

22nd June 2011

RECOMMENDATION
Speculative Buy

12 month price target	\$0.69
12 month volume	284m
12 month share low	A\$0.09
12 month share high	A\$0.47

Market Risk	High
Liquidity Risk	Medium
Infrastructure Risk	Medium
Country Risk	Medium

IRESS & DJC Research

ISSUED CAPITAL

ASX	NEN
Share price	\$0.41
Mkt cap ¹	\$177m
Ordinary shares on issue	431m
Unlisted Options ²	28.9m

¹ Undiluted *Source: IRESS*
² Various dates and strike prices

DIRECTORS

Alan Stein	Non Exec Chairman
Ken Charsinsky	Managing Director
John Lander	Non Exec Director

Source: NEN

MAJOR SHAREHOLDERS

UBS AG	16%
BlueGold Global Fund	15%

Source: IRESS

12 MONTH PERFORMANCE



Source: IRESS

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Neon Energy Ltd (NEN)

Lighting it Up

NEN is a junior oil and gas company with its principal assets located onshore California in the U.S and offshore Vietnam. NEN's North San Ardo field (NSA) provides solid cashflow and near term production upside while the offshore Vietnam blocks (105 and 120) provide substantial exploration blue-sky potential. In addition, we believe the upside potential of NEN's appraisal and exploration assets in the U.S (Paris Valley and Paloma Deep) have been under-rated by the market to date. On a risk reward basis, we believe NEN is an attractive Speculative Buy offering a well balanced portfolio of assets.

Key Points:

- Vietnam Offers Company Making Potential (50% NEN):** NEN identified the resource potential of offshore Vietnam at an early stage securing 2 attractive exploration permits (blocks 105 and 120). The quality of NEN's acreage has been supported by major energy companies such as ExxonMobil and Chevron holding nearby permits with ExxonMobil planning to commence a 3 well program adjacent to Block 120 in 2Q 2011. More recently, global oil and gas consultancy Netherland Sewell and Associates Inc (NSAI) has identified over 6tcf of gas potential in block 105 and 2.7bnbbbls of oil potential in Block 120. NEN plans to farm-out both blocks but still hold a material stake before commencing a 3 well exploration drilling program in 1Q 2012.
- California Assets Provide Value Outside of Vietnam:** NEN's onshore Paloma Deep prospect located in the prolific San Joaquin Basin California has an unrisksed resource potential of 300mmboe (total of 7 prospective zones). Future success would result in NEN trading at multiples of its current share price. In addition, MHA Petroleum Consultants Inc (MHA) has independently assessed NEN's Paris Valley field to hold 2P reserves potential of 9mmbbbls oil. NEN plans to drill the Paloma Deep prospect and appraise the Paris Valley field during 2H 2011.
- North San Ardo Field Provides Solid Cashflow:** More recently, NEN announced the successful completion of the Lombardi 20-27H and Lombardi 21-27H horizontal development wells at its 100% owned North San Ardo (NSA) field. The combined production rate is an encouraging 700bopd. The addition of the two development wells has resulted in the total NSA field producing over 1000bopd, providing solid cashflow.
- Many Near Term Catalysts:** Near term catalysts include: 1) ExxonMobil exploration drilling offshore Vietnam (2Q 2011), 2) Paloma Deep drilling in California (3Q 2011), 3) Paris Valley drilling (3Q 2011), 4) Farm-out of offshore Vietnam Blocks (4Q 2011) and 5) Exploration drilling offshore Vietnam (1Q 2012).
- We maintain our Speculative Buy recommendation and price target of \$0.69/sh.** Our current valuation includes a 2P (proved and probable) reserves full field life modelling of the producing North San Ardo field and an Expected Monetary Value (EMV) of NEN's appraisal and exploration prospects.

Company Overview

NEN is a junior oil and gas company with its principal assets located onshore California in the U.S and offshore Vietnam. NEN's North San Ardo field (NSA) provides steady cashflow and near term production upside while NEN's Vietnam exploration acreage offers big oil and gas potential. NEN has successfully executed a strategy of acquiring a balance of producing and lower risk appraisal assets whilst securing an early stage entry into high impact exploration acreage.

NEN's planned work program during the 2nd half of 2011 will focus on a farm-out of its 2 Vietnam blocks (105 and 120), high impact drilling of the Paloma Deep exploration prospect (300mboe) and further exploration, appraisal and development drilling in the Salinas Basin. We believe these activities will drive share price momentum going forward.

Capital Structure

NEN currently has 430.8m shares on issue and based on a price of \$0.40/sh has a market cap of ~\$170m. At the end of the Mar Q, NEN had \$11.5m in cash and no debt. NEN was successful in raising \$26m (at \$0.25/sh) in March 2011 and has received \$12m of this in the Mar Q. The remaining balance (second tranche) was received in the June Q.

U.S Assets

Salinas Basin

North San Ardo (NSA) field Provides Solid Cashflow (100% NEN)

NEN is operator and 100% equity owner in the NSA oil field, located in the Salinas Basin, onshore California. NSA is situated immediately to the north of the giant San Ardo field, which has produced approximately 500mmbbls of heavy crude oil. San Ardo is operated by Chevron and Aera.

NEN commenced first production from NSA in late 2006. The field produced ~300bopd during the first half of FY11 and provides steady cashflow to fund operating and corporate costs. Due to the heavy oil (high viscosity) nature of the field, NEN has recently employed a secondary recovery technique called cyclic steaming to arrest production decline and enhance ultimate recovery. This has resulted in production increases in 3 wells to date. An additional development well (Lombardi 15-27H) was also drilled in 4Q 2010. Both of these activities have led to a significant increase in 1Q 2011 production with NEN reporting an average production rate of 467bopd vs 303bopd in DecQ 2010 (54% increase). Historically, heavy oil such as that produced from the NSA field sells at a ~20% discount to WTI. However, more recently oil from the NSA field has fetched a price exceeding WTI. At the end of fiscal year 2010, the NSA field had 2P (Proved and Probable) reserves of 3.8mmbbls.

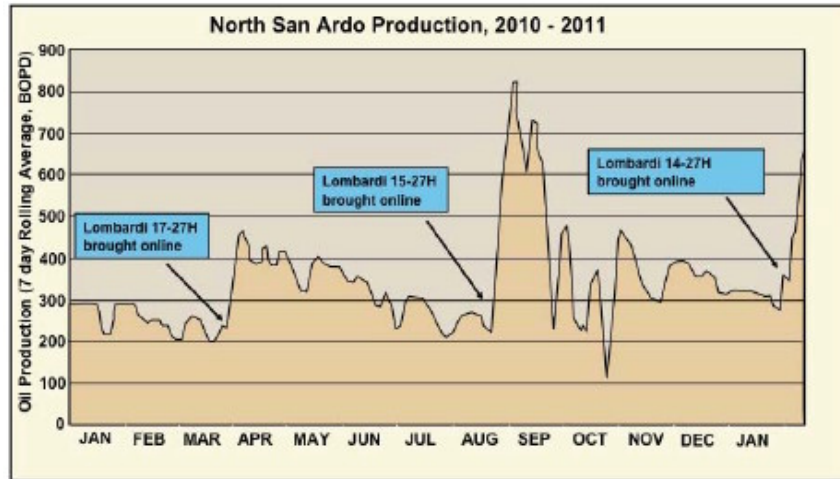


Figure 1: NSA Production History

Source: NEN

NEN has recently announced the successful completion of the Lombardi 20-27H and Lombardi 21-27H horizontal development wells at its 100% owned North San Ardo (NSA) field. The combined production rate is an encouraging 700bopd. The addition of the two development wells has resulted in the total NSA field producing over 1000bopd. This compares very favourably to the MarQ average production of 467bopd. However, the rate of decline of these wells are quite sharp (current estimates are 50% per annum). Hence, more production data is required to estimate the long term impact on the field production rate.



Figure 2: North San Ardo field

Source: NEN

An Overview of Cyclic Steaming

Cyclic steam stimulation is an enhanced oil recovery technique used in heavy oil reservoirs where viscosity limits the flow of oil at commercial rates. The aim of cyclic steaming is to thin the oil sufficiently so it will more easily move through the formation.

The methodology of cyclic steam stimulation involves the injection of a pre-calculated amount of steam into the well which is then shut-in. This allows the steam to heat the producing formation which thins the oil. Following sufficient heating, the well is placed back into production. This process is repeated until production rates become uneconomic.

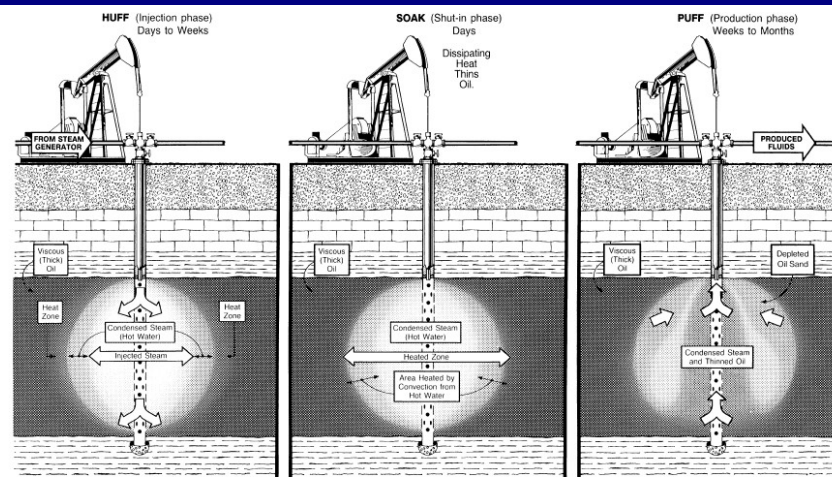


Figure 3: Cyclic Steaming

Source: National Inst. for Petroleum and Energy research

Paris Valley Field Holds over 9mmbbls of 2P Reserves (100% NEN)

In addition to the NSA field, NEN holds a 100% interest in the Paris valley field (acquired late 2009) which is also located in the Salinas Basin. The Paris Valley field is the second largest heavy oil field discovered in the Salinas Basin and has seen little commercial activity in the past few decades. The field was shut-in in 1979 despite the fact that over 120,000bbls oil had been produced with flow rates of up to 141bopd from individual wells being achieved. This was due to low oil prices at the time.

MHA Petroleum Consultants Inc (MHA) has independently assessed the 2P reserves potential of the field to be 9.13mmbbls (July 2010). This assumes a 22 well steam flood development and horizontal drilling. However it is estimated the field has over 100mmbbls oil in place (California Division of Oil, Gas and Geothermal Resources estimates). Hence, if NEN can achieve a recovery rate in excess of ~10% which is currently assumed, the 2P reserves potential could be substantially higher.

Shortly after acquiring the field, NEN drilled the North Paris Valley 1 appraisal well (NPV-1) to a total depth of 320m and encountered 2 oil bearing reservoir sections. Analysis of the North Paris Valley (NPV-1) well has shown that a gross 135ft (41m) oil column is present. However, a follow up well test of NPV-1 did not deliver commercial production rates. This was due to the viscous nature of the oil and the geological conditions which inhibited the flow of steam into the reservoir formation.

The focus going forward will be to the Central Paris Valley section which has been delineated by over 30 wells as opposed to the northern section of the field in which NPV-1 was drilled (only 10

wells drilled previously). Appraisal drilling is expected during 2H 2011 combining horizontal drilling and cyclic steaming.

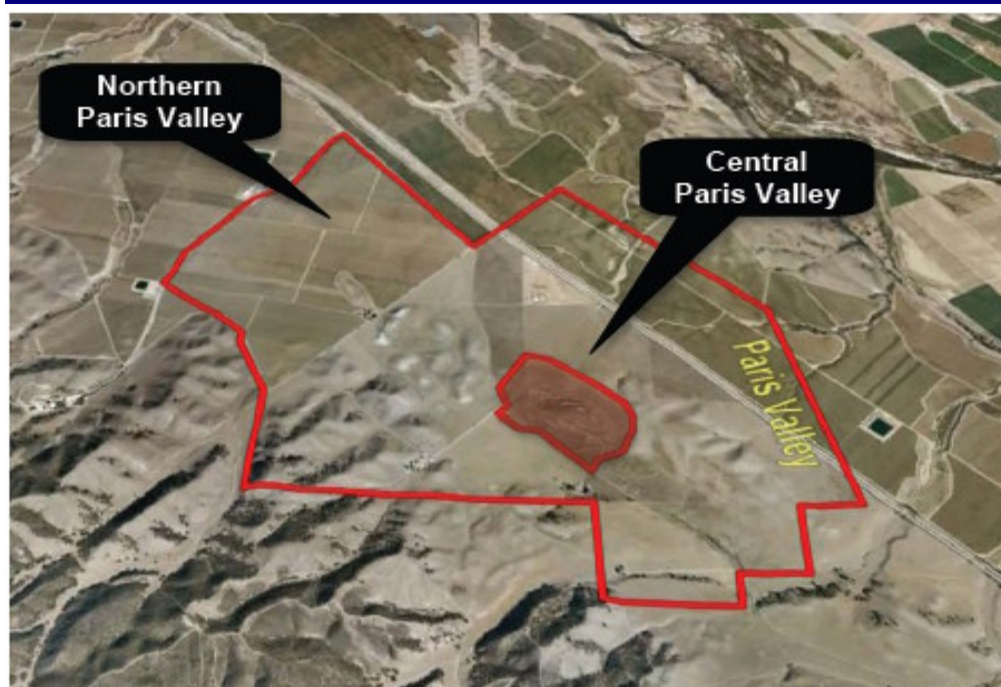


Figure 4: Paris Valley Field

Source: NEN

San Joaquin Basin

Paloma Area Provides Significant Upside Potential (100% NEN)

The Paloma area is located in the prolific San Joaquin Basin. The leases cover the northwest extent of the large Paloma oil and gas field, which has produced some 60 million barrels of light oil and over 400 billion cubic feet of gas.

NEN's key prospect within the field is the Paloma Deep prospect. The Paloma Deep prospect has an unrisks resource potential of 300mmboe (total of 7 targets) and provides the opportunity to target up to 7 potential reservoir sections with a single vertical well. The Lower Stevens reservoir section already produces in the field and new conventional target formations have recently been identified. These include additional potential pay in the main reservoir and the Round Mountain formation (supported by a seismic amplitude anomaly). The Paloma Deep prospect also has unconventional shale potential.

Future success would have NEN trading at multiples of its current share price. NEN plans to farm-down from its current interest of 87.5% before exploration drilling in 3Q 2011. The planned well depth is 4000m to 5000m with gross well costs of \$US3.3m.

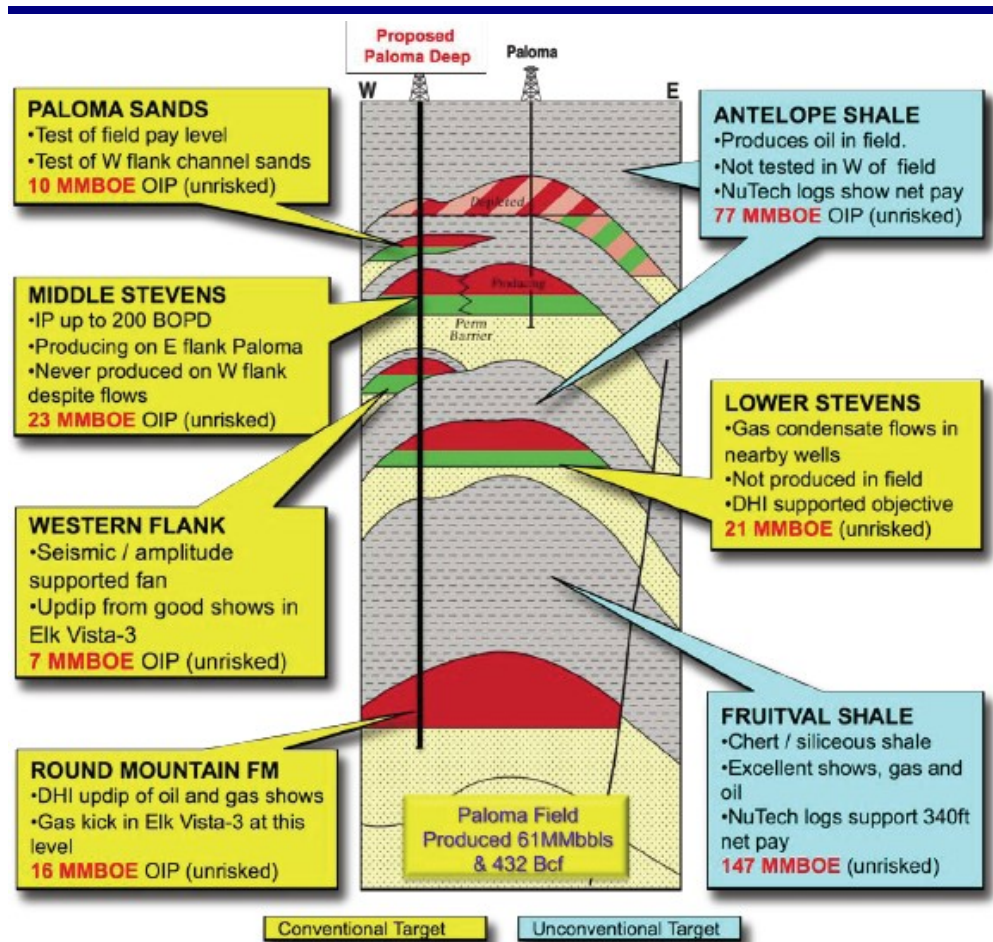


Figure 5: Paloma Deep Prospect

Source: NEN

Guijarral Hills Prospect Tests Negative (15% NEN)

The Guijarral Hills prospect (San Joaquin Basin) commenced drilling in late February targeting mapped extensions of 4 oil reservoirs that have previously produced in the area and had a pre-drill estimate of 5mmbbls oil. It was thought to be a discovery based on initial analysis (wireline and mudlogs). However, production testing results were negative with no commercial indications of oil or gas. The Joint Venture is currently considering whether to suspend the well for possible future re-entry. We have attributed no value to the Guijarral Hills prospect. ASX listed Solimar Energy Ltd (SGY) is operator of the field with NEN holding a 15% interest post farm-out to Blast Energy Services in February 2011. NEN's total exposure to the well was estimated to be less than \$US350,000.

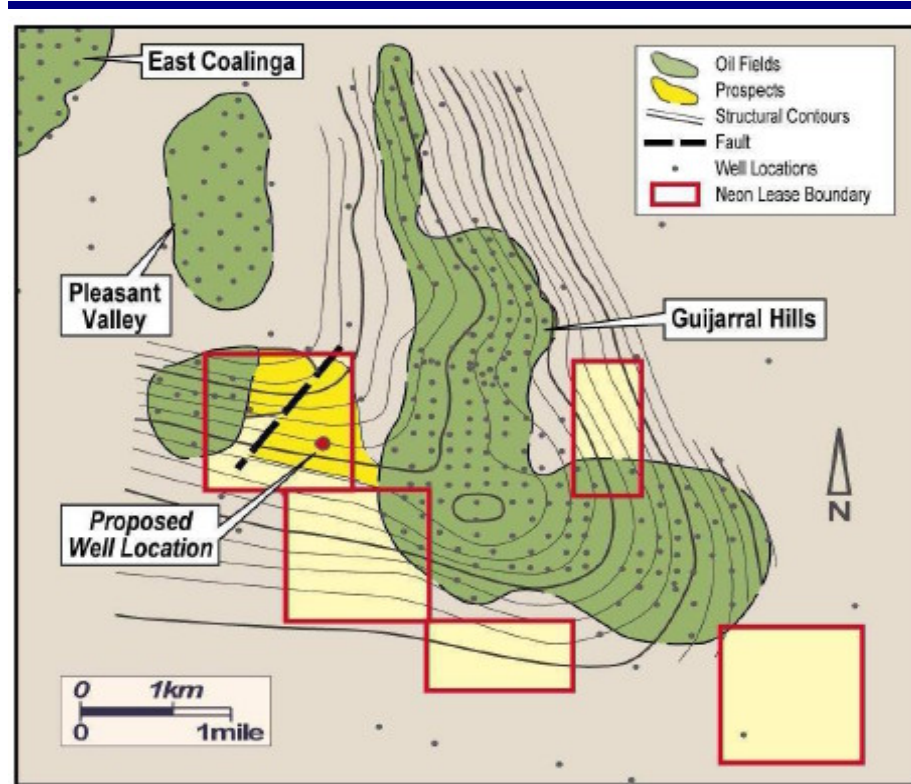


Figure 6: Gujarral Hills

Source: SGY

Demonstrated Deal-flow

The recent California asset sale (February 2011) by private oil and gas producer Nations Petroleum (Nations) to U.S listed Occidental Petroleum (OXY) has highlighted the potential value of onshore producing assets located in California. OXY is estimated to have paid US\$500m for the purchase of Nations operating assets in Kern County California. Production at the time was estimated at 4,000bopd which implies a value of US\$125,000 per producing barrel. NEN's most recent production update following the successful completion of the Lombardi 20-27H and Lombardi 21-27H horizontal development wells had the NSA field producing over 1,000bopd. Assuming the same valuation metrics for the Nations and OXY deal, NSA could have a value of US\$125m. However, it is important to note that the scale of the Nations assets and NEN's NSA field are on different playing fields given the estimated 2P reserves of Nations assets were estimated at ~80mmbbls oil compared to the NSA 2P reserves of 3.8mmbbls oil.

Vietnam

Company Making Potential

NEN holds a 50% interest in two prospective exploration blocks offshore Vietnam (Blocks 120 and 105). Block 120 covers an area of 8,469 square kilometres in water depths of 50m to 1,100m. 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 32 metre section of oil shows (including a 6metre oil column), demonstrating the presence of an active petroleum system. Block 105 is located in the central Song Hong Basin and covers an area of some 7,192 km² in water depths of 20 to 80 metres. Although there are a number of discoveries nearby within the same sedimentary basin, Block 105 has seen very little

exploration activity.

Independent Resource Assessment Highlights Big Oil and Gas Potential

NSAI has estimated that Block 105 has the potential to hold prospective resources of over 6tcf of gas and 46mmbbls of condensate (best estimate, unrisks). NEN has identified two leading candidates in the block which include Cua Lo and Song Ca-1. Cua Lo is estimated to hold ~3.9tcf gas and 29mmbbls condensate (best estimate, unrisks). The Song Ca-1 lead is estimated to hold ~536bcf gas and ~4mmbbls condensate (best estimate, unrisks). However, Song Ca-1 also has the potential for oil and in this case could hold ~130mmbbls oil (best estimate, unrisks).

PRIMARY CASE							
Lead	Interval	Low Estimate		Best Estimate		High Estimate	
		Gas (BCF)	Condensate (MMBBL)	Gas (BCF)	Condensate (MMBBL)	Gas (BCF)	Condensate (MMBBL)
Lead 1	4.0 Ma	17.9	0.1	60.9	0.4	163.5	1.5
Lead 1	5.5 Ma	71.2	0.4	242.8	1.7	737.5	5.7
Lead 1	16.5 Ma	54.7	0.3	232.6	1.6	712.8	6.4
Lead 2	4.0 Ma	15.2	0.1	49.1	0.4	133.4	1.1
Lead 3	4.0 Ma	12.1	0.1	41.6	0.3	118.6	1.1
Lead 4	4.0 Ma	930.9	5.2	3,463.3	26.4	12,655.2	104.2
Lead 4	5.5 Ma	129.8	0.7	429.5	3.0	1,314.4	11.0
Lead 5	5.5 Ma	35.2	0.2	128.0	0.9	443.3	3.7
Lead 5	6.5 Ma	100.4	0.6	362.7	2.7	1,178.9	10.2
Lead 5	9.2 Ma	81.7	0.4	296.0	2.1	917.4	7.2
Lead 6	5.0 Ma	91.2	0.5	283.7	2.0	801.9	6.9
Lead 7	7.0 Ma	175.7	1.0	678.6	4.8	2,243.1	18.6
Total		1,716.0	9.7	6,268.9	46.3	21,420.0	177.9

ALTERNATE CASE							
Lead	Interval	Low Estimate		Best Estimate		High Estimate	
		Gas (BCF)	Oii ⁽¹⁾ (MMBBL)	Gas (BCF)	Oii ⁽¹⁾ (MMBBL)	Gas (BCF)	Oii ⁽¹⁾ (MMBBL)
Lead 1	4.0 Ma	-	3.9	-	16.3	-	50.5
Lead 1	5.5 Ma	-	9.1	-	42.8	-	133.4
Lead 1	16.5 Ma	-	13.6	-	70.7	-	224.7
Lead 2	4.0 Ma	-	2.5	-	13.4	-	40.5
Lead 3	4.0 Ma	-	2.5	-	12.3	-	38.7
Lead 4	4.0 Ma	930.9	5.2	3,463.3	26.4	12,655.2	104.2
Lead 4	5.5 Ma	129.8	0.7	429.5	3.0	1,314.4	11.0
Lead 5	5.5 Ma	35.2	0.2	128.0	0.9	443.3	3.7
Lead 5	6.5 Ma	100.4	0.6	362.7	2.7	1,178.9	10.2
Lead 5	9.2 Ma	81.7	0.4	296.0	2.1	917.4	7.2
Lead 6	5.0 Ma	91.2	0.5	283.7	2.0	801.9	6.9
Lead 7	7.0 Ma	175.7	1.0	678.6	4.8	2,243.1	18.6
Total		1,544.9	40.3	5,641.9	197.4	19,554.1	649.7

Totals may not add because of rounding.

⁽¹⁾ The oil volumes shown include both crude oil and condensate.

Figure 7: Block 105 Independent Resource Assessment

Source: NEN

NSAI has estimated Block 120 could hold prospective resources of ~2.7nbbls of oil (best estimate, unrisks). Two high ranking leads have been identified on the block which includes Rua Bien (611mmbbls oil, best estimate, unrisks) and Ca Lang (460mmbbls oil, best estimate, unrisks). The oil potential of Block 120 is significant given the easier path to commercialisation of oil as opposed to gas. In addition, current gas prices are low in Vietnam (however over the next 5 years prices are forecast to reach ~US\$7/mcf) and a Liquefied Natural Gas (LNG) development is unlikely in the near term given Vietnam's growing gas demand.

Lead	Interval	Unrisked Gross (100%) Prospective Resources (MMBBL)		
		Low Estimate	Best Estimate	High Estimate
Lead 1	8.2 Ma	82.7	361.8	1,074.5
Lead 2	8.2 Ma	20.7	100.7	310.4
Lead 3	16.5 Ma	52.7	215.9	628.1
Lead 4	16.5 Ma	26.7	110.5	323.1
Lead 5	10.5 Ma	87.5	269.7	702.5
Lead 5	23 Ma	16.1	80.3	255.5
Lead 5	25 Ma	22.1	110.6	353.1
Lead 6	8.2 Ma	7.8	38.0	117.3
Lead 7	8.2 Ma	6.0	29.0	89.3
Lead 8	8.2 Ma	10.7	51.9	160.3
Lead 9	8.2 Ma	10.0	48.4	147.8
Lead 10	5.5 Ma	152.6	575.0	1,613.1
Lead 10	6.5 Ma	3.7	18.2	55.8
Lead 10	8.2 Ma	3.8	18.0	55.3
Lead 11	8.2 Ma	11.4	55.0	169.7
Lead 12	23 Ma	37.0	187.4	599.2
Lead 12	25 Ma	81.3	403.3	1,291.9
Arithmetic Sum		632.8	2,673.5	7,947.0

Totals may not add because of rounding

Figure 8: Block 120 Independent Resource Assessment

Source: NEN

Concerns have recently emerged on the security of NEN's Vietnam offshore leases due to a recent confrontation between a Vietnamese seismic vessel and a Chinese patrol vessel over the jurisdictional sovereignty of large tracts of the South China Sea. NEN believes there is no risk to its offshore leases and forward activity program as Block 105 is located in an undisputed area while Block 120 only has a portion of the block located in an area which has been under a longstanding dispute between the two countries. In any case, NEN has limited all activity and reporting to the undisputed area of Block 120.

Looking forward, NEN plans to drill 3 wells across its 2 offshore Vietnam permits (2 wells in block 105 and 1 well in block 120) commencing in early 2012. The majority of funding to execute the drilling program is expected from a farm-out of its blocks in which NEN currently holds a 50% share. In the nearer term, ExxonMobil plans to drill up to 3 wells in 3 blocks adjacent to NEN's block 120. Any discovery during ExxonMobil's drilling campaign will be value accretive to NEN. In addition, a potential success will also benefit NEN in negotiating favourable farm-out terms of its two blocks. However, we would like to highlight that information flow on Exxon's drilling program could be limited due to the high materiality cut-off Exxon applies to exploration discoveries before an announcement needs to be made.



Figure 9: NEN's Offshore Vietnam Blocks (105 & 120)

Source: NEN

High Quality Joint Venture Partner in KrisEnergy

The remaining 50% share of blocks 105 and 120 is held by KrisEnergy. KrisEnergy is an independent upstream oil and gas company, which was established in September 2008 to create value across a diversified portfolio of assets in South East Asia, where increasing primary energy consumption is underpinned by healthy economic growth.

KrisEnergy's strengths lie in the long-standing experience of its people who each have a proven track record of technical excellence in the discovery, appraisal, development and production of hydrocarbon resources.

In June 2009, KrisEnergy became a portfolio company of U.S.-based private equity energy specialists, First Reserve Corporation. Under the shareholder agreement, First Reserve Fund XII, L.P. will commit up to US\$500 million of equity capital to fund acquisitions and the operations of KrisEnergy.

Exclusive Geoscience Database

NEN holds an exclusive geoscience database covering a substantial amount of the South East Asia region. Having high quality data at its disposal enables NEN to effectively and efficiently assess new venture opportunities providing a significant competitive advantage. The ownership of this database was a key factor in NEN acquiring the Vietnam blocks at an early stage.

Valuation

Valuation	A\$m	A\$/sh
North San Ardo	68	0.15
Exploration & Appraisal	234	0.52
Other	3	0.01
Cash	12	0.03
Corporate	(10)	(0.02)
Debt	0	0.00
Price Target	306	0.69

Figure 10: NEN Valuation

Source: DJC Estimates

Our price target of \$0.69/sh is built on the following key assumptions:

- Our current valuation includes a 2P (proved and probable) reserves full field life modelling of the producing North San Ardo (NSA) field. We have assumed a 50% annual decline rate on both new and existing wells. We have also assumed 2 development wells are drilled each year until the end of 2013. From 2014 until the end of 2016, we have assumed 1 development well is drilled per year. Our estimated initial production rate per development well is 300bbls/d oil. A production royalty rate of 22% has been applied.
- We have used a 10% discount rate for our NPV calculation of the NSA field.
- Our key development cost assumptions for the NSA field are that each well is completed for \$0.8m and a facilities expansion cost of \$1.5m is capitalised during 2H 2011.
- We have assumed an average oil price of US\$100/bbl for the remainder of 2011 with our long term oil price assumption (in Real Term 2011 terms) being US\$95/bbl. Due to the heavy oil nature of the NSA field, the oil price received has historically been at a ~20% discount to WTI. However more recently NEN has received an oil price exceeding WTI. In order to be conservative, we have assumed NEN receives an oil price in line with WTI until 1Q 2012 and thereafter a 20% discount to WTI.
- An Expected Monetary Value (EMV) of NEN's exploration prospects in California and offshore Vietnam has been calculated. Importantly, we have only included 3 exploration prospects across NEN's offshore Vietnam acreage and have not included all the leads identified in the NSAI report. This is based on the assumption that NEN plans to drill only 3 wells in 2012 and any program beyond this scope will require further funding and more detailed technical studies.

Catalysts

We have identified the following near terms catalysts for NEN.

- ExxonMobil exploration drilling offshore Vietnam (2Q 2011)
- Paloma Deep drilling in California (3Q 2011)
- Paris Valley drilling (3Q 2011)
- Farm-out of offshore Vietnam Blocks 105 and 120 (4Q 2011)
- Exploration drilling offshore Vietnam (1Q 2012)

Risks

We have highlighted the following key risks for NEN below.

- **Geological Risk.** The NSA producing oil field only accounts for \$0.15/sh of our \$0.69/sh price target. Hence, the majority of our valuation for NEN is made up of appraisal and exploration. Therefore, NEN is exposed to the standard geological risk of being able to find, appraise and develop a commercial resource.
- **Negative ExxonMobil drilling results.** Negative results from ExxonMobil's 2011 drilling program could lead to negative sentiment towards NEN's share price.
- **Funding risks.** We have assumed that the majority of NEN's 2012 offshore Vietnam drilling program is funded by a future farm-out of Blocks 105 and 120. If NEN is unsuccessful in securing an attractive farm-out of its blocks to fund drilling, NEN would need to secure funding via other means (e.g. capital raising) which would lead to equity dilution.
- **Drilling Risks.** Offshore drilling is a high cost, complex and high risk operation. This has been demonstrated recently by the Macondo incident.
- **Geopolitical risks.** As NEN operates internationally, geopolitical risks such as changes in fiscal regimes, safety and environmental approvals and other legislative changes could impact NEN's planned activities. This has been highlighted by the recent concerns over the security of NEN's offshore Vietnam leases due to the ongoing dispute between Vietnam and China over the jurisdictional sovereignty of large tracts of the South China Sea.
- **Challenges of Gas Developments.** Developing gas resources can be quite complex due to infrastructure, processing and marketing requirements. Hence execution risks (increases in schedule, Capex overruns etc.) can materialise. It is therefore more desirable for any potential discoveries offshore Vietnam to be oil as opposed to gas.
- **Commodity risk.** Significant variations in oil and gas prices can impact market sentiment towards the share price.

Recommendation

NEN offers attractive exposure to a diversified asset base. NEN's early stage entry into Vietnam offers high impact exploration potential which is unique for an ASX listed oil and gas company of its size.

NEN's assets in the U.S provide an attractive mix of producing, appraisal and exploration upside which will be targeted in the near term. Hence, there is a substantial amount of potential value beyond Vietnam which could be realised. Furthermore, management has delivered on its recent targets which has built a foundation of goodwill with the market going forward. We believe NEN is a stand-out Speculative Buy in the small-cap oil and gas space underpinned by a producing asset, high quality appraisal and exploration acreage and an active 12 month forward program.

Directors

Non- Executive Chairman – Alan Stein

- Dr Stein is a petroleum geologist with a broad range of international experience. He was a founder and Director of IKODA Limited, a petroleum exploration consultancy based in London and Perth.
- Together with the other shareholders of IKODA Alan was founder and Director of FIL Resources Limited and a founder and Managing Director of AIM-listed Fusion Oil & Gas plc.
- Following the sale of Fusion Oil & Gas to Sterling Energy Alan, together with several Fusion colleagues, established Ophir Energy, an oil and gas exploration company focused on Africa of which Alan is presently Managing Director.
- Dr Stein was appointed a Director of the Company on 27 October 2009.

Managing Director - Ken Charsinsky

- Mr Charsinsky has over 32 years of worldwide international E&P experience in both technical and management roles. After receiving an MS Geology degree from Rensselaer Polytechnic Institute, he commenced his career with Cities Service Oil and Gas Company.
- He has subsequently worked for Maxus Energy, CMS (Nomeco) Oil and Gas Company and Noble Energy Inc. He has held several Management positions including assignments as MD in Congo and Tunisia. During his tenure on those projects production was enhanced and exploration discoveries were made, adding significant value. For the past several years, as manager of Noble's International New Ventures group, he was responsible for the acquisition of a number of key strategic assets.
- Mr Charsinsky was appointed a Director of the Company on 27 October 2009.

Non-Executive Director – John Lander

- Mr Lander has over 40 years experience in the international and domestic oil industry and has held a number of directorships in successful oil and gas companies listed in the United Kingdom. He currently holds additional non executive posts in three UK based companies, namely: Canadian North Sea Ltd, Alkane Energy Plc and Ophir Energy Plc.
- Mr Lander was appointed as a Director of the Company on 27 October 2009.

Management

Company Secretary – Gabriel Chiappini

- Mr Chiappini was appointed Company Secretary on 6 April 2010, and is currently Company Secretary for a number of ASX listed companies.
- Mr Chiappini is a Chartered Accountant and member of the Australian Institute of Company Directors.
- He graduated from Edith Cowan University in 1990 with a Bachelor of Business majoring in Finance and Accounting and has worked predominantly in London and Perth with experience in the property, investment banking and biotechnology sectors.

Exploration Manager – Dave Cliff

- Mr Cliff is a Petroleum Geologist with 29 years of exploration experience in the upstream oil and gas industry.
- He has worked for Australian and international companies both large and small, from Woodside Petroleum to Bridge Oil.

- More recently he has held the position of Exploration Manager for Hardman Resources and Aminex PLC and in his last role he was Managing Director of Gas Link Global Limited.
- David has been involved in many oil and gas discoveries as a team member and as a manager, which have lead to commercial developments in Australia and overseas.
- David also spent a year working as an oil and gas resource analyst for BBY in Sydney.
- He is a past President of the Petroleum Exploration Society of Australia, a long time member of the American Association of Petroleum Geologists and a graduate member of the Australian Institute of Company Directors.

Chief Financial Officer – Ben Newton

- M Mr Newton is a CPA with over 15 years experience in the resources sector in Australia. Before joining the oil industry in 1998 he held several accounting roles in the mining sector.
- His oil and gas industry experience includes senior finance roles with Eni Australia and Amity Oil Ltd. In 2003 Ben joined Oceaneering Australia (a subsidiary of the US oilfield services company) as Financial Controller where he was responsible for all of the financial and corporate affairs of the company in Australia.
- From 2005 to mid 2010 Ben served as Managing Director for Oceaneering Australia.

Business Development Manager – Alan Sherrard

- M Mr Sherrard received an MSc in Petroleum Geophysics from Imperial College, London in 1984.
- He was a founding shareholder in the company which evolved into Paradigm Geophysical and held various technical roles within that company. In 1991 he joined WMC Petroleum in Perth as a geophysicist and worked on Timor Sea, Carnarvon Basin and Kupe Basin projects.
- He rejoined Paradigm Geophysical as Technical Services Manager for Southeast Asia in 1997, consulting on and supervising projects in Malaysia, Indonesia, Vietnam, Japan and India. Alan was a co-founding director of the Oil Hunters geophysical consultancy in 2000.

Commercial Manager – Iain Smith

- After working offshore as geologist and geophysicist on drilling rigs and seismic vessels respectively, Mr Smith completed an MSc in Petroleum Geology and Geophysics at Imperial College London.
- He subsequently joined the New Ventures team of Premier Oil in London, where he worked on the technical and commercial evaluation of E&P opportunities in the Far East, Latin America and Africa.
- Iain went on to spend ten years in sales and general management roles within the geophysical technology sector (Landmark and Paradigm) in the UK, Australia and India, before joining Woodside Energy's Exploration & New Ventures group in a commercial role in 2006.
- After three years at Woodside, including a stint on the Browse LNG Project, Iain joined Neon in late 2008.

Neon Energy Ltd (NEN)

\$0.41

PROFIT & LOSS	(\$Am)	2010A	2011F	2012F	2013F	2014F
Revenue		7.4	17.5	24.7	22.4	28.2
Other Income		0.2	0.0	0.0	0.0	0.0
Operating Costs		2.6	3.1	4.1	4.5	5.7
Exploration Expense		0.0	0.0	0.0	0.0	0.0
Corporate		4.3	3.4	3.3	3.3	3.4
Royalty		1.5	3.9	5.4	4.9	6.2
Other Expense		0.0	0.0	0.0	0.0	0.0
EBITDA		-0.9	7.2	11.9	9.6	12.9
Depreciation & Amortisation		1.4	2.8	4.1	4.6	5.2
EBIT		-2.3	4.4	7.8	5.0	7.7
Interest (Expense)		0.0	0.0	0.0	0.0	0.0
Profit before Tax		-2.3	4.4	7.8	5.0	7.7
Tax (Expense) benefit		0.0	0.0	0.0	0.0	0.0
FX Adjustment		-1.7	0.0	0.0	0.0	0.0
NPAT		-4.0	4.4	7.8	5.0	7.7
Abnormal Items		0.0	0.0	0.0	0.0	0.0
Normalised NPAT		-4.0	4.4	7.8	5.0	7.7

CASHFLOW	(\$Am)	2010A	2011F	2012F	2013F	2014F
Adjusted Net Profit		-4.0	4.4	7.8	5.0	7.7
+ Interest/Tax/Expl Exp		0.0	0.0	0.0	0.0	0.0
- Interest/Tax/Expl Inc		1.3	0.0	5.2	0.0	0.0
+ Depn/Amort		2.0	2.8	4.1	4.6	5.2
+/- Other		-1.4	-3.9	0.0	0.0	0.0
Operating Cashflow		-4.7	3.2	6.7	9.6	12.9
- Capex (+asset sales)		2.5	5.5	2.3	1.6	1.6
- Working Capital Increase		0.0	0.0	0.0	0.0	0.0
+/- Other		1.5	-2.5	0.0	0.0	0.0
Free Cashflow		-8.7	0.2	4.4	8.0	11.3
- Dividends (ords & pref)		0.0	0.0	0.0	0.0	0.0
+ Equity raised		5.3	24.7	0.0	0.0	0.0
+ Debt drawdown (repaid)		-0.1	0.0	0.0	0.0	0.0
Net Change in Cash		-3.4	24.9	4.4	8.0	11.3
Cash at End Period		1.8	26.8	31.2	39.2	50.5
Net Cash/(Debt)		1.8	26.8	31.2	39.2	50.5

BALANCE SHEET	(\$Am)	2010A	2011F	2012F	2013F	2014F
Cash		1.8	26.8	31.2	39.2	50.5
Total Assets		46.8	73.2	81.0	86.0	93.6
Total Debt		0.0	0.0	0.0	0.0	0.0
Total Liabilities		5.2	27.2	27.2	27.1	27.1
Shareholders Funds		41.6	46.0	53.8	58.8	66.5

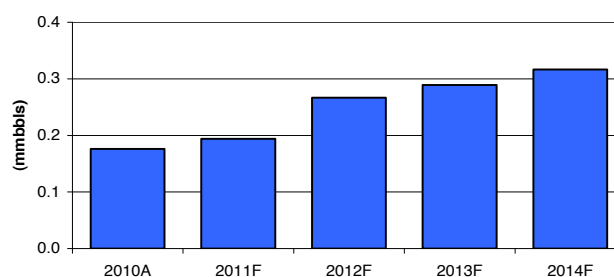
Substantial Shareholders	%
UBS AG	16%
BlueGold Global Fund	15%

PRICE ASSUMPTIONS	Unit	2010A	2011F	2012F	2013F
Oil	US\$/bbl	79.80	100.00	95.00	95.00
Exchange Rate (AUS: USD)		0.92	1.00	1.00	1.00

2P RESERVES

Reserves - Net NEN	Oil/Cond (mmbbl)	Gas (bcf)	Total (mboe)
2P Reserves			
North San Ardo	3.8	0.0	3.8
Paris Valley	9.1	0.0	9.1
Total Group	12.9	0.0	12.9

PRODUCTION PROFILE



VALUATION

DCF - NPV @ 10%	A\$m	\$/sh
North San Ardo	68.2	0.15
Exploration and Appraisal	233.1	0.52
Other	3.2	0.01
Corporate	-9.9	-0.02
Cash	11.5	0.03
Debt	0.0	0.00
Valuation (AU)		0.69

Valuation Sensitivity	-10%	0%	+10%
Oil Price Sensitivity (A\$/sh)	0.66	0.69	0.71
Exchange Rate Sensitivity (A\$/sh)	0.70	0.69	0.68

Corporate Summary

NEN is a junior oil and gas company with its principal assets located onshore California in the U.S and offshore Vietnam. NEN's North San Ardo field (NSA) provides steady cashflow and near term production upside while NEN's Vietnam exploration acreage offers big oil and gas potential.

Disclosure**RCAN0943**

This Research report, accurately expresses the personal view of the Author.

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Declaration

The Authors of this report made contact with **NEN** in this report for assistance with verification of facts, access to industry/company information. No inducements have been offered or accepted by the companies.

The recommendation made in this report is valid for four weeks from the stated date of issue. If in the event another report has been constructed and released on the companies mentioned in this report, the new recommendation supersedes this and therefore the recommendation in this report will become null and void.

Recommendation Definitions

SPECULATIVE BUY – 10% outperformance, high risk

BUY – 10% or more outperformance

ACCUMULATE - 10% or more is contingent on entry price and suggests exploiting any share price weakness

HOLD – 10% underperformance to 10% over performance

SELL – 10% or more underperformance

Period: During the forthcoming 12 months, at any time during that period and not necessarily just at the end of those 12 months.

Stocks included in this report have their expected performance measured relative to the ASX All Ordinaries index. DJ Carmichael Pty Limited's recommendation is made on the basis of absolute performance. Recommendations are adjusted accordingly as and when the index changes.

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