



ABN: 49 002 796 974

**INTERIM FINANCIAL REPORT  
FOR THE HALF-YEAR ENDED  
30 JUNE 2014**

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## CORPORATE DIRECTORY

<b>DIRECTORS:</b>	Dr Alan Stein Mr Kenneth Charsinsky Mr John Lander	Non-Executive Chairman Managing Director Non-Executive Director
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<b>SECRETARY:</b>	Gabriel Chiappini	Company Secretary
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<b>REGISTERED OFFICE:</b>	88 Colin Street West Perth Western Australia, 6005
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<b>TELEPHONE:</b>	(61 8) 9481 1176
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<b>FACSIMILE:</b>	(61 8) 9481 7720
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<b>SHARE REGISTER:</b>	Computershare Investor Services Pty Ltd Level 2, Reserve Bank Building 45 St Georges Terrace Perth Western Australia, 6000
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GPO Box D182  
Perth  
Western Australia, 6840  
Telephone: 1300 557 010  
International: (61 8) 9323 2000  
Facsimile: (61 8) 9323 2033

<b>BANKERS:</b>	Westpac Bank Limited
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<b>AUDITORS:</b>	EY
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<b>STOCK EXCHANGE:</b>	Australian Stock Exchange Limited Code: NEN – Fully paid ordinary shares
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## DIRECTORS' REPORT

The Directors of Neon Energy Limited present the financial statements of Neon Energy Limited and its controlled entities ("the Group", "Neon" or "the consolidated entity") for the half-year ended 30 June 2014 and in accordance with a resolution of the Directors report as follows:

### DIRECTORS AND EXECUTIVES

The Directors and Executives of Neon Energy Limited during the reporting period and up to the date of this report were:

#### Directors

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

All Directors and Executives held their position from 1 January 2014 to the date of this report, unless otherwise indicated.

### REVIEW OF OPERATIONS

#### EMERGING FROM A CHALLENGING PERIOD

The half-year ended 30 June 2014 was a challenging period for the Company. The disappointing exploration results in Vietnam were compounded by significant well cost overruns incurred by Operator Eni Vietnam B.V. Neon Energy was fully carried up to a total cost cap of US\$45 million for the two wells, and was in a position to fund its 25% share of the additional US\$7.3 million as required by the Operator's original budgets; plus a contingency amount in case of any reasonable cost overrun. The final, total well costs for the Ca Ngu-1 and Cua Lo-1 wells were in excess of \$150 million. Non-payment of cash calls in February 2014 resulted in Eni putting Neon in to default for an amount of US\$22.1 million, plus ongoing G&A costs which were accruing.

Neon Energy's financial position at that time, plus a short delay in the sale of the Company's Californian assets, limited the Company's ability to fund its share of the Tanjung Aru 3D seismic program, offshore Indonesia. As a result, Operator KrisEnergy issued a default notice to Neon Energy and subsequently the Company agreed to assign its interest in the project to KrisEnergy, in return for a full release from any past and future liability.

The sale of Neon Energy's Californian assets resulted from the Company's appointment of Roth Capital Partners to explore various options to realise value from the Californian asset portfolio. The review process determined that the significant capital investment required to achieve a material return on investment would be more prudently deployed in capturing high potential exploration assets elsewhere, consistent with the Company's stated strategy. As a result, Neon Energy executed a Purchase & Sale Agreement with a major Californian exploration and production company, for the sale of the Company's Californian assets with a purchase price of US\$26.95 million. The transaction completed within the reporting period and the net sale proceeds were remitted to the Company.

Subsequent to the Californian divestment, and to the reporting period, Neon executed a Deed of Settlement & Assignment with Eni and KrisEnergy, in relation to its interests and associated financial liabilities in Block 120 and Block 105-110/04. In exchange for a full release of all past and future liability, Neon Energy has paid US\$5.75 million subsequent to 30 June 2014, and agreed to assign any net proceeds from the Cua Lo-1 insurance claim (if settled) to Eni and KrisEnergy.

## DIRECTORS' REPORT

### POSITIONED FOR RENEWED GROWTH

Having settled its financial liabilities relating to the Vietnam drilling program, Neon Energy is well funded to embark on a period of renewed growth. In general the junior oil & gas sector is currently experiencing a downturn, with limited availability of capital. For a well-funded company such as Neon Energy this provides an excellent environment and opportunity to develop a portfolio of oil & gas assets, offering substantive upside at relatively low cost, through a combination of corporate activity and organic, new ventures growth.

The Company was awarded a new exploration block, offshore Western Australia, in May 2014. Block WA-503-P is located inboard of the giant Northwest Shelf gas field complex, and on trend with numerous oil and gas discoveries. Neon Energy is confident that the application of new seismic technology will generate renewed exploration interest in the area, and has identified four exploration leads based on existing 3D seismic data; the largest of which has potential for over 100 MMbbls oil in place. Acquisition of a "broadband" 3D seismic program is anticipated by early 2015.

Neon Energy has implemented significant cost cutting measures during the reporting period, including closure of the Bakersfield office, staff redundancies, and salary reductions for executive management. Overall these measures have achieved a 65% reduction in corporate overheads, to some US\$2.5 million per annum. The Directors regard the current level headcount and corporate overheads as being appropriate, given the Company's current focus on growth through business development.

### FINANCIAL SUMMARY

As a result of the disposal of assets during the financial half-year ended 30 June 2014, a number of the Company's projects have been classified as discontinued operations. The change in classification also affects reporting for the comparative period being the half-year ended 30 June 2013.

The profit for the financial half-year ended 30 June 2014 amounted to \$12,508,585 (2013: \$5,404,178). At 30 June 2014 the Group has net assets of \$22,206,938 (31 December 2013: \$12,640,173) and cash assets of \$23,329,835 (31 December 2013: \$9,700,017).

### SHARE CAPITAL

At 30 June 2014 the Company's share capital consisted of 553,037,848 ordinary shares. A balance of 2,000,000 unlisted options and 39,762,680 performance rights were outstanding. During the half-year ended 30 June 2014, the Company issued 34,078,862 performance rights under the performance rights plan and approved at a meeting of shareholders on 30 May 2014.

### SUBSEQUENT EVENTS

As announced to the ASX on 12 August 2014, Neon settled its dispute with Operator Eni Vietnam B.V., regarding the Company's US\$22.1 million liability in relation to cost overruns on the Block 120 and Block 105-110/04 drilling program. In return for a full release from all past and future liability, Neon has made a total cash payment of US\$5.75 million, and agreed to assign any net proceeds from the Cua Lo-1 insurance claim (settlement pending) to Eni and KrisEnergy.

On 5<sup>th</sup> September 2014, the company received a Proportional Takeover Offer from Evoworld Corporation Pty Ltd and associates (Evoworld). Evoworld announced it intends to make an all cash proportional off-market takeover offer for 30% of the fully paid ordinary shares of Neon which Evoworld and its associates do not currently own. The offer price is 3.5 cents per share.

On 9<sup>th</sup> September 2014, the company received a notice issued under Section 249D of the Corporations Act from Evoworld Pty Ltd and associates (Evoworld). The notice requires that the Directors call a general

## DIRECTORS' REPORT

meeting of shareholders within twenty one days of the date of receiving the notice and that the general meeting of shareholders is held within two months from the date of receiving the notice.

### AUDITORS INDEPENDENT DECLARATION

Section 307C of the Corporations Act 2001 requires our auditors, EY, to provide the Directors of Neon Energy with an Independence Declaration in relation to the audit of the attached Financial Statements. This Independence Declaration is attached to this Directors' Report and forms part of this Directors' Report.

This report has been made in accordance with a resolution of Directors.

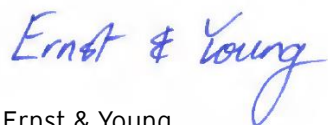
**KENNETH CHARSINSKY**

A handwritten signature in dark ink, appearing to read 'K. Charsinsky', with a long horizontal stroke extending to the right.

Managing Director  
Perth, 12<sup>th</sup> September, 2014

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

In relation to our review of the financial report of Neon Energy Limited for the half-year ended 30 June 2014, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.



Ernst & Young



D S Lewsen  
Partner  
12 September 2014

## DIRECTORS' DECLARATION

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

In the opinion of the directors:

(a) the financial statements and notes of the consolidated entity are in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the half-year ended on that date of the consolidated entity; and

(ii) complying with *Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*;

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

On behalf of the Board

A handwritten signature in black ink, appearing to read 'K. Charsinsky', with a long horizontal stroke extending to the right.

Ken Charsinsky  
Managing Director

Perth, 12<sup>th</sup> September 2014



To the members of Neon Energy Limited

## Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Neon Energy Limited, which comprises the condensed statement of financial position as at 30 June 2014, the condensed statement of comprehensive income, condensed statement of changes in equity and condensed statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

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

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Neon Energy Limited and the entities it controlled during the Half-Year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

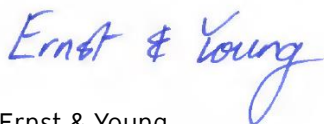
### Independence

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

## Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Neon Energy Limited is not in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the half-year ended on that date; and
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.



Ernst & Young



D S Lewsen  
Partner  
Perth  
12 September 2014

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

### For the 6 months ended 30 June 2014

	Note	6 months ended 30 June 2014 \$	6 months ended 30 June 2013 \$
Other income		36,601	327,636
Corporate and administration expenses		(2,647,357)	(2,357,998)
Finance costs		(3,891)	-
Net (loss)/gain on foreign exchange		(497,976)	376,472
<b>Loss before income tax expense for continuing operations</b>		<b>(3,112,623)</b>	<b>(1,653,890)</b>
Income tax expense		-	-
<b>Loss for the period for continuing operations</b>		<b>(3,112,623)</b>	<b>(1,653,890)</b>
<b>Discontinued operations</b>			
Profit / (Loss) after tax for the period from discontinued operations	11	15,621,208	(928,010)
<b>Profit / (Loss) for the period</b>		<b>12,508,585</b>	<b>(2,581,900)</b>
<b>Other comprehensive income</b>			
<i>Items reclassified subsequently to Profit or Loss:</i>			
Exchange differences on translation of foreign operations		(1,076,089)	7,986,078
Recycle of foreign currency translation reserve of discontinued operations		(2,365,999)	-
<b>Total comprehensive income for the period attributable to members of the parent entity</b>		<b>9,066,497</b>	<b>5,404,178</b>
		<b>Cents</b>	<b>Cents</b>
Basic earnings/(loss) per share		2.26	(0.47)
Diluted earnings/(loss) per share		2.26	(0.47)
Basic loss per share for continuing operations		(0.56)	(0.30)
Diluted loss per share for continuing operations		(0.56)	(0.30)

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

### As at 30 June 2014

	Note	As at 30 June 2014 \$	As at 31 December 2013 \$
<b>CURRENT ASSETS</b>			
Cash	3	23,329,835	9,700,017
Other financial assets	4	5,392,994	1,147,875
Trade and other receivables	5	948,384	1,458,045
Inventories		-	118,086
<b>TOTAL CURRENT ASSETS</b>		<b>29,671,213</b>	<b>12,424,023</b>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		51,500	148,926
Oil and gas properties	9	-	27,358,498
Exploration and evaluation assets	8	100,000	4,765,243
<b>TOTAL NON-CURRENT ASSETS</b>		<b>151,500</b>	<b>32,272,667</b>
<b>TOTAL ASSETS</b>		<b>29,822,713</b>	<b>44,696,690</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	6	1,372,252	838,358
Provisions	7	6,243,523	28,688,701
<b>TOTAL CURRENT LIABILITIES</b>		<b>7,615,775</b>	<b>29,527,059</b>
<b>NON-CURRENT LIABILITIES</b>			
Provisions	7	-	2,529,458
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>-</b>	<b>2,529,458</b>
<b>TOTAL LIABILITIES</b>		<b>7,615,775</b>	<b>32,056,517</b>
<b>NET ASSETS</b>		<b>22,206,938</b>	<b>12,640,173</b>
<b>EQUITY</b>			
Contributed equity		171,571,258	171,571,258
Reserves		5,229,604	8,171,424
Accumulated losses		(154,593,924)	(167,102,509)
<b>TOTAL EQUITY</b>		<b>22,206,938</b>	<b>12,640,173</b>

## CONSOLIDATED STATEMENT OF CASH FLOWS

### For the 6 months ended 30 June 2014

	Note	6 months ended 30 June 2014 \$	6 months ended 30 June 2013 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers		3,976,301	3,887,763
Payments to suppliers and employees		(5,172,342)	(7,106,597)
Interest received		48,729	327,637
Finance costs paid		(3,891)	(19,818)
<b>Net cash flows used in operating activities</b>		<b>(1,151,203)</b>	<b>(2,911,015)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Development expenditure		(75,635)	(1,912,958)
Exploration and evaluation expenditure		(7,686,198)	(1,874,285)
Proceeds from recovery of exploration and evaluation expenditure upon finalisation of ENI S.p.A farm-out		-	6,556,804
Net proceeds from the sale of property, plant and equipment		22,676,632	-
Purchase of property, plant and equipment		-	(19,401)
<b>Net cash used in investing activities</b>		<b>14,914,799</b>	<b>2,111,246</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
<b>Net cash flows from financing activities</b>		<b>-</b>	<b>-</b>
Net increase/(decrease) in cash and cash equivalents		13,763,595	(799,769)
Net foreign exchange differences		(133,877)	667,386
Cash and cash equivalents at beginning of period		9,700,117	20,649,993
<b>Cash and cash equivalents at end of period</b>	3	<b>23,329,835</b>	<b>20,517,610</b>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the 6 months ended 30 June 2014

	Issued Capital \$	Retained Earnings \$	Option & Rights Premium Reserve \$	Foreign Currency Translation Reserve \$	Total Equity \$
<b>At 1 July 2013</b>	<b>170,951,258</b>	<b>(79,801,624)</b>	<b>4,378,507</b>	<b>662,570</b>	<b>96,190,711</b>
Loss for the half year	-	(87,300,885)	-	-	(87,300,885)
Other comprehensive income	-	-	-	2,779,518	2,779,518
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>(87,300,885)</b>	<b>-</b>	<b>2,779,518</b>	<b>(84,521,367)</b>
Shares issued	620,000	-	-	-	620,000
Rights granted	-	-	308,093	-	308,093
Options granted	-	-	42,736	-	42,736
<b>At 31 December 2013</b>	<b>171,571,258</b>	<b>(167,102,509)</b>	<b>4,729,336</b>	<b>3,442,088</b>	<b>12,640,173</b>
<b>At 1 January 2014</b>	<b>171,571,258</b>	<b>(167,102,509)</b>	<b>4,729,336</b>	<b>3,442,088</b>	<b>12,640,173</b>
Profit for the year	-	12,508,585	-	-	12,508,585
Other Comprehensive Income	-	-	-	(3,442,088)	(3,442,088)
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>12,508,585</b>	<b>-</b>	<b>(3,442,088)</b>	<b>9,066,497</b>
Rights granted	-	-	442,110	-	442,110
Options granted	-	-	58,158	-	58,158
<b>At 30 June 2014</b>	<b>171,571,258</b>	<b>(154,593,924)</b>	<b>5,229,604</b>	<b>-</b>	<b>22,206,938</b>

## NOTES TO THE HALF-YEAR FINANCIAL REPORT

### For the 6 months ended 30 June 2014

#### 1. CORPORATE INFORMATION

The financial report of Neon Energy Limited (the Company) for the half-year ended 30 June 2014 was authorised for issue in accordance with a resolution of the directors on 9 September 2014.

Neon Energy Limited is a for profit company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Stock Exchange and is domiciled in Australia.

The nature of the operations and principal activities of the Group are described in the directors' report.

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### Basis of Preparation

The half year financial report is a general purpose condensed financial report prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

The half year financial report does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2013 together with any public announcements made by Neon in accordance with the continuous disclosure obligations arising under the ASX Listing Rules.

##### *New standards, interpretations and amendments adopted by the Group*

The accounting policies adopted in the preparation of the half year financial report are consistent with those followed in the preparation of the Group's annual financial report for the year ended 31 December 2013.

Several new standards and amendments apply for the first time in 2014. However, they do not impact the financial performance or position of the annual consolidated financial statements of the Group or the interim condensed consolidated financial statements of the Group.

The carrying values of financial assets and liabilities approximate their fair values.

For the purpose of preparing the half-year financial report, the half-year has been treated as a discrete reporting period.

The Group has not yet early adopted any standard, interpretation or amendment that has been issued, but not yet effective.

## NOTES TO THE HALF-YEAR FINANCIAL REPORT

### For the 6 months ended 30 June 2014

#### 3. CASH

	30 June 2014	31 December 2013
	\$	\$
Cash at bank and on hand	23,289,835	9,700,017
	<u>23,329,835</u>	<u>9,700,017</u>

#### 4. OTHER FINANCIAL ASSETS

Short term deposits	1,100,781	1,147,875
Escrowed funds(i)	4,292,213	-
	<u>5,392,994</u>	<u>1,147,875</u>

- (i) The escrowed funds are held in an escrow account as surety against Neon Energy's warranties to the purchaser of its Californian assets. The escrow account will be released to Neon Energy twelve months following the closing date of the purchase and sale agreement. The directors fully expect that the whole of the escrowed amount will be released to the company at the conclusion of the escrow period.

#### 5. TRADE AND OTHER RECEIVABLES

Trade debtors (i)	645,479	905,124
Prepayments	97,101	105,880
Interest receivable	-	12,128
Receivable from joint operations	-	63,359
Research and development grant receivable	167,569	335,563
Other receivables	38,235	35,991
	<u>948,384</u>	<u>1,458,045</u>

- (i) Neon is currently acting as the agent operator on behalf of the buyer of the US assets until the task of operatorship transfer is complete.

#### 6. TRADE AND OTHER PAYABLES

Trade creditors – unsecured (i)	1,315,832	641,538
Accruals and other expenses	56,420	196,820
	<u>1,372,252</u>	<u>838,358</u>

- (i) Trade creditors are non-interest bearing and are normally settled on 30 day terms.

#### 7. PROVISIONS (CURRENT)

Joint operations claims – Vietnam Block 105 and 120 (i)	6,104,034	26,098,263
Employee benefits	139,489	243,746
Restoration and rehabilitation	-	2,346,692
	<u>6,243,523</u>	<u>28,688,701</u>

#### PROVISIONS (NON-CURRENT)

Restoration and rehabilitation	-	2,529,458
	<u>-</u>	<u>2,529,458</u>

- (i) As announced to the ASX on 12 August 2014, Neon settled its dispute with Operator Eni Vietnam B.V., regarding the Company's US\$22.1 million dispute in relation to cost overruns on the Block 120 and Block 105-110/04 drilling program. In return for a full release from all past and future claims and liabilities, Neon has made a total cash payment of US\$5.75 million, and agreed to assign any net proceeds from the Cua Lo-1 insurance claim (settlement pending) to Eni and KrisEnergy. Prior period comparatives have been re-classified from trade and other payables to provisions to better reflect the nature of the item.



## NOTES TO THE HALF-YEAR FINANCIAL REPORT

### For the 6 months ended 30 June 2014

#### 8. EXPLORATION AND EVALUATION ASSETS

	30 June 2014	31 December 2013	30 June 2013
	\$	\$	\$
<b>Opening Balance</b>	<b>4,765,243</b>	<b>49,478,077</b>	<b>41,734,784</b>
Foreign exchange differences	(684,171)	2,180,234	4,029,287
Disposal of exploration and evaluation assets	(3,109,868)	-	-
Current period expenditure	7,695,124	33,093,025	3,950,534
Rehabilitation adjustment	-	(48,878)	(208,001)
Relinquished exploration assets	(6,463,160)	-	-
Impairment of exploration and evaluation assets	(2,103,168)	(79,910,287)	(1,599)
Depreciation of geoscience database	-	(26,928)	(26,928)
<b>Total Exploration and Evaluation assets</b>	<b>100,000</b>	<b>4,765,243</b>	<b>49,478,078</b>

#### 9. OIL AND GAS PROPERTIES

	Plant and Equipment	Development	Total
	\$	\$	\$
<b>Opening Balance at 1 January 2014</b>	<b>7,159,928</b>	<b>20,198,570</b>	<b>27,358,498</b>
Foreign exchange differences	(333,037)	(560,240)	(893,277)
Additions	75,635	1,084	76,719
Amortisation	-	(329,972)	(329,972)
Depreciation	(192,779)	-	(192,779)
Disposal of oil and gas properties	(6,709,747)	(19,309,442)	(26,019,189)
<b>Total oil and gas properties at 30 June 2014</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Opening Balance at 1 July 2013</b>	<b>7,240,184</b>	<b>26,552,707</b>	<b>33,792,891</b>
Foreign exchange differences	209,140	989,892	1,199,032
Additions	-	267,923	267,923
Transfer	-	(280,978)	(280,978)
Amortisation	-	(592,933)	(592,933)
Depreciation	(289,396)	-	(289,396)
Impairment of oil and gas properties	-	(6,738,041)	(6,738,041)
<b>Total oil and gas properties at 31 December 2013</b>	<b>7,159,928</b>	<b>20,198,570</b>	<b>27,358,498</b>

#### 10. SEGMENT REPORTING

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

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

During the reporting period the operating segments have been reviewed following the company selling its assets located in the United States of America and exiting exploration operations in South East Asia (Vietnam and Indonesia).

##### *Accounting policies and inter-segment transactions*

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

## NOTES TO THE HALF-YEAR FINANCIAL REPORT

### For the 6 months ended 30 June 2014

#### 10. SEGMENT REPORTING (continued)

##### Major customers

The Group had one customer to which it provides all of the oil and gas produced being Phillips 66 Company. Sales to Phillips 66 Company of \$3,071,177 (Jun 2013: \$4,016,446) made up 100% (June 2013:100%) of the Group's oil sales.

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

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

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

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

	Half-year ended 30 June 2014			
	Discontinued operations		Continuing operations	
	USA	SEA	Corporate	Total
	\$	\$	\$	\$
Oil Sales	3,071,177	-	-	3,071,177
Interest Received	-	-	29,168	29,168
Other Income	-	-	7,433	7,433
<b>Segment Revenue/Income</b>	<b>3,071,177</b>	<b>-</b>	<b>36,601</b>	<b>3,107,778</b>
Operating expenses	(1,528,963)	-	-	(1,528,963)
Royalty payments	(675,659)	-	-	(675,659)
Depreciation and amortization	(522,751)	-	(11,986)	(534,737)
Impairment expense	-	(2,103,168)	-	(2,103,168)
Gain on disposal of assets	2,018,051	-	-	2,018,051
Gain on exiting joint ventures	-	16,168,850	-	16,168,850
Other income	13,406	-	(498,031)	(484,625)
Corporate and administration	(780,343)	(39,392)	(2,639,207)	(3,458,942)
<b>Segment Result</b>	<b>1,594,918</b>	<b>14,026,290</b>	<b>(3,112,623)</b>	<b>12,508,585</b>
	Half-year ended 30 June 2013			
	Discontinued operations		Continuing operations	
	USA	SEA	Corporate	Total
	\$	\$	\$	\$
Oil Sales	4,016,446	-	-	4,016,446
Interest Received	-	-	327,637	327,637
Other Income	-	-	-	-
<b>Segment Revenue/Income</b>	<b>4,016,446</b>	<b>-</b>	<b>327,637</b>	<b>4,344,083</b>
Operating expenses	(2,537,561)	-	-	(2,537,561)
Royalty payments	(868,321)	-	-	(868,321)
Depreciation and amortization	(703,970)	-	(50,942)	(754,912)
Impairment expense	(1,599)	-	-	(1,599)
Other income	-	-	358,579	358,579
Corporate and administration	(757,414)	(38,827)	(2,325,928)	(3,122,169)
<b>Segment Result</b>	<b>(852,419)</b>	<b>(38,827)</b>	<b>(1,690,654)</b>	<b>(2,581,900)</b>

## NOTES TO THE HALF-YEAR FINANCIAL REPORT

### For the 6 months ended 30 June 2014

#### 11. DISCONTINUED OPERATIONS

During the 6 months to 30 June 2014, the company announced transactions that have resulted in many of the company's operations being classified as discontinued operations. The discontinued operations have been grouped into the same reporting segments as per the Segment Reporting note – being the United States of America and South East Asia. Discontinued operations disclosures were deemed appropriate when Neon:

- executed a Sale and Purchase Agreement during the period for the disposal of all the producing and exploration interests owned by Neon in the USA which completed for accounting purposes on 1 May 2014; and
- exited from its South East Asian operations through the settled disposal of Tanjung Aru in Indonesia and the receipt of notices of default and withdrawal by its joint venture partners in Vietnam during the period.

	30 June 2014	30 June 2013
	\$	\$
<i>United States of America</i>		
Revenue	3,071,177	4,016,446
Cost of sales	(2,727,373)	(4,109,852)
Gross Profit	343,804	(93,406)
Other Income	13,406	(17,892)
Net gain on sale of assets	2,018,051	-
Corporate and administration expenses	(780,343)	(768,595)
Finance costs	-	(7,691)
Profit / (Loss) before income tax	1,594,918	(889,183)
Tax expense	-	-
Profit / (Loss) after tax for the period from a discontinued operation	1,594,918	(889,183)
<i>South East Asia</i>		
Revenue	-	-
Cost of sales	-	-
Gross Profit	-	-
Other Income	-	-
Impairment of exploration and evaluation assets	(2,103,168)	-
Corporate and administration expenses	(39,392)	(38,827)
Gain on exiting joint ventures	16,168,850	-
Profit / (Loss) before income tax	14,026,290	(38,827)
Tax expense	-	-
Profit / (Loss) after tax for the period from a discontinued operation	14,026,290	(38,827)
	Cents	Cents
Basic earnings/loss per share of discontinued operations	2.82	(0.17)
Dilutive earnings/loss per share of discontinued operations	2.82	(0.17)

## NOTES TO THE HALF-YEAR FINANCIAL REPORT

### For the 6 months ended 30 June 2014

#### 11. DISCONTINUED OPERATIONS (CONTINUED)

	30 June 2014
	\$
<i>United States of America</i>	
Operating cash flows	993,746
Investing cash flows	22,600,997
Financing cash flows	(22,194,790)
<i>South East Asia</i>	
Operating cash flows	(39,392)
Investing cash flows	(7,586,198)
Financing cash flows	7,384,021

#### 12. SHARE BASED PAYMENTS

During the 6 months ended 30 June 2014, the Company issued 34,078,862 performance rights under the performance rights plan. For the 6 months period the company has recognised \$13,375 as an expense in the Statement of Comprehensive Income. The performance rights issued to key management personnel vest in two tranches (1 March 2015 and 1 December 2015) and are subject to an absolute total shareholder return ("TSR") hurdle, whereby the percentage of rights that vest is determined by the TSR achieved by Neon over the performance period. The valuation of these rights for accounting purposes has been performed using the Monte Carlo Simulation method and has resulted in valuations of \$0.0044 (1 March 2015 tranche) and \$0.0060 (1 December 2015 tranche) per performance right.

For the six month period ended 30 June 2014, the Group has recognised \$486,893, (30 June 2013: \$335,560) of share-based payment transactions expense in the Statement of Comprehensive Income relating to grants made in previous periods. The current period expense includes amounts accelerated on the termination of employment contracts by way of redundancy.

#### 13. CONTRIBUTED EQUITY

At 30 June 2014 the Company's share capital consisted of 553,037,848 ordinary shares. A balance of 2,000,000 unlisted options and 39,762,680 performance rights were outstanding.

During the half-year ended 30 June 2014, the Company issued 34,078,862 performance rights under the Company Performance Rights Plan.

#### 14. DIVIDENDS PAID AND PROPOSED

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

## NOTES TO THE HALF-YEAR FINANCIAL REPORT

### For the 6 months ended 30 June 2014

#### 15. COMMITMENTS AND CONTINGENCIES

	30 June 2014	31 December 2013
	\$	\$
a) Operating lease expenditure contracted for is payable as follows:		
Not later than one year	168,219	268,696
Later than one year but not later than five years	-	21,489
	<u>168,219</u>	<u>290,185</u>
b) Oil and gas exploration lease expenditure contracted for is payable as follows:		
Not later than one year	-	62,677
Later than one year but not later than five years	-	212,568
	<u>-</u>	<u>275,245</u>
c) Exploration commitments		
Not later than one year	1,000,000	4,273,190
Later than one year but not later than five years	550,000	-
	<u>1,550,000</u>	<u>4,273,190</u>

Operating leases are entered into for office premises and equipment. Rental payments are generally fixed, but with inflation escalation clauses applicable at periodic rental reviews. No operating leases contain restrictions on financing or other leasing activities.

In order to maintain current rights of tenure to exploration permits, the consolidated entity has certain obligations to perform minimum exploration work and expend minimum amounts of money. These commitments may be varied as a result of renegotiations, relinquishments, farm-outs, sales or carrying out work in excess of the permit obligations. The above exploration expenditure requirements have not been provided for in the Financial Report and are payable.

#### 16. EVENTS AFTER BALANCE DATE

As announced to the ASX on 12 August 2014, Neon settled its dispute with Operator Eni Vietnam B.V., regarding the Company's US\$22.1 million liability in relation to cost overruns on the Block 120 and Block 105-110/04 drilling program. In return for a full release from all past and future liability, Neon has made a total cash payment of US\$5.75 million, and agreed to assign any net proceeds from the Cua Lo-1 insurance claim (settlement pending) to Eni and KrisEnergy.

On 5<sup>th</sup> September 2014, the company received a Proportional Takeover Offer from Evoworld Corporation Pty Ltd and associates (Evoworld). Evoworld announced it intends to make an all cash proportional off-market takeover offer for 30% of the fully paid ordinary shares of Neon which Evoworld and its associates do not currently own. The offer price is 3.5 cents per share.

On 9<sup>th</sup> September 2014, the company received a notice issued under Section 249D of the Corporations Act from Evoworld Pty Ltd and associates (Evoworld). The notice requires that the Directors call a general meeting of shareholders within twenty one days of the date of receiving the notice and that the general meeting of shareholders is held within two months from the date of receiving the notice.