



Salinas  
Energy Limited

ANNOUNCEMENT TO THE AUSTRALIAN SECURITIES EXCHANGE: 23 SEPTEMBER 2009

---

### NOTICE OF GENERAL MEETING

The Company advises that a general meeting of Salinas Energy Limited will be held at The Melbourne Hotel, corner Hay & Milligan Streets, Perth, Western Australia at 10:00am (WST) on Tuesday 27 October 2009.

Please find attached Notice of Meeting which was sent to shareholders today.

#### Enquiries:

##### **Salinas Energy Limited**

*Non-Executive Chairman: Ian Middlemas*  
*Non Executive Director: Dougal Ferguson*  
*Telephone: 08 9380 2111*  
*Website: [www.salinasenergy.com](http://www.salinasenergy.com)*

##### **Neon Energy Pty Ltd**

*Non-Executive Chairman: Alan Stein*  
*Advisor to the Board: Ken Charsinsky*  
*Telephone: 08 9221 5252*  
*Website: [www.neonenergy.com](http://www.neonenergy.com)*



**Salinas**  
Energy Limited

## NOTICE OF GENERAL MEETING

**A General Meeting of the Company will be held at  
The Melbourne Hotel, corner Hay and Milligan Streets,  
Perth, Western Australia at 10.00am (WST) on  
Tuesday 27 October 2009.**

This Notice of General Meeting should be read in its entirety. If Shareholders are in doubt as to how they should vote, they should seek advice from their accountant, solicitor or other professional adviser prior to voting

**Should you wish to discuss any matter please do not hesitate to contact  
the Company Secretary by telephone on (08) 9380 2111.**

SALINAS ENERGY LIMITED ACN 002 796 974

# Notice of General Meeting

**Notice is hereby given** that a General Meeting of Shareholders of Salinas Energy Limited (**Company**) will be held at The Melbourne Hotel, corner Hay and Milligan Streets, Perth, Western Australia at 10.00am on Tuesday 27 October 2009 (**General Meeting**).

The Explanatory Memorandum to this Notice of Meeting provides additional information on the matter to be considered at the General Meeting. The Explanatory Memorandum and Proxy Form are part of this Notice.

The Directors have determined pursuant to regulation 7.11.37 of the Corporations Regulations 2001 (Cth) that the persons eligible to vote at the General Meeting are those who are registered as Shareholders of the Company at 5.00pm on Sunday 25 October 2009.

Terms and abbreviations used in this Notice and Explanatory Memorandum are defined in Section 8.

# Agenda

## RESOLUTION 1 – AUTHORITY TO ISSUE SECURITIES ON COMPLETION OF THE NEON MERGER

To consider and, if thought fit, to pass as an ordinary resolution the following:

*“That, pursuant to and in accordance with Listing Rule 7.1, and for all other purposes, Shareholders approve and authorise the Directors to issue to the shareholders of Neon the following securities:*

- (i) 44,763,600 Shares; and*
- (ii) 8,750,000 Merger Options*

*on the terms and conditions outlined in the Explanatory Memorandum (all together the “Merger Securities” and referred to as the “Merger Issue”).*

### Voting Exclusion

The Company will disregard any votes cast on this resolution by a person or their associate, who may participate in the Merger Issue and might obtain a benefit, (except a benefit solely in their capacity as holder of ordinary securities), if the resolution is passed.

However, the Company will not disregard a vote if:

- (a) it is cast by the person as proxy for a person who is entitled to vote, in accordance with directions on the Proxy Form; or
- (b) it is cast by the person chairing the General Meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

## RESOLUTION 2 – APPOINTMENT OF DR ALAN STEIN AS A DIRECTOR

To consider and if thought fit to pass as an ordinary resolution:

*“Subject to Resolution 1 being approved by Shareholders and with effect from Merger Completion, that Dr Alan Stein being eligible, be appointed as a Director in accordance with Rule 6.2(c) of the Company’s Constitution.”*

## RESOLUTION 3 – APPOINTMENT OF MR KEN CHARINSKY AS A DIRECTOR

To consider and if thought fit to pass as an ordinary resolution:

*“Subject to Resolution 1 being approved by Shareholders and with effect from Merger Completion, that Mr Ken Charsinsky being eligible, be appointed as a Director in accordance with Rule 6.2(c) of the Company’s Constitution.”*

## RESOLUTION 4 – APPOINTMENT OF MR JOHN LANDER AS A DIRECTOR

To consider and if thought fit to pass as an ordinary resolution:

*“Subject to Resolution 1 being approved by Shareholders and with effect from Merger Completion, that Mr John Lander being eligible, be appointed as a Director in accordance with Rule 6.2(c) of the Company’s Constitution.”*

## RESOLUTION 5 – ADOPTION OF EMPLOYEE SHARE OPTION PLAN

To consider, and if thought fit pass with or without amendment as an ordinary resolution, the following:

*“That in accordance with Exception 9 of ASX Listing Rule 7.2 Shareholders approve the establishment of an employee share option plan to be called the “Salinas Energy Limited Employee Share Option Plan “ (“ESOP”) and the issue of Incentive Options pursuant to this scheme on the terms and conditions in the Explanatory Memorandum”.*

### **Voting Exclusion**

The Company will disregard any votes cast on this resolution by a Director (except one who is ineligible to participate in any employee incentive scheme in relation to the Company) or any associate of a Director.

However, the Company will not disregard a vote if:

- (a) it is cast by the person as a proxy for a person who is entitled to vote, in accordance with directions on the Proxy Form; or
- (b) it is cast by the person chairing the General Meeting as proxy for a person who is entitled to vote, in accordance with directions on the Proxy Form to vote as the proxy decides.

## RESOLUTION 6 – AUTHORITY TO GRANT INCENTIVE OPTIONS TO MR KEN CHARINSKY

To consider, and if thought fit, to pass an ordinary resolution:

*“That subject to Shareholders approving Resolutions 1, 3 and 5, pursuant to the rules of ESOP and in accordance with Listing Rule 10.14, Section 208 of the Corporations Act and for all other purposes, Shareholders approve to authorise the Directors, following Merger Completion, to grant:*

- (i) 1,300,000 \$0.20 Incentive Options; and*
- (ii) 1,300,000 \$0.40 Incentive Options*

*to Mr Ken Charinsky or his nominees on the terms and conditions outlined in the Explanatory Memorandum.”*

### **Voting Exclusion**

The Company will disregard any votes cast on this resolution by a Director participating in the issue and associates of that person.

However, the Company will not disregard a vote if:

- (a) it is cast by the person as proxy for a person who is entitled to vote, in accordance with directions on the Proxy Form; or
- (b) it is cast by the person chairing the General Meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

## RESOLUTION 7 – AUTHORITY TO GRANT INCENTIVE OPTIONS TO MR JOHN LANDER

To consider, and if thought fit, to pass an ordinary resolution:

*“That subject to Shareholders approving Resolutions 1, 4 and 5, pursuant to the rules of ESOP and in accordance with Listing Rule 10.14, Section 208 of the Corporations Act and for all other purposes, Shareholders approve to authorise the Directors, following Merger Completion, to grant:*

- (i) 200,000 \$0.20 Incentive Options; and*
- (ii) 200,000 \$0.40 Incentive Options,*

to Mr John Lander or his nominees on the terms and conditions outlined in the Explanatory Memorandum.”

### **Voting Exclusion**

The Company will disregard any votes cast on this resolution by a Director participating in the issue and associates of that person.

However, the Company will not disregard a vote if:

- (a) it is cast by the person as proxy for a person who is entitled to vote, in accordance with directions on the Proxy Form; or
- (b) it is cast by the person chairing the General Meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

## RESOLUTION 8 – AUTHORITY TO GRANT INCENTIVE OPTIONS TO MR DOUGAL FERGUSON

To consider, and if thought fit, to pass an ordinary resolution:

*“That subject to Shareholders approving Resolutions 1 and 5, pursuant to the rules of ESOP and in accordance with Listing Rule 10.14, Section 208 of the Corporations Act and for all other purposes, Shareholders approve to authorise the Directors, following Merger Completion, to grant:*

- (i) 1,300,000 \$0.20 Incentive Options; and*
- (ii) 750,000 \$0.40 Incentive Options,*

to Mr Dougal Ferguson or his nominees on the terms and conditions outlined in the Explanatory Memorandum.”

### **Voting Exclusion**

The Company will disregard any votes cast on this resolution by a Director participating in the issue and associates of that person.

However, the Company will not disregard a vote if:

- (a) it is cast by the person as proxy for a person who is entitled to vote, in accordance with directions on the Proxy Form; or
- (b) it is cast by the person chairing the General Meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

## RESOLUTION 9 – AUTHORITY TO GRANT INCENTIVE OPTIONS TO MR RON MILLER

To consider, and if thought fit, to pass an ordinary resolution:

*“That subject to Shareholders approving Resolutions 1 and 5, pursuant to the rules of ESOP and in accordance with Listing Rule 10.14, Section 208 of the Corporations Act and for all other purposes, Shareholders approve to authorise the Directors, following Merger Completion, to grant 200,000 \$0.20 Incentive Options to Mr Ron Miller or his nominees on the terms and conditions outlined in the Explanatory Memorandum.”*

### **Voting Exclusion**

The Company will disregard any votes cast on this resolution by a Director participating in the issue and associates of that person.

However, the Company will not disregard a vote if:

- (a) it is cast by the person as proxy for a person who is entitled to vote, in accordance with directions on the Proxy Form; or
- (b) it is cast by the person chairing the General Meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

## RESOLUTION 10 - SECTION 195 APPROVAL

To consider, and if thought fit, pass as an ordinary resolution with or without amendment the following:

*“That, for the purposes of section 195(4) of the Corporations Act and for all other purposes, Shareholders approve and authorise the Directors to complete the transactions contemplated in the Notice and the Explanatory Memorandum.”*

### **BY ORDER OF THE BOARD**



**Dougal Ferguson**  
Company Secretary

Dated: 15 September 2009

# Explanatory Memorandum

## 1 INTRODUCTION

This Explanatory Memorandum has been prepared for the information of Shareholders of the Company in connection with the business to be conducted at the General Meeting to be held at The Melbourne Hotel, corner Hay and Milligan Streets, Perth, Western Australia at 10.00am on Tuesday 27 October 2009.

This Explanatory Memorandum should be read in conjunction with and forms part of the accompanying Notice. The purpose of this Explanatory Memorandum is to provide information to Shareholders in deciding whether or not to pass the Resolutions set out in the Notice.

This Explanatory Memorandum includes the following information to assist Shareholders in deciding how to vote on the Resolutions:

Section 2: Action to be taken by Shareholders

Section 3: Resolution 1 – Authority to Issue Securities on completion of the Neon Merger

Section 4: Resolution 2-4 – Appointment of Directors

- Dr Alan Stein
- Mr Ken Charsinsky
- Mr John Lander

Section 5: Resolution 5 – Adoption of Employee Share Incentive Plan

Section 6: Resolution 6-9 - Authority to Grant Incentive Options to:

- Mr Ken Charsinsky
- Mr John Lander
- Mr Dougal Ferguson
- Mr Ron Miller

Section 7: Resolution 10 - Section 195 Approval

Section 8: Definitions

Schedule 1: Terms and Conditions of the Merger Options

Schedule 2: Terms and Conditions of the Incentive Options

Schedule 3: Summary of Terms of Employee Share Option Plan

Schedule 4: Risk Factors

A Proxy Form is located at the end of the Explanatory Memorandum.

## 2 ACTION TO BE TAKEN BY SHAREHOLDERS

Shareholders should read the Notice and this Explanatory Memorandum carefully before deciding how to vote on the Resolutions.

A Proxy Form is attached to the Notice. This is to be used by Shareholders if they wish to appoint a representative (a “proxy”) to vote in their place. All Shareholders are invited and encouraged to attend the General Meeting or, if they are unable to attend in person, sign and return the Proxy Form to the Company in accordance with the instructions thereon. Lodgement of a Proxy Form will not preclude a Shareholder from attending and voting at the General Meeting in person.

### 3. RESOLUTION 1 – AUTHORITY TO ISSUE SECURITIES ON COMPLETION OF THE NEON MERGER

#### 3.1 INTRODUCTION

The Company announced to ASX on 26 August 2009 the proposal to merge with Neon by the Company acquiring all of the shares and options on issue in Neon, whose principal oil and gas asset is a Production Sharing Contract in Vietnam.

Neon is a Perth based company which has a 100% working interest in the Production Sharing Contract (Block 120) offshore Vietnam in a highly prospective 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 of directors.
- 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.

#### 3.2 NEON PRODUCTION SHARING CONTRACT IN VIETNAM

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.

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").

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 the presence of 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.

### **3.3 COMMERCIAL TERMS**

The Company will acquire approximately 40% of Neon's issued capital for A\$1.5 million cash and the remaining Neon shareholders will receive three (3) Shares for each Neon share resulting in the issue of 44,763,600 Shares valuing the total consideration for Neon at approximately A\$5.7 million at the date of announcement of the transaction. Approximately 75% of the Shares to be issued pursuant to the Merger will be escrowed for 12 months. Total Shares on issue following Merger Completion will be approximately 282 million shares.

In addition, the Company will issue to Neon option holders 8.75 million Merger Options each at an exercise price of \$0.20 with an expiry date of 31 August 2012, which equates to a 1:1 exchange of existing Neon options. These Merger Options will be subject to a twelve month vesting period.

Merger Completion is subject only to Shareholder approval which is being sought at this General Meeting.

### **3.4 NEON MANAGEMENT TEAM**

It is proposed that Dr Alan Stein and Mr John Lander who currently are Neon directors will be appointed as Directors of the Company.

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, unlisted plc company operating in Africa.

Mr John Lander has over 37 years international experience including directorships in a number of successful oil and gas companies based in the United Kingdom.

It is also proposed that Mr Ken Charsinsky will be appointed as Managing Director of the Company with effect from Merger Completion. 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 resign as a Director of the Company with effect from Merger Completion.

### **3.5 MERGED ENTITY STRATEGY**

The strategy of the merged entity is to continue to grow and develop the existing Californian business in conjunction with building a Southeast Asian focused exploration and production company.

### **3.6 DIRECTOR RECOMMENDATION**

All directors recommend that all shareholders vote in favour of Resolution 1.

It is the intention of each of the directors who holds shares to vote in favour of the Resolution.

### **3.7 EFFECT OF SHAREHOLDERS NOT APPROVING THE ACQUISITION OF NEON ENERGY PTY LTD**

If Shareholders do not approve the acquisition of Neon, the Company will continue with its current business activities.

If the acquisition does not proceed, the Company would not be able to reclaim moneys spent on the transaction to date, including legal and other transaction costs of approximately \$150,000.

### 3. RESOLUTION 1 – AUTHORITY TO ISSUE SECURITIES ON COMPLETION OF THE NEON MERGER (CONTINUED)

#### 3.8 OTHER EFFECTS OF THE TRANSACTION ON THE COMPANY

On Merger Completion, the shareholders and option holders of Neon will be issued the following securities:

<b>Fully Paid Ordinary Shares</b>	44,763,600
<b>Merger Options</b>	8,750,000

The Company also proposes to issue approximately 13 million Incentive Options to the new Salinas management group of which half will be exercisable at \$0.20 per Incentive Option and half will be exercisable at \$0.40 per Incentive Option pursuant to the proposed ESOP.

Following Merger Completion the capital structure of the Company will be as follows:

<b>Fully Paid Ordinary Shares</b>	281,994,678
<b>Merger Options</b>	8,750,000
<b>Achievement Rights (Salinas Energy Share Incentive Plan)</b>	898,750
<b>Existing Employee Share Options</b>	3,510,000
<b>Proposed new Incentive Options (including those proposed to be issued pursuant to resolutions 6 to 9.)</b>	12,925,000

The Directors of the Company believe the acquisition of Neon including its principal oil and gas asset the Production Sharing Contract provides a worthwhile addition to the existing business of the Company. Funding for the exploration of the Production Sharing Contract will initially be funded from the cash reserves of the Company. Should the initial exploration of the Production Sharing Contract be successful, the Directors will re-assess the funding for the Production Sharing Contract, which may result in the Company raising additional capital.

#### 3.9 RISK FACTORS

A number of risk factors that currently apply to the Company will also apply to the acquisition of Neon including its principal oil and gas asset the Production Sharing Contract. Additional risk factors have also been identified, which are outlined in Schedule 4.

#### 3.10 ASX LISTING RULE 7.1 – SHAREHOLDER APPROVAL OF THE MERGER ISSUE

ASX Listing Rule 7.1 requires Shareholder approval for the proposed Merger Issue. Listing Rule 7.1 provides, subject to certain exceptions, that Shareholder approval is required for any issue of securities by a listed company, where the shares proposed to be issued represent more than 15% of the Company's securities then on issue.

Given the Merger Issue under Resolution 1 will exceed this 15% threshold and none of the exceptions contained in Listing Rule 7.2 apply to the Merger Issue, Shareholder approval is required in accordance with Listing Rule 7.3.

### **Specific Information Required by ASX Listing Rule 7.3**

For the purposes of Shareholder approval of the Merger Issue and the requirements of Listing Rule 7.3, information is provided as follows:

- (a) the maximum number of Securities the Company can issue under Resolution 1 is:
  - (i) 44,763,600 Shares; and
  - (ii) 8,750,000 Merger Options (and on exercise 8,750,000 Shares).
- (b) the Merger Securities will be issued and allotted no later than three (3) months after the date of this General Meeting or such later date as approved by ASX;
- (c) the Shares and Merger Options are being issued in consideration for the acquisition of all the shares and options in Neon to the holder of such Neon securities, who are not related parties of the Company;
- (d) the Shares are ordinary listed fully paid shares in the capital of the Company;
- (e) The terms of the Merger Options are contained in Schedule 1 of this Explanatory Memorandum;
- (f) the issue of Merger Securities will occur on Merger Completion which is expected to occur within a week of this General Meeting;
- (g) a voting exclusion statement is included in the Notice; and
- (h) no funds will be raised from the issue, because the issue comprises consideration for the purchase by the Company of all the shares and options in Neon.

## **4. RESOLUTIONS 2, 3 AND 4 – APPOINTMENT OF DIRECTORS**

### **4.1 APPOINTMENT OF MR STEIN AS A DIRECTOR OF THE COMPANY**

This resolution seeks approval for the appointment of Dr Alan Stein as a Director of the Company with effect from Merger Completion.

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, unlisted plc company operating in Africa. He has over 20 years experience in the international oil industry as a consultant and as an executive of operating oil companies.

#### **Board Recommendation**

All Directors recommend that Shareholders vote in favour of Resolution 2.

### **4.2 APPOINTMENT OF MR LANDER AS A DIRECTOR OF THE COMPANY**

This resolution seeks approval for the appointment of Dr John Lander as a Director of the Company with effect from Merger Completion.

Mr Lander has over 37 years international experience in the international and domestic oil industry and holds a number of directorships in successful oil and gas companies based in the United Kingdom.

#### **Board Recommendation**

All Directors recommend that Shareholders vote in favour of Resolution 3.

### **4.3 APPOINTMENT OF MR CHARSINSKY AS A DIRECTOR OF THE COMPANY**

This resolution seeks approval for the appointment of Mr Ken Charsinsky as a Director of the Company with effect from Merger Completion.

Mr Charsinsky will be appointed as Managing Director of Salinas. He 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 and has heavy oil and US domestic experience.

#### **Board Recommendation**

All Directors recommend that Shareholders vote in favour of Resolution 4.

## 5. RESOLUTION 5 - ADOPTION OF EMPLOYEE SHARE OPTION PLAN

Resolution 5 seeks Shareholder approval in accordance with ASX Listing Rule 7.2 for the establishment of the Salinas Energy Limited Employee Share Option Plan ("**ESOP**") and the issue of Incentive Options pursuant to this ESOP. Directors of Salinas are eligible to participate in the ESOP.

The two main purposes of the ESOP are to give an incentive to the eligible participants to provide dedicated and ongoing commitment and effort to the Company aligning the interests of both employees and Shareholders and for the Company to reward eligible participants for their efforts. The ESOP contemplates the issue to eligible participants of options over Shares upon payment of the exercise price.

ASX Listing Rule 7.1 places restrictions on the number of equity securities, including options, which a listed company may issue in any 12 months. However, certain issues are exempt from this ASX Listing Rule and are effectively disregarded for the purposes of counting the number of securities which a company may issue.

Exempt issues include an issue of securities to persons participating in an employee incentive scheme where shareholders have approved the issue of securities under the scheme as an exception from ASX Listing Rule 7.1. Shareholder approval must be given in a general meeting held not more than 3 years before the date of issue where the Notice contains or is accompanied by certain prescribed information (set out below).

In order to take advantage of the exemption from ASX Listing Rule 7.1 and allow the Company greater flexibility to issue securities, Shareholders are requested to approve the ESOP as an exception from ASX Listing Rule 7.1.

This approval will be effective for a period of 3 years from the date the passing by Shareholders of Resolution 5.

The Company has in place a current employee share option plan which was previously approved by Shareholders at the 2007 annual general meeting. Under this existing share option plan there are currently 3,510,000 options on issue. No further options will be issued under this plan but options currently on issue will remain current until their expiry or exercise in accordance with the terms of the options.

In addition the Company currently has an employee share incentive plan in place. Under this plan there are currently 898,750 achievement rights on issue which entitle participants to the issue of Shares on the satisfaction of certain performance criteria.

The Company proposes to grant up to 12,925,000 Incentive Options under the ESOP to eligible employees and directors. This amount includes the Incentive Options to be granted following Shareholder approval under Resolutions 6 to 9.

For the purpose of ASX Listing Rule 7.2 Exception 9 the terms of the ESOP are in Schedule 3.

## 6. RESOLUTION 6, 7, 8 AND 9 – AUTHORITY TO GRANT INCENTIVE OPTIONS

### 6.1 GENERAL

The Company has agreed, subject to obtaining Shareholder approval, to grant a total of 5,250,000 Incentive Options under the ESOP to Messrs Charsinsky, Lander, Ferguson and Miller (**Related Parties**) on the terms and conditions set out below.

The grant of the Incentive Options to the Related Parties requires the Company to obtain Shareholder approval in accordance with Chapter 2E of the Corporations Act and ASX Listing Rule 10.14, because the grant of Incentive Options constitutes giving a financial benefit and as Directors, Messrs Charsinsky, Lander, Ferguson and Miller, are related parties of the Company.

## 6.2 SHAREHOLDER APPROVAL (CHAPTER 2E OF THE CORPORATIONS ACT AND LISTING RULE 10.15)

Pursuant to and in accordance with the requirements of Sections 217 to 227 of the Corporations Act and ASX Listing Rule 10.15, the following information is provided in relation to the proposed grant of Incentive Options:

- (a) the related parties are Messrs Charsinsky, Lander, Ferguson and Miller and they are related parties by virtue of being Directors;
- (b) the maximum number of Incentive Options (being the nature of the financial benefit being provided) to be granted to the Related Parties is:
  - (i) 1,300,000 \$0.20 Incentive Options and 1,300,000 \$0.40 Incentive Options to Mr Charsinsky;
  - (ii) 200,000 \$0.20 Incentive Options and 200,000 \$0.40 Incentive Options to Mr Lander;
  - (iii) 1,300,000 \$0.20 Incentive Options and 750,000 \$0.40 Incentive Options to Mr Ferguson; and
  - (iv) 200,000 \$0.20 Incentive Options to Mr Miller;
- (c) the Incentive Options will be granted to the Related Parties no later than 1 month after the date of the General Meeting (or such later date as permitted by any ASX waiver or modification of the ASX Listing Rules) and it is anticipated the Incentive Options will be issued on one date;
- (d) the Incentive Options will be granted for nil cash consideration, accordingly no funds will be raised;
- (e) the terms and conditions of the Incentive Options are set out in Schedule 2;
- (f) The Directors have valued the Incentive Options and determined on the basis of the assumptions set out below the technical value of each Incentive Option is as follows:

Related Party	Exercise Price	Number of Incentive Options	Value Per Incentive Option	Total Value \$
Mr Ken Charsinsky	\$0.20	1,300,000	7.8 cents	101,400
	\$0.40	1,300,000	4.9 cents	63,700
Mr John Lander	\$0.20	200,000	7.8 cents	15,600
	\$0.40	200,000	4.9 cents	9,800
Mr Dougal Ferguson	\$0.20	1,300,000	7.8 cents	101,400
	\$0.40	750,000	4.9 cents	36,750
Mr Ron Miller	\$0.20	200,000	7.8 cents	15,600

- (g) This valuation imputes a total value of \$344,250 to the Incentive Options. The value may go up or down after the date of valuation as it will depend on the future price of a Share. The Black & Scholes Option Pricing Model has been used to value the Incentive Options with the following assumptions:
  - (i) the risk free rate is the Australian Government 5-year bond rate;
  - (ii) the underlying security spot price of \$0.165 used for the purposes of this valuation is based on the Share price of the Company on the day of the report;
  - (iii) the estimated volatility used in the option valuation is 75%;
  - (iv) for the purposes of the valuation, no future dividend payments have been forecast; and
  - (v) for the purposes of the valuation it is assumed that the Incentive Options will be issued on 22 October 2009 will have a life of 3 years;

## 6. RESOLUTION 6, 7, 8 AND 9 – AUTHORITY TO GRANT INCENTIVE OPTIONS (CONTINUED)

### 6.2 SHAREHOLDER APPROVAL (CHAPTER 2E OF THE CORPORATIONS ACT AND LISTING RULE 10.15) (CONTINUED)

(h) the relevant interests of the Related Parties in securities of the Company following approval of Resolution 1 is set out below;

Related Party	Salinas Shares	Salinas Options	Merger Shares	Merger Options
Mr Ken Charsinsky	Nil	Nil	300,000	450,000
Mr John Lander	Nil	Nil	2,688,600	Nil
Mr Dougal Ferguson	1,000,000	1,000,000 <sup>(i)</sup>	Nil	Nil
Mr Ron Miller	1,000,000	250,000 <sup>(ii)</sup>	Nil	Nil

(i) Mr Dougal Ferguson beneficially holds 550,000 options exercisable at \$0.40 each on or before 31 August 2011 and 450,000 options exercisable at \$0.50 each on or before 30 April 2011.

(ii) Mr Ron Miller beneficially holds 250,000 options exercisable at \$0.40 each on or before 31 August 2011.

(i) the remuneration and emoluments from the Company to the Related Parties for both the current financial year and previous financial year are set out below:

#### Mr Ken Charsinsky

Mr Charsinsky was not an employee of Salinas or Neon for the previous financial year. It is proposed that on his appointment as Managing Director of Salinas, Mr Charsinsky will be paid an annual salary (including superannuation) of \$250,000. In addition to the Incentive Options proposed to be issued pursuant to Resolution 6, Mr Charsinsky will be entitled to participate in the short term incentive plan, which consists of cash bonuses when certain targets as determined by the Board on an annual basis have been met.

#### Mr John Lander

Mr John Lander was not an employee or director of Salinas for the previous financial year. The non-executive directors are currently paid an annual fee of \$40,000 per annum. Mr Lander will become a non-executive director and other than the Incentive Options proposed to be issued pursuant to Resolution 7 Mr Lander will not be entitled to participate in any other incentive plans.

#### Mr Dougal Ferguson

Mr Ferguson was an executive director of Salinas from 1 July 2008 through to 31 December 2008, after which he became a non-executive director on a consultancy agreement. Total cash remuneration (including superannuation and termination benefits) for the last financial year totalled \$373,296. Non-cash remuneration (implied option values) for last financial year totalled \$170,612.

During the current financial year, Mr Ferguson has been retained on an all inclusive fee of \$10,000 per month for financial and company secretarial tasks, with additional fees of \$1,250 per day payable for selected other duties. It is proposed that following the merger completion, Mr Ferguson will return to the Company as a full time employee on an annual salary of \$225,000 inclusive of superannuation. In addition to the Incentive Options proposed to be issued pursuant to Resolution 8, Mr Ferguson will be entitled to participate in the short term incentive plan, which consists of cash bonuses when certain targets as determined by the Board on an annual basis have been met.

#### Mr Ron Miller

Mr Ron Miller was a non-executive director of Salinas during the previous financial year and was paid \$40,000 in fees. Non-cash remuneration (implied options values) for last financial year totalled \$90,338.

Mr Miller will continue to be a non-executive director and other than the Incentive Options proposed to be issued pursuant to Resolution 9, Mr Miller and will not be entitled to participate in any other incentive plans;

- (j) if the Incentive Options granted to the Related Parties are exercised, a total of 5,250,000 Shares would be allotted and issued. This will increase the number of Shares on issue post completion of the Merger from 281,994,678 to 287,244,678 (assuming that no other options are exercised and no other Shares issued) with the effect that the shareholding of existing Shareholders would be diluted as follows:

<b>Fully Paid Shares on issue post Merger</b>	281,994,678
<b>Percentage that the proposed 5,250,000 Incentive Options to be issued represents</b>	1.86%
<b>Fully diluted Shares assuming all options and rights are converted to fully paid shares</b>	308,078,428
<b>Percentage owned by Related Parties</b>	1.70%

The market price for Shares during the term of the Incentive Options would normally determine whether or not the Incentive Options are exercised. If, at any time any of the Incentive Options are exercised and the Shares are trading on ASX at a price that is higher than the exercise price of the Incentive Options, there may be a perceived cost to the Company;

- (k) the trading history of the Shares on ASX in the 12 months before the date of this Notice is set out below:

	<b>Price</b>	<b>Date</b>
Highest	25 cents	17 September 2008
Lowest	8.1 cents	26 February 2009
Last	16.5 cents	14 September 2009

- (l) the primary purpose of the grant of Incentive Options to the Related Parties is to provide cost effective consideration to the Related Parties for their ongoing commitment and contribution to the Company in their respective roles as Directors. The board of the Company does not consider that there are any significant opportunity costs to the Company or benefits foregone by the Company in issuing the Incentive Options upon the terms proposed;
- (m) the board of the Company acknowledges the grant of Incentive Options to Mr Lander and Mr Miller (as non-executive directors) is contrary to Recommendation 8.2 of the ASX Corporate Governance Principles and Recommendations. However, the board of the Company considers the grant of Incentive Options to Messrs Lander and Miller reasonable in the circumstances, given the necessity to attract the highest calibre of professionals to the Company, whilst maintaining the Company's cash reserves;
- (n) as at the date of this Notice, all Directors are entitled to participate in the ESOP; and
- (o) as at the date of this Notice, 1,250,000 options have been issued under the Company's existing employee share option plan to persons referred to in ASX Listing Rule 10.14.

### **Recommendation**

1. Mr Charsinsky declines to make a recommendation to Shareholders in relation to Resolution 6 due to his material personal interest in the outcome of the Resolution. The other Directors, who do not have a material interest in the outcome of Resolution 6, recommend that Shareholders vote in favour of Resolution 6. The board of the Company (other than Mr Charsinsky) is not aware of any other information that would be reasonably required by Shareholders to allow them to make a decision whether it is in the best interests of the Company to pass the Resolution;
2. Mr Lander declines to make a recommendation to Shareholders in relation to Resolution 7 due to his material personal interest in the outcome of the Resolution. The other Directors, who do not have a material interest in the outcome of Resolution 7, recommend that Shareholders vote in favour of Resolution 7. The board of the Company (other than Mr Lander) is not aware of any other information that would be reasonably required by Shareholders to allow them to make a decision whether it is in the best interests of the Company to pass the Resolution;

## 6. RESOLUTION 6, 7, 8 AND 9 – AUTHORITY TO GRANT INCENTIVE OPTIONS (CONTINUED)

### 6.2 SHAREHOLDER APPROVAL (CHAPTER 2E OF THE CORPORATIONS ACT AND LISTING RULE 10.15) (CONTINUED)

#### Recommendation (continued)

3. Mr Ferguson declines to make a recommendation to Shareholders in relation to Resolution 8 due to his material personal interest in the outcome of the Resolution. The other Directors, who do not have a material interest in the outcome of Resolution 8, recommend that Shareholders vote in favour of Resolution 8. The board of the Company (other than Mr Ferguson) is not aware of any other information that would be reasonably required by Shareholders to allow them to make a decision whether it is in the best interests of the Company to pass the Resolution; and
4. Mr Miller declines to make a recommendation to Shareholders in relation to Resolution 9 due to his material personal interest in the outcome of the Resolution. The other Directors, who do not have a material interest in the outcome of Resolution 9, recommend that Shareholders vote in favour of Resolution 9. The board of the Company (other than Mr Miller) is not aware of any other information that would be reasonably required by Shareholders to allow them to make a decision whether it is in the best interests of the Company to pass the Resolution.

Approval pursuant to ASX Listing Rule 7.1 is not required in order to issue the Incentive Options to the Related Parties. Accordingly, the issue of Incentive Options to the Related Parties will not be included in the 15% calculation of the Company's annual placement capacity pursuant to ASX Listing Rule 7.1.

## 7. RESOLUTION 10 - SECTION 195 APPROVAL

Section 195 of the Corporations Act essentially provides that a director of a public company may not vote or be present during meetings of directors when matters in which that director holds a "material personal interest" are being considered.

Some of the Directors may have a material personal interest in the outcome of Resolutions 5 to 9. In the absence of this Resolution 10, the Directors may not be able to form a quorum at directors meetings necessary to carry out the terms of Resolutions 5 to 9.

The Directors have accordingly exercised their right under section 195(4) of the Corporations Act to put the issue to Shareholders to resolve upon.

## 8. DEFINITIONS

In this Explanatory Memorandum and Notice of General Meeting:

### 8.1 GENERAL

**ASIC** means Australian Securities and Investments Commission.

**ASX** means ASX Limited and where the context permits, the Australian Securities operated by ASX Limited.

**Chair** means the person appointed to chair the general meeting of the Company convened by this Notice.

**Company** or **the Company** or **Salinas** means Salinas Energy Limited ACN 002 796 974.

**Constitution** means the Constitution of the Company as at the date of the General Meeting.

**Corporations Act** means the Corporations Act 2001 (Cth).

**General Meeting** means the General Meeting of the Company in this Notice.

**Incentive Option** means an unlisted option issued on the terms and conditions in Schedule 2 under the ESOP.

**Listing Rules** means the listing rules of ASX.

**Merger** means the merger of Salinas and Neon.

**Merger Completion** means completion of the Merger resulting from the acquisition by the Company of all shares and options in Neon.

**Merger Issue** has the meaning in Resolution 1.

**Merger Options** means an unlisted option issued on the terms and conditions in Schedule 1.

**Merger Securities** has the meaning in Resolution 1.

**Neon** means Neon Energy Pty Ltd. ACN 117 519 570.

**Neon Shareholders** means shareholders of Neon.

**Notice** means this Notice of General Meeting.

**Production Sharing Contract** means the oil and gas production sharing contract asset in Vietnam held by Neon described in section 3.2 of the Explanatory Memorandum.

**Resolution** means a resolution referred to in this Notice.

**Salinas Energy Limited Employee Share Option Plan** or **ESOP** has the meaning in Resolution 5.

**Share** means fully paid ordinary share in the capital of the Company.

**Shareholder** means a shareholder of the Company.

In this Notice, words importing the singular include the plural and vice versa.

## Schedule 1 – Terms and Conditions of Merger Options

- (a) Each Merger Option entitles the holder to subscribe for and be allotted one fully paid ordinary share (Share) in the capital of the Company.
- (b) No monies will be payable for the issue of the Merger Options.
- (c) the exercise price is \$0.20 per Merger Option (Exercise Price).
- (d) the Merger Options will vest on the date that is 12 months after the date of issue.
- (e) The Merger Options expire at 5:00pm (Australian WST) on 31 August 2012 (Expiry Date).
- (f) The Merger Options shall not be listed for official quotation on ASX.
- (g) The Merger Options may be exercised after vesting and before the Expiry Date by notice in writing to the Directors of the Company accompanied by payment of the Exercise Price.
- (h) The minimum number of Merger Options that may be exercised at any time is 1,000 or the balance of the Merger Options held if such balance is less than 1,000.
- (i) The Company shall allot and issue to the holder the Shares pursuant to the exercise of Merger Options and deliver a holding statement in respect of those Shares within 10 business days after receipt by the Company of a properly executed notice of exercise of the Merger Options accompanied by payment of the requisite Exercise Price.
- (j) The Shares allotted and issued to the holder upon exercise of the Merger Options will rank *pari passu* in all respects with the Company's then existing Shares.
- (k) The Company shall immediately make application to have the Shares allotted and issued to the holder upon exercise of the Merger Options listed for official quotation by ASX.
- (l) The Merger Options are not transferable without prior approval of the Directors.
- (m) The Company will at least 20 business days before the Expiry Date send written notice to the holder and such notice shall state the following:
  - i. the name of the holder;
  - ii. the number of Merger Options held by the holder and the number of Shares to be issued upon exercise of the Merger Options;
  - iii. the Exercise Price; and
  - iv. The due date for payment of the requisite Exercise Price and the consequences of non-payment.
- (n) Merger Options may not be exercised after the Expiry Date.
- (o) There will be no change to the Exercise Price of the Merger Options or the number of Shares over which the Merger Options are exercisable in the event of the Company making a pro-rata issue of Shares or other securities to its Shareholders.
- (p) There are no participating rights or entitlements inherent in the Merger Options and the holder will not be entitled, by virtue of the unexercised Merger Options, to participate in bonus Share entitlements or new issues of capital in the same manner as holders of ordinary shares in the Company during the currency of the Merger Options. However, the Company will ensure that for the purposes of determining entitlements to any such issue, the holder will be given written notice of such issue, as far as practically possible at least 10 business days prior to the record date relating to such issue, to allow the holder an opportunity to exercise their Merger Options prior to the date for determining entitlements to participate in any such issue.
- (q) In the event of any reconstruction (including consolidation, sub-division, reduction or return of the issued capital of the Company), the number of Merger Options or the Exercise Price of the Merger Options or both shall be reconstructed (as appropriate) in accordance with the Listing Rules.

## Schedule 2 – Terms and Conditions of Incentive Options

The Incentive Options entitle the holder to subscribe for Shares on the following terms and conditions:

- (a) Each Incentive Option gives the option holder the right to subscribe for one Share. To obtain the right given by each Incentive Option, the option holder must exercise the Incentive Options in accordance with the terms and conditions of the Incentive Options.
- (b) The Incentive Options may be exercised at the following times:
  - i. As to 50% of the total number of Incentive Options held, at any time after the expiration of 12 months from the date the Incentive Options were issued, and
  - ii. As to the total number of Incentive Options held, at any time after the expiration of 24 months from the date the Incentive Options were issued; and

Provided that the latest date for Incentive Options issued under the ESOP to be capable of exercise is immediately before the third anniversary of their date of grant by the Company or until otherwise cancelled, whichever is the earlier. The Incentive Options will expire three years from the date of issue (Expiry Date).

Notwithstanding the above, upon the occurrence of a Trigger Event (as defined in the Employee Share Option Plan) the Directors may determine that the Incentive Options may be exercised at any time from the date of such determination, and in any number until the date determined by the Directors acting bona fide so as to permit the holder to participate in any change of control arising from a Trigger Event provided that the Directors will forthwith advise in writing each holder of such determination. Thereafter, the Incentive Options shall lapse to the extent they have not been exercised:

- (c) Should the option holder cease to hold office, employment and/or consulting as the case may be with the Company, the option holder will have 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 Incentive Options, failing which said Incentive Options will lapse and be cancelled.
- (d) The amount payable upon exercise of each Incentive Option will be \$0.20 for 3,000,000 of the Incentive Options and \$0.40 for 2,250,000 Incentive Options (collectively the **Exercise Price**).
- (e) The Incentive Options held by each option holder may be exercised in whole or in part, and if exercised in part, multiples of 1,000 must be exercised on each occasion.
- (f) An option holder may exercise their Incentive Options by lodging with the Company, before the Expiry Date:
  - (i) a written notice of exercise of Incentive Options specifying the number of Incentive Options being exercised; and
  - (ii) a cheque or electronic funds transfer for the Exercise Price for the number of Incentive Options being exercised; (**Exercise Notice**).
- (g) An Exercise Notice is only effective when the Company has received the full amount of the Exercise Price in cleared funds.
- (h) Within 10 Business Days of receipt of the Exercise Notice accompanied by the Exercise Price, the Company will allot the number of Shares required under these terms and conditions in respect of the number of Incentive Options specified in the Exercise Notice.
- (i) The Incentive Options are not transferable.
- (j) All Shares allotted upon the exercise of Incentive Options will upon allotment rank pari passu in all respects with other Shares.
- (k) The Company will not apply for quotation of the Incentive Options on ASX. However, the Company will apply for quotation of all Shares allotted pursuant to the exercise of Incentive Options on ASX within 10 Business Days after the date of allotment of those Shares.
- (l) If at any time the issued capital of the Company is reconstructed, all rights of an option holder are to be changed in a manner consistent with the Corporations Act and the ASX Listing Rules at the time of the reconstruction.
- (m) There are no participating rights or entitlements inherent in the Incentive Options and option holders will not be entitled to participate in new issues of capital offered to Shareholders during the currency of the Incentive Options.
- (n) Subject to paragraph (l) above, an Incentive Option does not confer the right to a change in exercise price or a change in the number of underlying securities over which the Incentive Option can be exercised.
- (o) The terms and conditions of the Incentive Options also include the terms and conditions options in the ESOP. To the extent of any inconsistency between the terms of these Incentive Options and the Employee Share Option Plan the terms in these Incentive Options prevail.

## Schedule 3 – Summary of ESOP Terms

The Directors are empowered to operate the Scheme in accordance with the Listing Rules and on the following terms and conditions:

- (a) Subject to paragraph (d), the Directors may offer to issue options to Eligible Employees in accordance with Class Order 03/184, the Scheme and in such manner and on such terms and conditions as they in their absolute discretion determine.
- (b) If the Company has offered you options, to accept the offer complete the Acceptance Form or accept in such other form as the Directors may in their absolute discretion approve from time to time.
- (c) The Eligible Employees to participate in the Scheme shall be as the Directors in their absolute discretion determine and shall take into account skills, experience, length of service with the Company, remuneration level and such other criteria as the Directors consider appropriate in the circumstances.
- (d) options may not be offered under this Scheme without the issue of a prospectus in accordance with Chapter 6D of the Corporations Act, if the aggregate of:
  - (i) the number of options to be issued;
  - (ii) the number of Shares which would be issued if all the current options issued under any employment incentive scheme were exercised;
  - (iii) the number of Shares which have been issued as a result of the exercise of options issued under any employee incentive scheme, where the options were issued during the preceding five years; and
  - (iv) all other Shares issued pursuant to any employee incentive scheme during the preceding five years;but disregarding any offer made, options or Shares issued by way of or as a result of:
  - (v) an offer to a person situated at the time of receipt of the offer outside Australia;
  - (vi) an offer that was an excluded offer or invitation within the meaning of the Corporations Act as it stood prior to the commencement of Schedule 1 of the Corporate Law Economic Reform Program Act 1999;
  - (vii) an offer that did not need disclosure to investors because of section 708 of the Corporations Act; or
  - (viii) an offer under a disclosure document,would exceed 5% of the then current number of Shares on issue.
- (e) The Directors may, in their absolute discretion, offer to Eligible Employees options under the Scheme, notwithstanding that it has previously issued more than the 5% limit in paragraph (d), up to a maximum of 10%, provided that the issue is made in accordance with the requirements of Chapter 6D of the Corporations Act.
- (f) options will be issued free of charge to Eligible Employees. The exercise price of the options shall be as the Directors in their absolute discretion determine, provided that it shall not be less than that amount which is equal to 90% of the average market price of the Shares in the 5 days in which sales in the Shares were recorded immediately preceding the day on which the Directors resolve to offer the options.
- (g) The Directors may limit the total number of options which may be exercised under the Scheme in any year.
- (h) The Directors, in their absolute discretion, having regard to skills, experience and length of service with the Company, remuneration level and such other criteria as the Directors consider appropriate in the circumstances, shall determine criteria to establish the periods during which the options may be exercised.
- (i) All options with a common expiry date shall have the same exercise price and rights to participate in issues of securities by the Company.
- (j) Unless the Directors in their absolute discretion determine otherwise, options shall lapse upon the earlier of:
  - (i) the expiry of the exercise date;
  - (ii) the date 3 months after the option holder ceases to be an Eligible Employee by reason of dismissal, resignation or termination of employment, office or services for any reason;
  - (iii) the expiry of 30 days after the option holder ceases to be an Eligible Employees by reason of retirement; or
  - (iv) a determination by the Directors that the option holder has acted fraudulently, dishonestly or in breach of his or her obligations to the Company or an Associated Body Corporate;
- (k) If an Eligible Employee accepts an offer from the Company to participate in the Scheme then the Company will evidence the issue of an option to an Eligible Employee by issuing that Eligible Employee a Certificate for that option.

- (l) Each option entitles the holder to subscribe for and be issued with one Share.
- (m) Shares issued pursuant to the exercise of options will in all respects, including bonus issues and new issues, rank equally and carry the same rights and entitlements as other Shares on issue.
- (n) There are no participating rights or entitlements inherent in the options and holders will not be entitled to participate in new issues of capital offered to shareholders during the currency of the options. However, the Company will ensure that for the purposes of determining entitlements to any such issue, the record date will be at least 7 business days after the issue is announced. This will give option holders the opportunity to exercise their options prior to the date for determining entitlements to participate in any such issue.
- (o) The options will not be quoted on the ASX. However, application will be made to the ASX for official quotation of the Shares issued on the exercise of the options if the Shares are listed on the ASX at that time.
- (p) An application to be issued options may be made by Eligible Employees invited to participate in the Scheme in such form and on such terms and conditions concerning the closing date for applications as the Directors in their absolute discretion determine.
- (q) If at any time the issued capital of the Company is reconstructed, all rights of option holders are to be changed in a manner consistent with the Listing Rules.
- (r) Subject to and in accordance with the Listing Rules (including any waiver issued under such Listings Rules), the Directors (without the necessity of obtaining the prior or subsequent consent of shareholders of the Company in a general meeting) may from time to time amend (including the power to revoke, add to or vary) all or any provisions of the Terms and Conditions in any respect whatsoever, by an instrument in writing, provided that rights or entitlements in respect of any option issued before the date of amendment shall not be reduced or adversely affected unless prior written approval from the affected holder(s) is obtained.
- (s) At the absolute discretion of the Directors, the terms upon which options will be issued may incorporate performance related factors. Such factors may reflect, inter alia, profitability levels, increases in production or decreases in production costs and may, subject to clause (r) above, be amended from time to time in a manner favourable to the option holder. However such performance related factors, if included in the option terms or so amended shall not act in any way to constitute a breach of the Terms and Conditions.
- (t) Notwithstanding the Terms and Conditions, upon the occurrence of a Trigger Event the Directors may determine:
  - (i) that the options may be exercised at any time from the date of such determination, and in any number until the date determined by the Directors acting bona fide so as to permit the holder to participate in any change of control arising from a Trigger Event provided that the Directors will forthwith advise in writing each holder of such determination. Thereafter, the options shall lapse to the extent they have not been exercised; or
  - (ii) to use their reasonable endeavours to procure that an offer is made to holders of options on like terms (having regard to the nature and value of the options) to the terms proposed under the Trigger Event in which case the Directors shall determine an appropriate period during which the holder may elect to accept the offer and, if the holder has not so elected at the end of that period, the options shall immediately become exercisable and if not exercised within 10 days, shall lapse.
- (u) An option may not be transferred or assigned except that a legal personal representative of a holder of an option who has died or whose estate is liable to be dealt with under laws relating to mental health will be entitled to be registered as the holder of that option after the production to the Directors of such documents or other evidence as the Directors may reasonably require to establish that entitlement.
- (v) An option is exercisable by the holder lodging with the Company a Notice of Exercise of option together with a cheque for the exercise price of each option to be exercised and the relevant option Certificate. If not all of the holder's options are being exercised, a holder must exercise options in multiples of 1,000.
- (w) Neither participation in the Scheme by the Company or an Associated Body Corporate or any Eligible Employees or option holders or anything contained in these Terms and Conditions shall in any way prejudice or affect the right of the Company or an Associated Body Corporate to dismiss any Eligible Employees or option holder or to vary the terms of employment of any Eligible Employees or option holder. Nor shall participation or the rights or benefits of an Eligible Employee or option holder under the Terms and Conditions be relevant to or be used as grounds for granting or increasing damages in any action brought by an Eligible Employee or option holder against the Company or an Associated Body Corporate whether in respect of any alleged wrongful dismissal or otherwise.
- (x) At all times during which Eligible Employees may subscribe for or purchase Shares upon exercise of an option issued pursuant to the Scheme, the Company shall provide, within a reasonable period of a request by Eligible Employees, the current market price of the Shares. Contact the Company Secretary to obtain this information.

## Schedule 3 – Summary of ESOP Terms (continued)

- (y) The Scheme shall be administered by the Directors who shall have power to:
- (i) determine appropriate procedures for administration of the Scheme consistent with these Terms and Conditions;
  - (ii) resolve conclusively all questions of fact or interpretation or dispute in connection with the Scheme and settle as the Directors in their absolute discretion determine expedient any difficulties or anomalies howsoever arising with or by reason of the operation of the Scheme;
  - (iii) delegate to any one or more persons for such period and on such conditions as it may determine the exercise of any of the Directors' powers or discretions arising under the Scheme; and
  - (iv) subject to the Listing Rules, waive strict compliance with, amend or add to the Terms and Conditions of the Scheme except for the provisions of clause (d), and where such actions are taken such actions shall be conclusive, final and binding on option holders.

### DEFINITIONS

In this Schedule the following terms shall bear the following meanings:

**"Acceptance Form"** means the Acceptance Form which will accompany the invitation to the Eligible Employee to participate in the Scheme.

**"Associated Body Corporate"** means:

- (i) a related body corporate (as defined in the Corporations Act) of the Company;
- (ii) a body corporate which has an entitlement to not less than 20% of the voting shares of the Company; and
- (iii) a body corporate in which the Company has an entitlement to not less than 20% of the voting shares.

**"ASX"** means the Australian Stock Exchange Limited.

**"Business Day"** means those days other than a Saturday, Sunday, New Year's Day, Australia Day, Good Friday, Easter Monday, Anzac Day, Christmas Day, Boxing Day and any other day which the ASX shall declare and publish is not a business day.

**"Certificate"** means a certificate for any option issued to Eligible Employees which will include all of the terms and conditions of the option and the Notice of Exercise of option or such other evidence of ownership that the Directors may in their absolute discretion determine from time to time.

**"Company"** means Salinas Energy Limited.

**"Company Group"** means the Company and its Associated Bodies Corporate.

**"Corporations Act"** means the Corporations Act 2001 (Commonwealth).

**"Directors"** mean the directors from time to time of the Company.

**"Eligible Employees"** means any full or part time employees of the Company or its Associated Bodies Corporate including Directors.

**"Listing Rules"** means the official listing rules of ASX as amended from time to time.

**"Notice of Exercise of option"** means the Notice of Exercise of option which will accompany the invitation to the Eligible Employee to participate in the Scheme.

**"Offer Period"** means the period referred to in the definition of that expression in Section 624 of the Corporations Act, provided that where a takeover bid is publicly announced prior to the service of an off market bidder's statement on the Company in relation to that takeover bid the Offer Period shall be deemed to have commenced at the time of that announcement.

**"option"** means an option to acquire a Share issued in accordance with the Scheme.

**"Scheme"** means the Salinas Energy Limited Employee Option Share Plan in which Eligible Employees may be invited to participate in accordance with the Terms and Conditions.

**"Share"** means a fully paid ordinary share in the capital of the Company.

**"Terms and Conditions"** means the terms and conditions in section 1 as amended from time to time.

**"Trigger Event"** means:

- (i) the despatch of a notice of meeting to consider a scheme of arrangement between the Company and its creditors or members or any class thereof pursuant to section 411 of the Corporations Act;
- (ii) the service of a bidder's statement or a like document on the Company; or
- (iii) the date upon which a person or a group of associated person becomes entitled, subsequent to the date of issue of the option, to sufficient Shares to give it or them the ability, in general meeting to replace all, or allow a majority, of Directors in circumstances where such ability was not already held by a person associated with such person or group of associated persons.

# Schedule 4 – Risk Factors

## 1. Risks Associated with Oil and Gas Operations in the Socialist Republic of Vietnam

### (a) Title and Sovereign Risk

The licensing of oil and gas exploration and development assets in Vietnam is governed by the Petroleum Law under a Contractual system whereby the Contractor has the right to receive a share of production or revenues from the sale of oil or gas in accordance with a Production Sharing Contract. The Petroleum Law dictates that The State of Vietnam protects ownership rights with respect to the capital investments, assets and other lawful rights of Vietnamese and foreign organisations conducting petroleum operations in Vietnam. The Vietnamese government, through state owned national oil company Petrovietnam, actively encourages foreign investment in petroleum operations within Vietnam, and the level of sovereign risk associated with petroleum operations is regarded by the Company as relatively low.

A maritime border dispute is ongoing between Vietnam and China. The eastern portion of the Block 120 Contract Area (covering approximately 30% of the total Contract Area) falls within the disputed territory and there is an associated risk that in future Vietnam may withdraw its claim to all or part of that area. However the currently identified prospective area for oil and gas lies well outside the disputed zone, in the western half of Block 120. Water depths in the disputed zone are up to 1,000 metres, and this makes exploration in that particular area less attractive at the present time.

Vietnam has an economy that has been growing rapidly and is considered an emerging market in world economic terms. The nature of the Vietnam economy brings with it risks not usually associated with OECD economies and economic issues such as rapid inflation, changes to regulatory environments and government change can all occur at relatively short notice. There is currently no evidence to suggest that any such structural changes to the economy are imminent, but it remains a risk until such time the Vietnam economy and GDP per capita become comparable with other more developed economies in the region.

### (b) Fiscal Terms

Fiscal terms pertaining to petroleum operations in Vietnam are governed by the Production Sharing Contract, which outlines how oil and gas production and revenues are shared between the Company and Petrovietnam. The key parameters in this regard are oil and gas royalty, cost recovery, and profit oil sharing. Other fiscal parameters which are applicable, but not governed by the Production Sharing Contract, are income tax, crude oil export tax and environmental levy. The Company cannot predict how existing laws and regulations may be amended such that these taxes are affected. However the Production Sharing Contract does incorporate fiscal stability provisions, such that any change to the Vietnamese law and regulations that is deemed by the Company to affect their economic interest may be remedied by subsequent modification of the fiscal terms under the Production Sharing Contract. The Production Sharing Contract also includes provisions for arbitration between parties in the event that a mutually acceptable resolution to the Production Sharing Contract cannot be agreed.

### (c) Regulation on Sale of Hydrocarbons

Most sales of oil and natural gas are not currently regulated and are generally made at market prices. The price received from the sale of these products is affected by the cost of transporting the products to market. In the event that crude oil is exported overseas from Vietnam, a crude oil export tax is levied. The crude oil export tax is presently 10% of export sales.

### (d) Regulation in Vietnam – Environmental

Various laws and regulations in Vietnam govern protection of the environment, health and safety, affecting operations and costs. These laws and regulations sometimes require governmental authorisation before conducting certain activities. As with the industry in general, compliance with existing and anticipated regulations increases the overall cost of business. While these regulations affect capital expenditures and earnings, the Company believes that such regulations do not affect its competitive position in the industry because environmental regulatory programs similarly affect competitors.

### (e) Exploration and Development Risks

Oil and gas exploration involves significant risk; only occasionally providing high rewards. In addition to the usual competition for prospective acreage, and the high costs of exploration and development of an economic deposit, factors such as demand for commodities, stock market fluctuations affecting access to new capital, sovereign risk, environmental issues, labour disruption, project financing, foreign currency fluctuations and technical problems can all affect the ability of a company to profit from a discovery.

There is no assurance that exploration and development of the prospects being acquired by the Company, or any other projects that may be acquired in the future, will result in the discovery of an economic oil and gas deposit. Even if an apparently viable deposit is identified, there is no guarantee that it can be profitably exploited.

Furthermore, the Company will only proceed to the next stage of exploration or development when data supports the potential existence of an economically viable oil and gas deposit. Should available data not support the potential existence of economically viable oil and gas deposit, the Company will generally not proceed to the next stage of exploration.

## Schedule 4 – Risk Factors (continued)

### 1. Risks Associated with Oil and Gas Operations in the Socialist Republic of Vietnam (continued)

#### (f) Drilling and Operating Risks

Oil and gas drilling activities are subject to numerous risks, particularly in an offshore environment. The Company's operations may be curtailed, delayed or cancelled as a result of weather conditions, mechanical difficulties, shortage or delays in the delivery of rigs and/or other equipment and compliance with governmental requirements. Drilling may involve unprofitable efforts, not only with respect to dry wells, but also with respect to wells which, though yielding some petroleum, are not sufficiently productive to justify commercial development or cover operating costs. Completion of a well does not assure a profit on the investment or recovery of drilling, completion and operating costs. Hazards incidental to the exploration and development of oil and gas properties such as unusual or unexpected formations, pressures, oceanographic conditions or other factors are inherent in drilling and operating wells and may be encountered by the Company.

#### (g) Ability to Exploit Successful Discoveries

It may not always be possible for the Company to participate in the exploitation of successful discoveries which may be made in the areas in which the Company has an interest. Such exploitation will involve the need to obtain the necessary approvals from the relevant authorities, which may require conditions to be satisfied and/or the exercise of discretion by such authorities. It may or may not be possible for such conditions to be satisfied. Further the decision to proceed to further exploitation may require the participation of other companies whose interests and objectives may not be the same as the Company. As described above, such further work may require the Company to meet or commit to financing obligations for which it may not have planned.

There is a risk that any discovery of gas may not be able to be developed if the gas contains high levels of carbon dioxide. With continuing changes to worldwide views on carbon capture and/or disposal of carbon dioxide, development of a high carbon dioxide gas stream may be delayed or become cost prohibitive.

#### (h) Competition

The Company will compete with other companies, including major and national oil companies. Many of these companies have greater financial and other resources than the Company and, as a result, may be in a better position to compete for future business opportunities. Many of the Company's competitors not only explore for and produce oil and gas, but also carry out refining operations and market petroleum and other products on a worldwide basis. There can be no assurance that the Company can compete effectively with these companies.

#### (i) Additional Requirements for Operational Funding

The Company's funding requirements depend on numerous factors including the Company's ability to generate income from the oil and gas assets and the ability to introduce joint venturers to the assets in return for paying a disproportionate share of costs. The Company may require further financing in addition to amounts raised upon settlement of the acquisition, in order to fund planned operations including the acquisition of seismic data and drilling of committed exploration wells.

Additional equity financing, if available, may be dilutive to Shareholders and at lower prices than the current market price. Debt financing, if available, may involve restrictions on financing and operating activities. If the Company is unable to obtain additional financing as needed, it may be required to reduce the scope of its operations or anticipated expansion.

#### (j) Markets

Marketability of the Company's hydrocarbon production depends in part upon the availability, proximity and capacity of markets and infrastructure. This is particularly true in the case of natural gas. Regulation of oil and natural gas production and transportation, tax and energy policies, changes in supply and demand and general economic conditions could all adversely affect the Company's ability to produce and market oil and natural gas.

#### (k) New Projects and Acquisitions

The Company proposes to actively pursue new acquisitions that may add value to the Company. The acquisition of new business opportunities (whether completed or not) may require the payment of monies (as a deposit and/or exclusivity fee) after only limited due diligence and prior to the completion of comprehensive due diligence. There can be no guarantee that any proposed acquisition will be completed or be successful. If the proposed acquisition is not completed, monies already advanced may not be recoverable, which may have a material adverse effect on the Company.

If an acquisition is completed, the board of the Company will need to re-assess at that time the funding allocated to current projects and new projects, which may result in the Company reallocating funds from other projects and/or the raising of additional capital (if available). Furthermore, notwithstanding that an acquisition may proceed upon the completion of due diligence, the usual risks associated with mining and exploration activities will remain.



The Company Secretary  
Salinas Energy Limited

**By delivery:**  
420 Roberts Road  
SUBIACO WA 6008

**By post:**  
PO Box 1522  
SUBIACO WA 6904

**By facsimile:**  
+61 8 9380 2112

I/We <sup>1</sup>

of

being a Shareholder/Shareholders of the Company and entitled to

votes in the Company, hereby appoint <sup>2</sup>

or failing such appointment the chairman of the Meeting as my/our proxy to vote for me/us on my/our behalf at the General Meeting of the Company to be held at The Melbourne Hotel, corner Hay and Milligan Streets, Perth, Western Australia at 10.00am (WST) on Tuesday 27 October 2009 and at any adjournment thereof in the manner indicated below or, in the absence of indication, as he thinks fit. If 2 proxies are appointed, the proportion or number of votes of this proxy is authorised to exercise is \* [ ]% of the Shareholder's votes\*/ [ ] of the Shareholder's votes. (An additional Proxy Form will be supplied by the Company, on request).

**INSTRUCTIONS AS TO VOTING ON RESOLUTIONS**

The proxy is to vote for or against the Resolution referred to in the Notice as follows:

		For	Against	Abstain
Resolution 1	Authority to Issue Securities on completion of the Neon Merger			
Resolution 2	Appointment of Director – Dr Alan Stein			
Resolution 3	Appointment of Director – Mr Ken Charsinsky			
Resolution 4	Appointment of Director – Mr John Lander			
Resolution 5	Adoption of Employee Share Option Plan			
Resolution 6	Authority to Grant Incentive Options to Mr Ken Charsinsky			
Resolution 7	Authority to Grant Incentive Options to Mr John Lander			
Resolution 8	Authority to Grant Incentive Options to Mr Dougal Ferguson			
Resolution 9	Authority to Grant Incentive Options to Mr Ron Miller			
Resolution 10	Section 195 Approval			

**Authorised signature/s**

This section must be signed in accordance with the instructions overleaf to enable your voting instructions to be implemented.

Individual or Shareholder 1	Shareholder 2	Shareholder 3
<i>Sole Director and Sole Company Secretary</i>	<i>Director</i>	<i>Director/Company Secretary</i>
<i>Contact Name</i>	<i>Contact Daytime Telephone</i>	<i>Date</i>

<sup>1</sup>Insert name and address of Shareholder

<sup>2</sup> Insert name and address of proxy

\*Omit if not applicable

## PROXY NOTES:

A Shareholder entitled to attend and vote at the Meeting may appoint a natural person as the Shareholder's proxy to attend and vote for the Shareholder at that Meeting. If the Shareholder is entitled to cast 2 or more votes at the Meeting the Shareholder may appoint not more than 2 proxies. Where the Shareholder appoints more than one proxy the Shareholder may specify the proportion or number of votes each proxy is appointed to exercise. If such proportion or number of votes is not specified each proxy may exercise half of the Shareholder's votes. A proxy may, but need not be, a Shareholder of the Company.

If a Shareholder appoints a body corporate as the Shareholder's proxy to attend and vote for the Shareholder at that meeting, the representative of the body corporate to attend the meeting must produce the Certificate of Appointment of Representative prior to admission. A form of the certificate may be obtained from the Company's share registry.

You must sign this form as follows in the spaces provided:

Joint Holding: where the holding is in more than one name all of the holders must sign.

Power of Attorney: if signed under a Power of Attorney, you must have already lodged it with the registry, or alternatively, attach a certified photocopy of the Power of Attorney to this Proxy Form when you return it.

Companies: a Director can sign jointly with another Director or a Company Secretary. A sole Director who is also a sole Company Secretary can also sign. Please indicate the office held by signing in the appropriate space.

If a representative of the Company is to attend the Meeting the appropriate "Certificate of Appointment of Representative" should be produced prior to admission. A form of the certificate may be obtained from the Company's Share Registry.

Proxy Forms (and the power of attorney or other authority, if any, under which the Proxy Form is signed) or a copy or facsimile which appears on its face to be an authentic copy of the Proxy Form (and the power of attorney or other authority) must be deposited at or received by facsimile transmission at the Perth office of the Company (420 Roberts Road, Subiaco WA 6008 or Facsimile (08) 9380 2112 if faxed from within Australia or +618 9380 2112 if faxed from outside Australia) not less than 48 hours prior to the time of commencement of the General Meeting.





Salinas  
Energy Limited