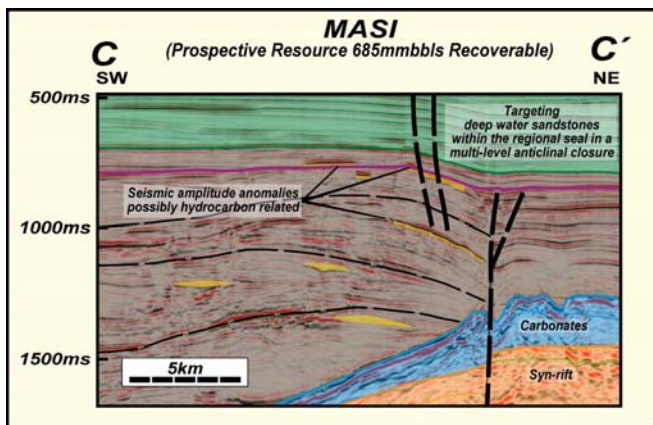
**BLOCK 120 – OFFSHORE VIETNAM**



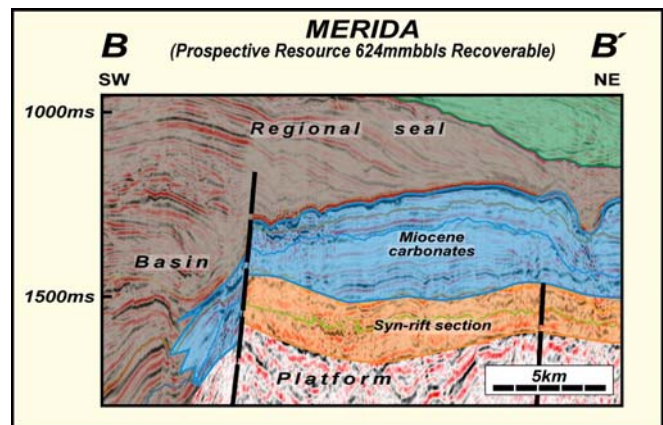
Block 120 Leads & Prospects map showing the wide range and large size of potential oil and gas traps.



Seismic line over the Orbea Prospect oil discovery in a Miocene Reef.



Seismic line across the very large Masi Prospect anticline showing closure at many levels and amplitude anomalies that may be Direct Hydrocarbon Indicators (“DHI”).



Seismic line across the large Merida Prospect, a “look-a-like” to other Miocene Reefs that host oil and gas discoveries in Vietnam and elsewhere in SE Asia.



**EXISTING SALINAS PROJECTS - CALIFORNIA**



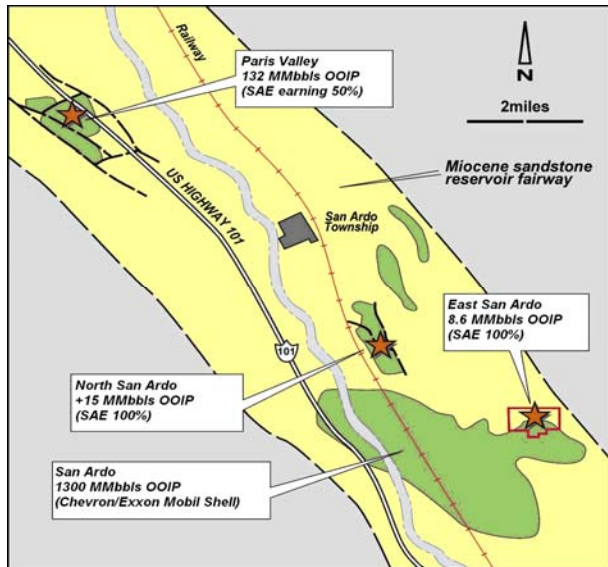
Salinas operates projects in both the Salinas Basin and the Southern San Joaquin Basin.

The Company's projects in both these areas mostly cover previously discovered oil fields or mapped extensions of fields.

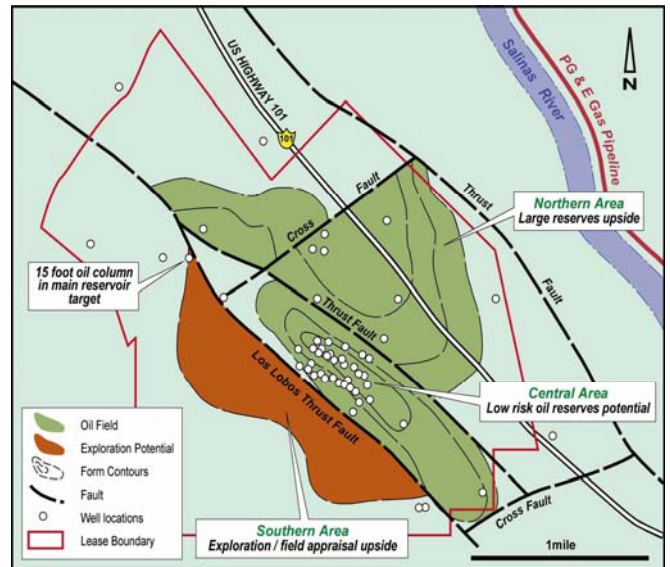
Projects in the Salinas Basin include the 100% owned North San Ardo oil field ("NSA") currently producing around 320 bopd on primary production. The NSA field is analogous to the giant San Ardo field directly to the south which is one of the most successful steam flood oil fields in the world. It is expected that NSA will become a steam flood project in the future.

The Company's largest project in the Salinas Basin is the Paris Valley oil field redevelopment in which Salinas is earning an interest in return for a work program.

Projects in the Southern San Joaquin Basin include the Osso Bucco and Kettleman Middle Dome projects, both of which target the extension of existing oil fields. In addition, the Company holds leases over a number of other high impact exploration projects for which the Company is seeking partners.



Salinas Basin project map including the producing North San Ardo oil field, Paris Valley oil field redevelopment and East San Ardo oil field extension prospect.



Detailed map showing the Paris Valley project where Salinas is undertaking a work program to earn a 50% working interest.