

**Neon Energy Limited**  
**ACN 002 796 974**

First Supplementary Target's Statement

1 Introduction

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This document is a supplementary target's statement under section 644 of the *Corporations Act 2001* (Cth). It is the first supplementary target's statement (**First Supplementary Target's Statement**) issued by Neon Energy Limited (ACN 002 796 974) (**Neon**) in relation to the proportional off-market takeover bid by Evoworld Corporation Pty Ltd (ACN 601 545 742) (**Evoworld**) for 50% of the fully paid ordinary shares in Neon it doesn't already own. This First Supplementary Target's Statement supplements, and should be read together with, Neon's target's statement dated 4 March 2015 (**Original Target's Statement**).

Unless the context otherwise requires, terms defined in the Original Target's Statement have the same meaning as in this First Supplementary Target's Statement.

2 Supplementary Independent Expert's Report

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Neon engaged BDO Corporate Finance (WA) Pty Ltd (**BDO**) to prepare the Independent Expert's Report on the Offer that was included in the Original Target's Statement as Attachment 1. That report concluded that the Offer was fair and reasonable to Neon Shareholders not associated with Evoworld.

BDO has given Neon a supplementary Independent Expert's Report (**Supplementary Independent Expert's Report**), updating the original Independent Expert's Report as set out in sections 2.1 and 2.2 of the Supplementary Independent Expert's Report.

In the Supplementary Independent Expert's report, **BDO has revised its opinion and, in summary, has concluded that the Offer is neither fair nor reasonable to Neon Shareholders not associated with Evoworld.**

A copy of the Supplementary Independent Expert's Report, containing full details of BDO's revised valuation and conclusion, is included as Attachment 1 to this First Supplementary Target's Statement.

**The Directors encourage Neon Shareholders to read the Supplementary Independent Expert's Report carefully and in full.**

3 Independent Directors' recommendation

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The Independent Directors have carefully considered the Supplementary Independent Expert's Report.

In light of the change in BDO's opinion, **the Independent Directors consider that they can no longer recommend that Neon Shareholders:**

- **accept the Offer; or**
- **vote to approve the Offer at the Proportional Bid Meeting,**

in the absence of a superior proposal and can no longer support the statement in the Original Target's Statement that the Offer represents fair value.

However, Neon Shareholders may still wish to consider the following factors in deciding whether to accept and how to vote:

- Neon Shareholders who accept the Offer will receive the certainty of 3.8 cents in cash per share for 50% of their Neon Shares at a time when there is considerable volatility in the market for shares in oil and gas exploration companies.
- Similarly, the Offer represents an opportunity for Neon Shareholders to sell their Neon Shares in a volatile market. In this regard, the Independent Directors note that the closing price of Neon Shares traded on ASX has not exceeded 3.8 cents since the Offer was announced on 22 December 2014.
- Irrespective of whether Neon Shareholders vote to approve the Offer at the Proportional Bid Meeting, Evoworld, as the largest Neon Shareholder, will exert a considerable influence over the future direction of Neon. There can be no guarantee that Neon will generate a return which is greater than the immediate return offered under the Offer. Accordingly, Neon Shareholders may wish to take the cash offered by Evoworld for 50% of their Shareholding now.

The Independent Directors recommend that Neon Shareholders read the Supplementary Independent Expert's Report carefully and in full, and consult with their professional advisers before deciding whether to accept the Offer and how to vote at the Proportional Bid Meeting.

## 4 Postponement of Proportional Bid Meeting and extension of Offer

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The Independent Directors have resolved to postpone the Proportional Bid Meeting until 10:00am (Perth time) on Wednesday, 25 March 2015 to allow Neon Shareholders to fully consider the Supplementary Independent Expert's Report. The venue for the Proportional Bid Meeting will still be Training Room 2, Conference Centre, QV.1 Building, 250 St Georges Terrace, Perth WA 6000.

The new cut-off time for submitting proxy appointments for the Proportional Bid Meeting is 10:00am (Perth time) on Monday, 23 March 2015.

Neon Shareholders who have already submitted valid proxy forms or electronic proxy appointments and do not wish to change their vote need not take any further action.

Neon Shareholders who wish to change their vote can do so by submitting a replacement proxy form or electronic proxy appointment before the new cut-off time, which will automatically revoke any proxy instructions previously submitted. Similarly, Neon Shareholders who have not already submitted a proxy appointment but wish to do so can submit a proxy form or electronic proxy appointment before the new cut-off time.

**Importantly, Neon Shareholders who have already accepted the Offer but decide that they no longer want the Offer to proceed may decide to vote against the resolution to approve the Offer at the Proportional Bid Meeting.**

If the resolution is not passed, then no transfers can be registered under the Offer and so Evoworld will not be able to complete the acquisition of Neon Shares accepted into the Offer.

Neon Shareholders can submit a proxy appointment as set out above, or vote by the other means set out in the notice convening the Proportional Bid Meeting dated 10 February 2015.

Replacement proxy forms can be obtained from Computershare on 1300 850 505 (within Australia) or +61 3 9415 4000 (outside Australia).

Electronic proxy appointments can be submitted online at [www.investorvote.com.au](http://www.investorvote.com.au). To access, Neon Shareholders should enter the 6-digit control number, being **187669**, together with their HIN/SRN and postcode.

Evoworld has also agreed to extend the closing date of the Offer until 4:00pm (Perth time) on 9 April 2015, to facilitate the postponement of the Proportional Bid Meeting. Evoworld will give notice of this extension in accordance with the Corporations Act shortly.

The revised key dates relating to the Proportional Bid Meeting and the Offer are set out below:

Deadline to submit proxies for Proportional Bid Meeting	10:00am (Perth time) on 23 March 2015
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Proportional Bid Meeting	10:00am (Perth time) on 25 March 2015
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Close of Offer Period (unless further extended or withdrawn)	4:00pm (Perth time) on 9 April 2015
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## 5 Consents

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BDO Corporate Finance (WA) Pty Ltd (ABN 27 124 031 045) consents to the inclusion of the Supplementary Independent Expert's Report as Attachment 1 to this First Supplementary Target's Statement in the form and context in which it appears and to all references to the Supplementary Independent Expert's Report in this First Supplementary Target's Statement in the form and context in which those references appear.

## 6 Other notices

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This First Supplementary Target's Statement prevails to the extent of any inconsistency with the Original Target's Statement.

A copy of this First Supplementary Target's Statement has been lodged with ASIC. Neither ASIC nor any of its officers take any responsibility for its contents.

Signed for and on behalf of Neon following a resolution of the Directors of Neon.

*sign here* ▶ \_\_\_\_\_

*print name* Alan Stein \_\_\_\_\_

*date* ▶ 12 March 2015 \_\_\_\_\_

# Attachment 1

## Supplementary Independent Expert's Report

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**NEON ENERGY LIMITED**  
**Supplementary Independent**  
**Expert's Report**

11 March 2015



## Financial Services Guide

11 March 2015

BDO Corporate Finance (WA) Pty Ltd ABN 27 124 031 045 ('we' or 'us' or 'ours' as appropriate) has been engaged by Neon Energy Limited ('Neon') to provide an independent expert's report on the proposal by Evoworld Corporation Pty Ltd to make a proportional off-market takeover offer for 50% of the shares held by each shareholder in Neon. You will be provided with a copy of our report as a retail client because you are a shareholder of Neon.

### Financial Services Guide

In the above circumstances we are required to issue to you, as a retail client, a Financial Services Guide ('FSG'). This FSG is designed to help retail clients make a decision as to their use of the general financial product advice and to ensure that we comply with our obligations as financial services licensees.

This FSG includes information about:

- ◆ Who we are and how we can be contacted;
- ◆ The services we are authorised to provide under our Australian Financial Services Licence, Licence No. 316158;
- ◆ Remuneration that we and/or our staff and any associates receive in connection with the general financial product advice;
- ◆ Any relevant associations or relationships we have; and
- ◆ Our internal and external complaints handling procedures and how you may access them.

### Information about us

BDO Corporate Finance (WA) Pty Ltd is a member firm of the BDO network in Australia, a national association of separate entities (each of which has appointed BDO (Australia) Limited ACN 050 110 275 to represent it in BDO International). The financial product advice in our report is provided by BDO Corporate Finance (WA) Pty Ltd and not by BDO or its related entities. BDO and its related entities provide services primarily in the areas of audit, tax, consulting and financial advisory services.

We do not have any formal associations or relationships with any entities that are issuers of financial products. However, you should note that we and BDO (and its related entities) might from time to time provide professional services to financial product issuers in the ordinary course of business.

### Financial services we are licensed to provide

We hold an Australian Financial Services Licence that authorises us to provide general financial product advice for securities to retail and wholesale clients.

When we provide the authorised financial services we are engaged to provide expert reports in connection with the financial product of another person. Our reports indicate who has engaged us and the nature of the report we have been engaged to provide. When we provide the authorised services we are not acting for you.

### General Financial Product Advice

We only provide general financial product advice, not personal financial product advice. Our report does not take into account your personal objectives, financial situation or needs. You should consider the appropriateness of this general advice having regard to your own objectives, financial situation and needs before you act on the advice.



### **Fees, commissions and other benefits that we may receive**

We charge fees for providing reports, including this report. These fees are negotiated and agreed with the person who engages us to provide the report. Fees are agreed on an hourly basis or as a fixed amount depending on the terms of the agreement. The fee payable to BDO Corporate Finance (WA) Pty Ltd for this engagement is approximately \$24,000.

Except for the fees referred to above, neither BDO, nor any of its directors, employees or related entities, receive any pecuniary benefit or other benefit, directly or indirectly, for or in connection with the provision of the report.

### **Remuneration or other benefits received by our employees**

All our employees receive a salary. Our employees are eligible for bonuses based on overall productivity but not directly in connection with any engagement for the provision of a report. We have received a fee from Neon for our professional services in providing this report. That fee is not linked in any way with our opinion as expressed in this report.

### **Referrals**

We do not pay commissions or provide any other benefits to any person for referring customers to us in connection with the reports that we are licensed to provide.

### **Complaints resolution**

#### *Internal complaints resolution process*

As the holder of an Australian Financial Services Licence, we are required to have a system for handling complaints from persons to whom we provide financial product advice. All complaints must be in writing addressed to The Complaints Officer, BDO Corporate Finance (WA) Pty Ltd, PO Box 700 West Perth WA 6872.

When we receive a written complaint we will record the complaint, acknowledge receipt of the complaint within 15 days and investigate the issues raised. As soon as practical, and not more than **45 days** after receiving the written complaint, we will advise the complainant in writing of our determination.

### **Referral to External Dispute Resolution Scheme**

A complainant not satisfied with the outcome of the above process, or our determination, has the right to refer the matter to the Financial Ombudsman Service ('FOS'). FOS is an independent organisation that has been established to provide free advice and assistance to consumers to help in resolving complaints relating to the financial service industry. FOS will be able to advise you as to whether or not they can be of assistance in this matter. Our FOS Membership Number is 12561. Further details about FOS are available at the FOS website [www.fos.org.au](http://www.fos.org.au) or by contacting them directly via the details set out below.

Financial Ombudsman Service  
GPO Box 3  
Melbourne VIC 3001  
Toll free: 1300 78 08 08  
Facsimile: (03) 9613 6399  
Email: [info@fos.org.au](mailto:info@fos.org.au)

### **Contact details**

You may contact us using the details set out on page 1 of the accompanying report.





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11 March 2015

The Directors  
Neon Energy Limited  
Level 1, 248 Hay Street  
Subiaco WA 6008

Dear Directors

## SUPPLEMENTARY INDEPENDENT EXPERT'S REPORT

### 1. Introduction

On 22 December 2014, Neon Energy Limited ('Neon' or 'the Company') announced that it had entered into a Bid Implementation Agreement ('BIA') with Evoworld Corporation Pty Ltd ('Evoworld') under which Evoworld agreed to make a proportional off-market takeover offer for 50% of the ordinary shares in Neon not owned by Evoworld ('Offer').

BDO Corporate Finance (WA) Pty Ltd prepared an independent expert report (our 'Report') dated 9 February 2015 which was included in the Notice of Meeting dated 10 February 2015 issued to Shareholders in respect of the proportional takeover bid by Evoworld.

Pursuant to the above, Evoworld issued a Bidder's statement dated 12 February 2015, as required under item 5 in section 633(1) of the Corporations Act 2001 (Cth) ('Act'), in relation its off-market takeover bid to acquire 50% of the ordinary shares in Neon for 3.8 cents per share.

In response to the Bidder's Statement, a Target's Statement dated 4 March 2015 was prepared by the directors of Neon in relation to the Offer and our Report accompanied the Target's Statement. In that Report, we expressed an opinion that the Offer was fair and reasonable to the Neon shareholders not associated with Evoworld.

## 2. Summary and Opinion

### 2.1 Purpose of the report

Our Report was prepared on the basis of the unaudited management accounts for the ten month period ended 31 October 2014, in addition to the audited financial statements for the year ended 31 December 2013 and the reviewed financial statements for the six month period ended 30 June 2014.

In this regard, the Management of Neon (**'Management'**) had provided us with the bank statements for significant accounts and a summary of the cash and bank balance as at 31 December 2014, so as to update the net assets for any significant movements since 31 October 2014.

The Trade and other payables balance as at 31 October 2014 related to the remaining purchase consideration due to the acquirer of Neon's US assets amounting to approximately \$2.2 million. We had considered the same to be outstanding as at 31 December 2014, in the absence of evidence to the contrary. However, based on the Appendix 4E forming a part of the Preliminary Final Report for the year ended 31 December 2014, which was announced by Neon on 27 February 2015, the Trade and other payables as at the same date was extinguished, on account of a payment of US\$1.98 million to the US acquirer.

We have accordingly updated our Report to consider the impact of the revised net assets of Neon, in light of the above and have accordingly prepared a supplementary independent expert's report (**"Supplementary Report"**) to express an opinion as to whether or not the Offer is fair and reasonable to the non associated shareholders of Neon (**"Shareholders"**).

We have highlighted the relevant sections of our Report which have been updated in this Supplementary Report (section 2.3 onwards).

Our Report is to be included in the Supplementary Target's Statement and Notice of Meeting for Neon in order to assist the Shareholders in their decision whether to accept the Offer. Our Supplementary Report should be read in conjunction with Report dated 9 February 2015 and Neon's previous Target's Statement and Supplementary Target's Statement.

### 2.2 Approach

Our Supplementary Report has been prepared having regard to Australian Securities and Investments Commission (**"ASIC"**) Regulatory Guide 111 (**"RG 111"**), 'Content of Expert's Reports' and Regulatory Guide 112 (**"RG 112"**) 'Independence of Experts'.

We have also considered the financial statements for the year ended 31 December 2014, forming a part of Appendix 4E (Preliminary Final Report) and have updated our Supplementary Report accordingly.

In arriving at our opinion, we have assessed the terms of the Offer as outlined in the body of this Supplementary Report. We have considered:

- How the value of a Neon share on a controlling basis compares to the value of the cash consideration of \$0.038 per Neon share subject to the Offer;
- The likelihood of a superior alternative offer being available to Neon;
- Other factors which we consider to be relevant to the Shareholders in their assessment of the Offer; and
- The position of Shareholders should the Offer not proceed.

### 2.3 Opinion

We have considered the terms of the Offer as outlined in the body of this report and have concluded that the Offer is neither fair nor reasonable to Shareholders.

In our opinion the Offer is neither fair nor reasonable. Of particular relevance is the fact that the value of a Neon share under our low, preferred and high scenarios is greater than the value of the cash consideration offered by Evoworld. In our opinion, that limits the potential upside that Shareholders can obtain from continuing to hold Neon shares, given that they receive a cash consideration on accepting the Offer.

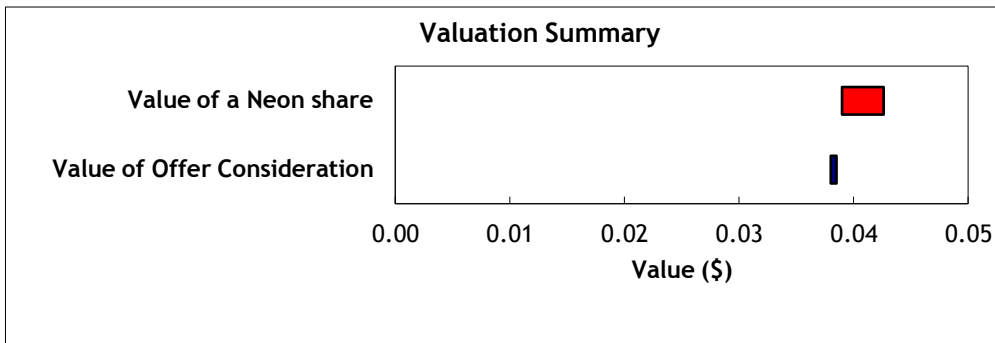
### 2.4 Fairness

In Section 5, we determined that the value of a Neon share on a controlling basis is greater than the value of the Offer Consideration as detailed below.

	Low	Preferred	High
	\$	\$	\$
Value of a Neon share (controlling basis)	0.0390	0.0408	0.0426
Value of Offer Consideration	0.0380	0.0380	0.0380

Source: BDO Analysis

The above valuation ranges are graphically presented below:



The above pricing indicates that the Offer is not fair for Shareholders.

### 2.5 Reasonableness

We have considered the analysis in Sections 6 of this report, in terms of both

- advantages and disadvantages of the Revised Offer; and
- other considerations, including the position of Shareholders if the Offer does not proceed and the consequences of not approving the Offer.

In our opinion, the position of Shareholders if the Offer is successful is less advantageous than the position if the Offer is not successful. Accordingly, in the absence of any other relevant information we believe that the Offer is not reasonable for Shareholders.

The respective advantages and disadvantages considered are summarised below:

ADVANTAGES AND DISADVANTAGES			
Section	Advantages	Section	Disadvantages
6.1.1	Shareholders have the opportunity to realise their investment with certainty	6.2.1	The Offer is not fair
6.1.2	Shareholders would continue to have exposure to 50% of any potential upside from the future prospects of the Company	6.2.2	If the Offer is accepted, Shareholders' exposure to Neon's assets will be diluted
		6.2.3	Shareholders will be unable to benefit completely from the potential upside of Company's future projects
		6.2.4	Shareholders may face potential tax implications
		6.2.5	Evoworld is not offering a premium to the Company's quoted market price ('QMP') as evidenced by the fact that the Offer Consideration is lower than the QMP
		6.2.6	Evoworld's lack of experience with regard to oil and gas exploration

Other key matters we have considered include:

Section	Description
6.3	Alternative Proposal
6.4	The practical level of control
6.5	Consequences of not approving the Offer

### 3. Financial statements of Neon

#### 3.1 Historical Balance Sheet

In our Report, we had considered the financial position of Neon as at 31 October 2014 based on the unaudited management accounts and as at 30 June 2014 and 31 December 2013 respectively. However, as discussed in section 2.1, we have prepared the Supplementary Report on the basis of the financial position of Neon as at 31 December 2014, based on Appendix 4E shown below:

Statement of Financial Position	Unaudited as at 31-Dec-14 \$	Reviewed as at 30-Jun-14 \$	Audited as at 31-Dec-13 \$
<b>CURRENT ASSETS</b>			
Cash	15,694,912	23,329,835	9,700,017
Other financial assets	6,041,072	5,392,994	1,147,875
Trade and other receivables	209,311	948,384	1,458,045
Inventories	-	-	118,086
<b>TOTAL CURRENT ASSETS</b>	<b>21,945,295</b>	<b>29,671,213</b>	<b>12,424,023</b>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	8,826	51,500	148,926
Oil and gas properties	-	-	27,358,498
Exploration and evaluation assets	100,000	100,000	4,765,243
<b>TOTAL NON-CURRENT ASSETS</b>	<b>108,826</b>	<b>151,500</b>	<b>32,272,667</b>
<b>TOTAL ASSETS</b>	<b>22,054,121</b>	<b>29,822,713</b>	<b>44,696,690</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	75,259	1,372,252	838,358
Provisions	181,172	6,243,523	28,688,701
<b>TOTAL CURRENT LIABILITIES</b>	<b>256,431</b>	<b>7,615,775</b>	<b>29,527,059</b>
<b>NON-CURRENT LIABILITIES</b>			
Provisions	-	-	2,529,458
<b>TOTAL LIABILITIES</b>	<b>256,431</b>	<b>7,615,775</b>	<b>32,056,517</b>
<b>NET ASSETS</b>	<b>21,797,690</b>	<b>22,206,938</b>	<b>12,640,173</b>
<b>EQUITY</b>			
Issued capital	171,571,258	171,571,258	171,571,258
Reserves	3,356,032	5,229,604	8,171,424
Accumulated losses	(153,129,600)	(154,593,924)	(167,102,509)
<b>TOTAL UNIT HOLDERS EQUITY</b>	<b>21,797,690</b>	<b>22,206,938</b>	<b>12,640,173</b>

Source: Neon's audited financial statements as at 31 December 2013, reviewed financial statements as at 30 June 2014 and Appendix 4E for the year ended 31 December 2014

We have not undertaken a review of Neon's Preliminary Final Report forming a part of Appendix 4E as at 31 December 2014 in accordance with Australian Auditing and Assurance Standard 2405 'Review of

Historical Financial Information' and do not express an opinion on this financial information. However from the procedures we have performed nothing has come to our attention as a result of our procedures that would suggest the financial information within the management accounts has not been prepared on a reasonable basis.

Please refer section 5.3 of our Report for a detailed commentary on the financial position of Neon.

### 3.2 Historical Statement of Comprehensive Income

Statement of Comprehensive Income	Unaudited 31-Dec-14 12 months	Reviewed 30-Jun-14 6 months	Audited 31-Dec-13 12 months
<b>Revenue</b>	<b>3,140,819</b>	<b>-</b>	<b>9,706,546</b>
<b>Cost of sales</b>			
Operating expenses	(1,529,148)	-	(5,063,848)
Royalty payments	(675,659)	-	(2,000,536)
Depreciation and amortisation expense	(522,751)	-	(1,586,299)
<b>Gross profit</b>	<b>413,261</b>	<b>-</b>	<b>1,055,863</b>
<b>Expenses</b>			
Impairment of exploration and evaluation assets	(2,103,168)	-	(79,911,886)
Impairment of oil and gas properties	-	-	(6,738,041)
Corporate and administration expenses	(7,368,667)	(2,647,357)	(6,492,738)
Plug and abandon costs	-	-	(3,116,697)
Finance costs	(66,611)	(3,891)	(58,930)
Net (loss)/gain on foreign exchange	1,844,203	(497,976)	-
Net loss on sale of assets - USA	1,056,564	-	(3,556)
Net gain on disposal of assets - Vietnam	20,123,019	-	-
<b>Other income</b>	<b>74,308</b>	<b>36,601</b>	<b>897,773</b>
<b>Loss from continuing operations before income tax</b>	<b>13,972,909</b>	<b>(3,112,623)</b>	<b>(94,368,212)</b>
Income tax benefit/(expense)	-	-	4,485,427
<b>Loss from continuing operations after income tax</b>	<b>13,972,909</b>	<b>(3,112,623)</b>	<b>(89,882,785)</b>
<b>Discontinued operations</b>			
Profit/(Loss) after tax for the period from discontinued operations	-	15,621,208	-
<b>Profit/(Loss) for the period</b>	<b>13,972,909</b>	<b>12,508,585</b>	<b>(89,882,785)</b>
<b>Other comprehensive income</b>			
Exchange differences on translation of foreign operations	-	(1,076,089)	10,765,596
Foreign currency translation reserve of discontinued operations	-	(2,365,999)	-
<b>Total comprehensive income</b>	<b>13,972,909</b>	<b>9,066,497</b>	<b>(79,117,189)</b>

Source: Neon's audited financial statements as at 31 December 2013, reviewed financial statements as at 30 June 2014 and Appendix 4E for the year ended 31 December 2014

Please refer section 5.4 of our Report for a detailed commentary on the operating performance of Neon.

## 4. Valuation of Neon

### 4.1 Net Asset valuation of Neon

The value of Neon assets on a going concern basis is reflected in our valuation below:

Statement of Financial Position	Note	Unaudited as at		Preferred value	High value
		31-Dec-14	Low value		
		\$	\$	\$	\$
<b>CURRENT ASSETS</b>					
Cash	1	15,694,912	14,326,456	14,326,456	14,326,456
Other financial assets		6,041,072	6,041,072	6,041,072	6,041,072
Prepayments	2	-	783,917	783,917	783,917
Trade and other receivables		209,311	209,311	209,311	209,311
<b>TOTAL CURRENT ASSETS</b>		<b>21,945,295</b>	<b>21,360,756</b>	<b>21,360,756</b>	<b>21,360,756</b>
<b>NON-CURRENT ASSETS</b>					
Property, plant and equipment		8,826	8,826	8,826	8,826
Exploration and evaluation assets	3	100,000	650,000	1,630,000	2,650,000
<b>TOTAL NON-CURRENT ASSETS</b>		<b>108,826</b>	<b>658,826</b>	<b>1,638,826</b>	<b>2,658,826</b>
<b>TOTAL ASSETS</b>		<b>22,054,121</b>	<b>22,019,582</b>	<b>22,999,582</b>	<b>24,019,582</b>
<b>CURRENT LIABILITIES</b>					
Trade and other payables		75,259	75,259	75,259	75,259
Provisions	4	181,172	377,261	377,261	377,261
<b>TOTAL CURRENT LIABILITIES</b>		<b>256,431</b>	<b>452,520</b>	<b>452,520</b>	<b>452,520</b>
<b>TOTAL LIABILITIES</b>		<b>256,431</b>	<b>452,520</b>	<b>452,520</b>	<b>452,520</b>
<b>NET ASSETS</b>					
Shares on issue (number)	5	553,037,849	553,037,849	553,037,849	553,037,849
Value per share (\$)		0.0394	0.0390	0.0408	0.0426

We have been advised that there has not been a significant change in the net assets of Neon since 31 December 2014 other than the redundancy payment made to all remaining Neon employees, whose individual employment contracts were terminated. Those employees terminated included the Managing Director, Ken Charsinsky.

The following adjustments were made to the net assets of Neon as at 31 December 2014 in arriving at our valuation.

#### Note 1: Cash assets

During the period between 31 December 2014 to the date of this Supplementary Report, there has been a decrease in the cash balance of Neon on account of the redundancy payments made in relation to the employment contracts of all remaining Neon employees being terminated effective 31 January 2015, and the advance payment made to CGG Services SA ('CGG') towards the contract to acquire seismic data.



Cash assets		\$
Cash balance at 31 December 2014		15,694,912
Less: Redundancy payments made		(584,539)
Less: Payment to CGG towards the seismic contract		(783,917)
<b>Adjusted cash balance</b>		<b>14,326,456</b>

#### Note 2: Prepayment to CGG

During the quarter ended 31 December 2014, Neon awarded a contract to CGG towards acquisition of seismic data. The Company subsequently made a payment of US\$620,000 towards the contract and expects the acquisition to be completed in the latter part of Q1FY15. We have accordingly considered this as a prepayment for services pending to be provided as at the date of this Supplementary Report. Also, we have considered an average USD/AUD rate of 0.7909 for the year to date, amounting to approximately \$784k.

#### Note 3: Valuation of Neon's petroleum interest in WA-503-P

We instructed SRK Consulting (Australasia) Pty Ltd ('SRK') to provide an independent market valuation of the exploration asset held by Neon. SRK considered the committed funded work program to be the basis of the WA-503-P Block value.

The approach considered by SRK is similar to a recent valuation undertaken by AWT International Pty Ltd as a part of the original proposal with MEO which was terminated. AWT valued WA-503-P using the actual and committed work programs method.

The range of values for each of Neon's exploration asset as calculated by SRK is set out below:

	Low	Preferred	High
<b>Exploration asset</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
WA-503-P Block value	650,000	1,630,000	2,650,000

Source: SRK Report Appendix 3 in our Report.

#### Note 4: Provisions

As discussed in Note 1 above, the Company made redundancy payments towards employees whose contracts were terminated. In this regard, we understand that the PAYG obligation of the Company was outstanding as of date, and we have accordingly adjusted the provisions to the extent of the outstanding amounts due as under.

Provisions		\$
Balance at 31 December 2014		181,172
Add: PAYG towards redundancy payments		196,089
<b>Adjusted provisions balance</b>		<b>377,261</b>

#### Note 5: Neon performance rights

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.

Given that the performance rights vest only in March and December 2015, we have not considered the impact of the exercise of the rights in the value per share above. Additionally, the terms of the Offer expressly state that the consideration of \$0.038 per share would not apply to the shares issued as a result of the vesting and exercise of performance rights on issue as at 19 December 2014.

### Share options

As discussed in section 8 of our Report, Neon has approximately 2 million options on issue. Based on the exercise price and the current market price of the shares, these options are significantly ‘out of the money’. We have therefore, not adjusted the value per share above to factor in the cash received on exercise of options.

## 4.2 Assessment of Neon Value of consideration

The results of the valuation performed are summarised in the table below:

	Low	Preferred	High
	\$	\$	\$
Net assets value (Section 4.1 of our Supplementary Report)	0.0390	0.0408	0.0426
ASX Market prices (Section 10.2 of our Report)	0.0400	0.0442	0.0486

Source: BDO analysis

We note that the value obtained under the NAV methodology is lower than the values obtained under the QMP methodology in our low, preferred and high scenarios. The differences between the valuations obtained under the NAV and QMP approaches can be explained by the following:

- The QMP reflects investors’ perception/view taken by the market of the future prospects of Neon which may differ from the assumptions considered by SRK in relation to the current market value of WA-503-P;
- Given that the high level of liquidity noted for the Company was the result of significant developments with regard to its discontinued operations in Vietnam and the gains arising from the failed merger arrangement with MEO, we do not consider the high liquidity level as reflective of the normal trading volumes in the Company. This is evidenced by the fact that only 19.45% of the share capital of the Company has been traded in the 60 days preceding the date of announcement of the Offer (Refer Section 10.2 of our Report).
- The significant volatility noted in the volume of shares traded; also make the NAV method a more relevant valuation measure (Refer Section 10.2 of our Report).

Therefore, we consider the NAV method to be the most appropriate method to value a Neon share.

Based on our analysis, we consider the value of a Neon share to be between \$0.0390 and \$0.0426, with a preferred value of \$0.0408.

## 5. Is the Offer fair?

The value of a Neon share on a controlling basis is compared to the Offer Consideration below:

	Low	Preferred	High
	\$	\$	\$
Value of a Neon share (controlling basis)	0.0390	0.0408	0.0426
Value of Offer Consideration	0.0380	0.0380	0.0380

We note from the table above that the value of a Neon share is greater than the value of the consideration, in our low, preferred and high valuation ranges. Therefore, we consider that the Offer is not fair.

## **6. Is the Offer reasonable?**

### **6.1 Advantages of accepting the Offer**

We set out the key advantages that the Offer is expected to bring to Shareholders.

#### **6.1.1 Shareholders have the opportunity to realise their investment with certainty**

The Offer involves the acquisition of 50% of the outstanding shares of existing shareholders for a cash consideration of \$0.038 per share. Shareholders will obtain cash for the exit on their investment, which offers certainty in their returns.

Given the demonstrated low level of liquidity in the trading of Neon's shares in the past 60 days, the certainty of the cash consideration of \$0.038 per share is a potential benefit to Shareholders. In particular, those who hold large parcels of shares and may therefore have difficulty selling their shares on the market or in the event that they are able to sell, may cause the quoted market price to fall.

#### **6.1.2 Shareholders would continue to have exposure to 50% of any potential upside from the future prospects of the Company**

If Shareholders accept the Offer, they would still continue to benefit from the potential upside of the future operations to the extent of 50% of their remaining shareholding.

### **6.2 Disadvantages of accepting the Offer**

We set out the key disadvantages of the Offer:

#### **6.2.1 The Offer is not fair**

As set out in Section 5 above, the Offer is not fair.

#### **6.2.2 If the Offer is accepted, Shareholders' exposure to Neon's assets will be diluted**

If the Offer is accepted, Evoworld will own a maximum of 61.31% of Neon. While Neon Shareholders will maintain an exposure to Neon's existing assets, these interests would be diluted in exchange for the cash consideration.

#### **6.2.3 Shareholders will be unable to benefit completely from the potential upside of Neon's future projects**

If the Offer is accepted, Shareholders will be unable to benefit completely from the potential upside of Neon shares.

#### **6.2.4 Shareholders may face potential tax implications**

If the Offer is accepted, Shareholders may face potential tax implications

#### **6.2.5 Evoworld is not offering a premium to Neon's QMP**

As can be seen in Section 4.2 above, the QMP of a Neon share is greater than the Offer Consideration per share. This therefore implies that the Shareholders would be better advantaged by rejecting the Offer. We note that a significant portion of the net tangible assets comprises of Cash and 'Other financial assets'.

### 6.2.6 Evoworld’s lack of experience with regard to oil and gas exploration

Evoworld is a company which was recently incorporated in September 2014, and therefore has limited experience with regard to oil and gas exploration, thereby limiting the future prospects for the Company.

### 6.3 Alternative Proposal

We are unaware of any alternative proposal that might offer the Shareholders of Neon a premium over the value ascribed to, resulting from the Offer.

### 6.4 Practical Level of Control

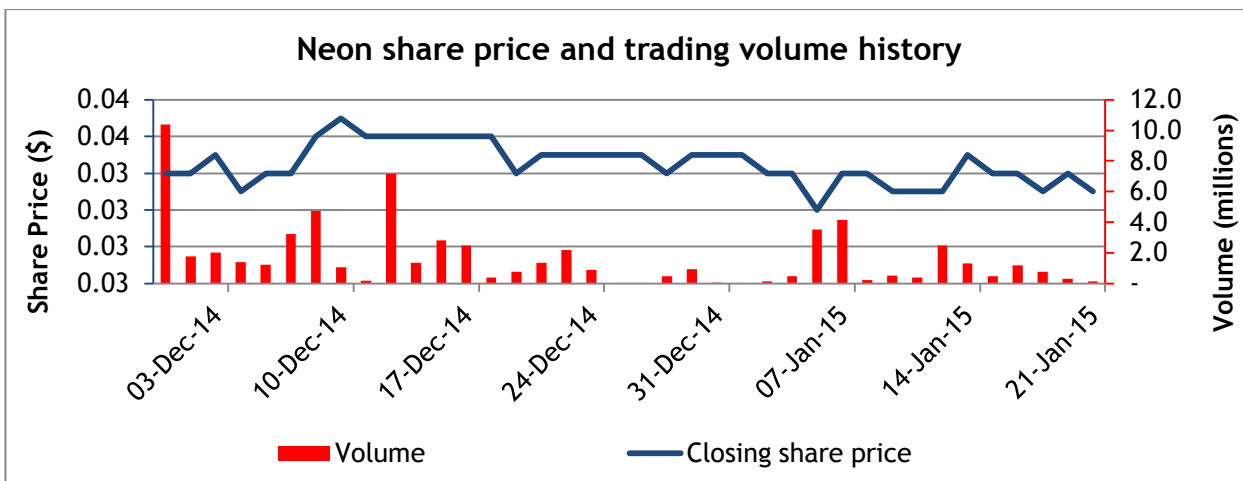
If the Offer is approved, then Evoworld will hold a maximum interest of approximately 61.31% in Neon.

When shareholders are required to approve an issue that relates to a company there are two types of approval levels. These are general resolutions and special resolutions. A general resolution requires 50% of shares to be voted in favour to approve a matter and a special resolution required 75% of shares on issue to be voted in favour to approve a matter. If the Offer is approved then Evoworld will be able to block special and general resolutions.

Neon’s Board currently comprises 4 directors. In addition to this, Evoworld will have an additional Board member, Mr Ross Williams appointed to the Board as a non-executive director, once Evoworld acquires 30% of the Neon shares on issue, which will take Neon’s Board to 5 directors. This means that Evoworld nominated directors will make up 60% of the Board (Mr Timothy Kestell and Mr Peter Pynes have already been appointed as non-executive directors in Neon).

### 6.5 Consequences of not Approving the Offer

We have analysed movements in Neon’s share price since the Offer was announced. A graph of Neon’s share price since the announcement is set out below.



Source: Bloomberg

As can be seen from the above, the Company’s share price has remained within the range of \$0.033 and \$0.035 per share. Accordingly, it is possible that if the Offer is not approved then Neon’s share price may continue to perform in this manner.

## 7. Conclusion

We have considered the terms of the Offer as outlined in the body of this report and have concluded that the Offer is neither fair nor reasonable to Shareholders.

## 8. Disclaimers and consents

This report has been prepared pursuant to RG111.102 where an expert becomes aware of a significant change affecting their report, the release of Appendix 4E by Neon was considered to be a significant change and accordingly we are obligated to provide a supplementary to the commissioning party. Our original report was prepared at the request of Neon for inclusion in the Target Statement and Explanatory Memorandum which will be sent to all Neon Shareholders. Neon engaged BDO Corporate Finance (WA) Pty Ltd to prepare an independent expert's report to consider the proportional off-market bid to be made by Evoworld to acquire 50% of the shares held each shareholder in Neon other than Evoworld.

BDO Corporate Finance (WA) Pty Ltd hereby consents to this report accompanying the above Explanatory Memorandum and Target's Statement. Apart from such use, neither the whole nor any part of this report, nor any reference thereto may be included in or with, or attached to any document, circular resolution, statement or letter without the prior written consent of BDO Corporate Finance (WA) Pty Ltd.

BDO Corporate Finance (WA) Pty Ltd takes no responsibility for the contents of the Explanatory and Target's Statement other than this report.

We have no reason to believe that any of the information or explanations supplied to us are false or that material information has been withheld. It is not the role of BDO Corporate Finance (WA) Pty Ltd acting as an independent expert to perform any due diligence procedures on behalf of the Company. The Directors of the Company are responsible for conducting appropriate due diligence in relation to Neon. BDO Corporate Finance (WA) Pty Ltd provides no warranty as to the adequacy, effectiveness or completeness of the due diligence process.

The opinion of BDO Corporate Finance (WA) Pty Ltd is based on the market, economic and other conditions prevailing at the date of this report. Such conditions can change significantly over short periods of time.

With respect to taxation implications it is recommended that individual Shareholders obtain their own taxation advice, in respect of the Offer, tailored to their own particular circumstances. Furthermore, the advice provided in this report does not constitute legal or taxation advice to the Shareholders of Neon, or any other party.

BDO Corporate Finance (WA) Pty Ltd has also considered and relied upon independent valuation for an exploration permit held by Neon.

The valuer engaged for the mineral asset valuation, SRK, possess the appropriate qualifications and experience in the industry to make such assessments. The approaches adopted and assumptions made in arriving at their valuation are appropriate for this report. We have received consent from the valuer for the use of their valuation report in the preparation of this report and to append a copy of their report to this report.



The statements and opinions included in this report are given in good faith and in the belief that they are not false, misleading or incomplete.

The terms of this engagement are such that BDO Corporate Finance (WA) Pty Ltd has no obligation to update this report for events occurring subsequent to the date of this report.

Yours faithfully

**BDO CORPORATE FINANCE (WA) PTY LTD**

A handwritten signature in black ink, appearing to read 'Adam Myers'.

**Adam Myers**

Director

A handwritten signature in black ink, appearing to read 'Sherif Andrawes'.

**Sherif Andrawes**

Director