NEON ENERGY LIMITED

ANNUAL REPORT

For the year ended
31 December 2014

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CORPORATE DIRECTORY

DIRECTORS:	Dr Alan Stein Mr Tim Kestell Mr Peter Pynes Mr Ross Williams	Non-Executive Chairman Non-Executive Director Non-Executive Director Non-Executive Director
SECRETARY:	Gabriel Chiappini	Company Secretary
REGISTERED OFFICE:	Level 1, 248 Hay Street Subiaco WA 6008 Telephone: +618 6144 4480 Facsimile: +618 9226 5048	PO Box 8294 Subiaco East WA 6008
SHARE REGISTER:	Computershare Investor Services Pty Ltd Level 2, Reserve Bank Building 45 St Georges Terrace Perth Western Australia, 6000 GPO Box D182 Perth WA, 6840 Telephone: 1300 557 010 International: (61 8) 9323 2000 Facsimile: (61 8) 9323 2033	
BANKERS:	Westpac Bank Limited	
AUDITORS:	EY	
STOCK EXCHANGE:	Australian Stock Exchange Limited Code: NEN – Fully paid ordinary shares	

DIRECTORS' REPORT

The Directors of Neon Energy Limited present the financial statements of Neon Energy Limited and its controlled entities ("the Group" or "the consolidated entity") for the financial year ended 31 December 2014 and in accordance with a resolution of the Directors 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 Tim Kestell	Non-Executive Director (appointed 19 December 2014)
Mr Peter Pynes	Non-Executive Director (appointed 19 December 2014)
Mr Ross Williams	Non-Executive Director (appointed 25 March 2015)
Mr Kenneth Charsinsky	Non-Executive Director (resigned as Managing Director 1 February 2015, appointed Non-Executive Director 1 February 2015, resigned as Non-Executive Director 25 March 2015)
Mr John Lander	Non-Executive Director (resigned 19 December 2014)

Executives

Mr Ben Newton	Chief Financial Officer	(Ceased employment 1 Feb 2015)
Mr Iain Smith	Commercial Manager	(Ceased employment 1 Feb 2015)
Mr David Cliff	Exploration Manager	(Ceased employment 27 Feb 2014)
Mr Donald Nelson	Resident Manager (USA)	(Ceased employment 30 June 2014)
Mr Richard Jason	New Ventures Manager	(Ceased employment 1 Feb 2015)

All other employees were terminated on 1 February 2015.

Current Directors

Dr Alan Stein
Non-Executive Chairman

Dr Stein is a geologist with over 20 years experience in the international oil and gas industry. He was the CEO of AIM listed Fusion Oil & Gas Plc which made several discoveries offshore Mauritania and in 2004 he was one of the founders of Ophir Energy Plc where he was the CEO from inception until 2011. Ophir has made significant discoveries offshore Equatorial Guinea and Tanzania and is listed on the Main Market of the London Stock Exchange where it is a constituent of the FTSE 250 index. Dr Stein is non-executive director of ASX listed Buccaneer Energy Limited, director of private investment company Haroma Pty Ltd, and is the Non-Executive Chairman of Hanno Resources Limited which has mining interests in Africa.

Dr Stein was appointed as a Director of the Company on the 27 October 2009 and Chairman on the 29 November 2009.

DIRECTORS' REPORT

Mr Timothy Kestell
Non-Executive Director

Mr Kestell has over 18 years experience in capital markets including working for Australian stockbrokers Euroz securities Limited and Patersons. In the past decade years, Mr Kestell has played a key role in forming and/or re capitalising publicly listed companies, helping raise over $70m in the process.

Mr Kestell holds a Bachelor of Commerce degree and is currently a director of Blue Capital Limited.

Mr Peter Pynes
Non-Executive Director

Mr Pynes has in excess of 20 years experience in Australia and overseas capital markets. He previously worked at Deutsche Bank as a director, global markets where he gained extensive knowledge of global structured debt products as well as capital raising and syndication. In the past decade, Mr Pynes has played a key role in forming and capitalising both public listed and unlisted companies. Mr Pynes has been involved in both initial public offerings and takeovers, including the listing on the ASX of Tusker Gold Limited and its successful cash takeover by Barrick Gold Limited. Mr Pynes is a director of MPC Funding Limited, a specialist financing company providing in excess of $450m of loan funds for the development of the Melbourne Convention Centre.

Mr Pynes is a Fellow of the Australian Institute of Company Directors (FAICD) and a Senior Associate of Financial Services Institute of Australia (SA FIN) and a director of Blue Capital Limited and Nexus Bond Limited.

Mr Ross Williams
Non Executive Director

Mr Williams is a founding shareholder of MACA Limited and up until July 2014 held the position of CFO and Finance Director with responsibility for capital management, finance, financial reporting and corporate strategy. He played a key role in the highly successful initial public offering of MACA in 2010 and was pivotal to its subsequent success as a publicly listed company. He continued to serve on the Board of MACA as a Non-Executive Director til resigning in February 2015. Mr Williams holds a Post Graduate Diploma in Financial Services Management from Macquarie University and was a Fellow of the Australian Institute of Banking and Finance prior to establishing MACA in 2002 and is currently serving as a Non-Executive Director for publically listed Emerald Resources Limited.

DIRECTORS' REPORT

Other Directors that Served During the Year

Mr Kenneth Charsinsky
Non Executive Director

Mr Charsinsky has over 35 years of experience in the upstream oil and gas industry, most recently as Exploration Director of International New Ventures for Noble Energy Inc. He has also served as Managing Director of operating subsidiary companies for CMS Oil and Gas in Congo and Tunisia.

Mr Charsinsky was appointed as a Director of the Company on the 27 October 2009 and resigned as Managing Director on 1 February 2015. He has since resigned as a Non-Executive Director on 25 March 2015.

John Lander
Non-Executive Director

Mr Lander has over 45 years of 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 being Pict Petroleum, Premier Oil, Ophir Energy and Tullow Oil, the latter up to his retirement from full-time employment. Mr Lander currently holds an additional non-executive post in UK based company Trajan Resources Limited.

DIRECTORS' INTERESTS

Interests of Directors of Neon Energy Limited in the Company at the date of this report are:

	Ordinary Shares	Performance Rights
Ken Charsinsky	2,488,005	12,831,017
Peter Pynes	110,552,266(i)	-
Timothy Kestell	110,552,266(i)	-
Alan Stein	1,000,000	-
Ross Williams	110,552,266(i)	-

(i)These shares are held in the name of Evoworld Corporation Pty Ltd, a company that Peter Pynes, Tim Kestell and Ross Williams have a controlling interest in.

DIRECTORS' MEETINGS

The number of circular resolutions attended to by the Directors and the attendance of Directors at meetings of the Board during the reporting period was as follows:

Current Directors	Circular Resolutions	Meetings Held	Number Attended	Maximum Possible
Ken Charsinsky	2	2	2	2
Tim Kestell	-	-	-	-
Peter Pynes	-	-	-	-
Alan Stein	2	2	2	2
Ross Williams	-	-	-	-

DIRECTORS' REPORT

COMPANY SECRETARY

Mr Gabriel Chiappini

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 across many industry types. He is currently the Company Secretary for several ASX listed companies.

DIVIDENDS

Since the end of the previous financial year, no amounts have been paid or declared by Neon by way of a dividend.

PRINCIPAL ACTIVITIES

The principal activities of the consolidated entity during the financial year were oil and gas exploration and oil production. There were no significant changes in the nature of these activities during the year.

OPERATING AND FINANCIAL REVIEW

<u>Operations</u>

This report is presented for the twelve months to 31 December 2014.

The year brought significant change to Neon Energy. As at the date of this report, Neon Energy Limited is well funded and ready to embark on a new phase of opportunity and growth.

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.

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.

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 it's interest in the project to KrisEnergy, in return for a full release from any past and future liability.

DIRECTORS' REPORT

OPERATING AND FINANCIAL REVIEW (continued)

The sale of Neon Energy's Californian assets resulted from the Company's appointment of Roth Capital Partners during 2013 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, in April 2014 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 and an effective date of 1 January 2014. The transaction completed within the reporting period and the net sale proceeds were remitted to the Company.

In May 2014 the Company was awarded the WA-503-P offshore petroleum exploration permit, as Operator and 100% working interest holder, having successfully bid in the 2013 Australian Offshore Petroleum Exploration Acreage Gazettal.

Block WA-503-P is located offshore Western Australia within the Dampier Sub-basin, inboard of the giant Northwest Shelf gas field complex and on trend with numerous oil and gas discoveries, including the Legendre and Hurricane fields. Water depths within the block range from 50 metres to 70 metres, within the depth capability of jack up drilling rigs. The block was awarded with a six-year term. The initial three-year primary term includes a work commitment to acquire 80km2 of "Broadband" 3D seismic data, with acquisition expected during 2015. In addition Neon is required to complete various geological and geophysical studies. The secondary (optional) term would include a commitment to drill one exploration well.

As a result of the Evoworld proportional takeover, Neon is presently reviewing its activities. Neon has been in discussions with various parties about withdrawing from its involvement in Block WA 503-P. The seismic contract with CGG Services SA has been terminated by way of a cash settlement between the parties. On 28 March 2015, the company signed a Deed of Assignment with Rampart Energy Limited and Black Swan Resources Pty Ltd to assign its full interest in Block WA 503P.

CORPORATE ACTIVITY

On 5th September 2014, the company received a Proportional Takeover Offer from Evoworld Corporation Pty Ltd and associates (Evoworld). Evoworld announced it intended 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 did not currently own. The offer price was 3.5 cents per share. On 9th September 2014, the company received a notice issued under Section 249D of the Corporations Act from Evoworld seeking to remove the existing directors and appoint their own nominees.

On 5th November 2014, Neon and MEO Australia Limited (MEO) announced that they had entered into a Merger Implementation Agreement (MIA) under which the companies had agreed to merge by way of a scheme of arrangement. Under the proposed merger, MEO shareholders were to receive 0.7369 Neon shares for each MEO share they held. Following the implementation of the merger, Neon and MEO shareholders were to each hold 50% of the merged group. The proposed merger had the unanimous support of both the Neon and MEO boards.

A meeting of shareholders was held on 12th November 2014 at which a vote on both the Evoworld proportional bid and the appointments of Evoworld nominees to the Neon board were taken. Both the proportional bid and board spill resolutions were defeated at the meeting.

DIRECTORS' REPORT

OPERATING AND FINANCIAL REVIEW (continued)

On 19th December 2014, Neon announced that it had executed a Bid Implementation Agreement with Evoworld, under which the directors of the Company recommend that shareholders accept Evoworld's revised offer of 3.8 cents per share, for 50% of shares not already owned by Evoworld. As a consequence Neon terminated the Merger Implementation Agreement signed with MEO in November 2014, paying MEO the required $400,000 Reimbursement Fee. Evoworld representatives Timothy Kestell, Peter Pynes and Ross Williams have been appointed as non-executive directors of Neon Energy, with John Lander and Ken Charsinsky resigning from the Board. Alan Stein remains as non-executive Chairman.

The Evoworld offer was approved at a general meeting of shareholders on 25 March 2015. The takeover bid is now unconditional.

POSITIONED FOR GROWTH

Neon Energy has implemented significant cost cutting measures during the reporting period, including closure of the Bakersfield office and staff redundancies. Since the end of the reporting period, the company has relocated offices and all staff have been made redundant to further reduce costs.

Financial Performance

	Discontinued Operations		Continuing Operations	
2014	USA	South East Asia	Corporate	Total
Oil Sales	3,066,511	-	-	3,066,511
Interest Revenue	929	-	65,947	66,876
Other Revenue	7,432	-	-	7,432
Segment Revenue	3,074,872	-	65,947	3,140,819
Impairment Expense	-	(2,202,786)	(100,000)	(2,302,786)
Depreciation and Amortisation	(522,751)	-	(33,170)	(555,921)
Gain on exiting from joint ventures		16,168,861	-	16,168,861
Gain on disposal of assets	2,024,406	-	-	2,024,406
Other Income	-	-	2,822,987	2,822,987
Operating Expenses	(1,529,148)	-	-	(1,529,148)
Income Tax Benefit	-	-	-	-
Royalty Payments	(675,659)	-	-	(675,659)
Plug and Abandon Costs	-	-	-	-
Admin and Corporate	(887,331)	(41,410)	(6,387,895)	(7,316,636)
Profit/(loss)	1,484,389	13,924,664	(3,632,131)	11,776,922

DIRECTORS' REPORT

	Discontinued Operations		Continuing Operations	
2013	USA	South East Asia	Corporate	Total
Oil Sales	9,212,549	-	-	9,212,549
Interest Revenue	-	-	484,971	484,971
Other Revenue	-	-	9,026	9,026
Segment Revenue	9,212,549	-	493,997	9,706,546
Impairment Expense	(38,929,164)	(47,720,763)	-	(86,649,927)
Depreciation and Amortisation	(1,622,146)	(53,856)	(44,159)	(1,720,161)
Other Income	-	-	897,773	897,773
Operating Expenses	(5,063,848)	-	-	(5,063,848)
Income Tax Benefit	-	-	4,485,427	4,485,427
Royalty Payments	(2,000,536)	-	-	(2,000,536)
Plug and Abandon Costs	-	(3,116,697)	-	(3,116,697)
Admin and Corporate	(2,128,513)	(75,674)	(4,217,175)	(6,421,362)
(Loss)/profit	(40,531,658)	(50,966,990)	1,615,863	(89,882,785)

Due to the sale of the Californian assets during 2014, Production, Revenue and Field Operating Expenses are significantly lower than the corresponding period in 2013. Production, Revenue and Field Operating Expenditure represents only four months of operations in 2014, being the period January 2014 to April 2014.

The Consolidated Profit amount of $8.3m includes a net gain on disposal of the US assets of $2m and a net gain on exiting the South East Asian Operations of $16.1m.

As at 31 December 2014, the company had $15.7m in cash and cash on deposit (2013: $9.7m) as well as AUD$4.9m (USD$4 m) held in Escrow for a period no longer than 12 months from completion of the transaction under the conditions of the sale and purchase agreement in disposing of the interests in the USA.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There have been no significant changes in the state of affairs of the consolidated entity in the year ended 31 December 2014 other than stated above.

SIGNIFICANT EVENTS AFTER BALANCE DATE

Effective 31 January 2015, the employment of all Neon employees were terminated, being made redundant in accordance with the terms of their individual employment contracts. Those employees terminated included the Managing Director, Ken Charsinsky. Mr Charsinsky continued in a non-executive Board position until 25 March 2015. Mr Ross Williams was appointed to the Board as Non-Executive Director on 25th March 2015.

On 2 February 2015, the company announced that it had changed registered office and contact information. The company's new registered office is Level 1, 248 Hay Street, Subiaco, WA 6008.

DIRECTORS' REPORT

On 28 March 2015, the company has signed a Deed of Assignment with Rampart Energy Limited and Black Swan Resources Pty Ltd to assign its full interest in Block WA 503P, this follows the negotiated settlement in regards to the Seismic work for the same block.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The Board are presently reviewing all assets and the company and business generally. This is as a result of board changes and varying expertise and the present outlook for oil and gas prices on the global market. Following the outcome of this we will provide a market update on the status of all assets and the business going forward.

ENVIRONMENTAL REGULATION PERFORMANCE

The Group's operations are subject to significant environmental regulation under the laws of the jurisdictions in which the Group operates and operated, including the State of California in the United States. The Company adheres to these laws and the Directors are not aware of any contraventions of these laws.

The Board believes that an efficient and productive oil and gas industry is important for the economy, globally and at a local level and that careful and respectful management of the environment is a key part of a healthy economy. The Directors and employees of Neon are cognisant of the impact of the operations of the Group on the environment and abide by standards set by both industry and internal policy and endeavour to meet these standards at all times.

SHARE OPTIONS AND PERFORMANCE RIGHTS

UNISSUED SHARES

During the year ended 31 December 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

SHARES ISSUED AS A RESULT OF EXERCISE OF OPTIONS AND PERFORMANCE RIGHTS

There were no shares issued pursuant to the Neon Energy Share Option Plan during the financial year.

There were no shares issued to staff, upon vesting of Performance Rights, pursuant to the Company's Share Incentive Plan.

DIRECTORS' REPORT

REMUNERATION REPORT (AUDITED)

Contents

1. Introduction

The Remuneration Report details the amount and nature of remuneration of each Key Management Personnel in accordance with the Corporations Act 2001 and its Regulations. This information has been audited as required by section 308(3C) of the Act. Key Management Personnel are the directors plus the executives who have authority and responsibility for planning, directing and controlling the activities of the Group.

The following were key management personnel of Neon at any time during the reporting period and unless otherwise indicated were Key Management Personnel for the entire period.

Non-Executive Directors	
Dr Alan Stein	Non-Executive Chairman
Mr John Lander	Non-Executive Director
Executive Director	
Mr Kenneth Charsinsky	Managing Director
Executives	
Mr Donald Nelson	Resident Manager (USA)
Mr Ben Newton	Chief Financial Officer
Mr Iain Smith	Commercial Manager
Mr David Cliff	Exploration Manager, *employment ceased on 28 February 2014*
Mr Richard Jason	New Ventures Manager (Ceased employment 1 Feb 2015)

For the purposes of this report, the term 'executive' encompasses the Managing Director and Executives of the Group.

All Staff were made redundant on 1 February 2015 after balance date.

2. Remuneration Governance

For the period to which this report relates, there was a formally constituted Remuneration Committee and Remuneration Committee Charter.
The remuneration committee is comprised of Independent Non-Executive Directors Mr John Lander (Committee Chairman), Dr Alan Stein and Executive Director Mr Ken Charsinsky.
The Remuneration Committee and its charter governs the Remuneration Structures of Neon and includes the remuneration levels of executives, design and structure of Employee incentive plans and general overall remuneration policy including recruitment, retention and succession planning.

DIRECTORS' REPORT

The Remuneration Committee reviews remuneration matters on behalf of the Board and refers matters to the Board for decision, with a recommendation, or determine matters (where the committee acts with delegated authority), which it then reports to the Board.

The remuneration committee meets at least once through the year.

A copy of the Remuneration Charter is available on the website.

Use of Remuneration Consultants

To ensure the Board is fully informed when making remuneration decisions, the Board seeks external advice by way of the hiring of remuneration consultants, as required, on remuneration policies and practices. In the interests of independence and to avoid conflicts of interest, the remuneration consultant reports directly to the Remuneration Committee.

During the year the Board engaged consulting group Talent 2 to provide market data and insights regarding executive and employee fixed remuneration against a peer group of companies. No remuneration recommendations as defined by the Corporations Act were received on key management's remuneration.

Outcome from previous AGM

On 30 May 2014, Neon held its Annual General Meeting including tabling of the Remuneration Report for 2013 and sought shareholders' approval as a non-binding resolution that the remuneration as contained in the Company's 2013 Annual Financial Report for the financial year ended 31 December 2013 be accepted. The results of this non-binding resolution were as follows noting positive shareholder support with a vote of 79% in favour:

	For	Chair's Discretion	Against
Remuneration Report	20,765,236	743,217	4,725,362

3. Executive Remuneration Policy

The Board believes that Executives should be rewarded for performance and challenged to achieve the growth targets set by the Board which is now primarily focussed on rebuilding shareholder value.

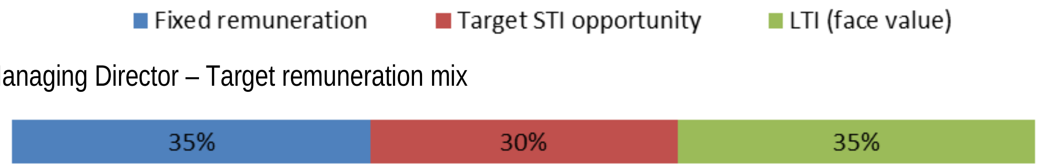
The guiding principles in managing remuneration for Executives as adopted by the Board are that:

- Remuneration should be set at an appropriate level having regard to market practice for roles of similar scope and skill;
- Incentive schemes should be appropriate to retain Executives and to encourage continuously high levels of performance; and
- Incentive schemes should be clearly linked to the creation of shareholder wealth.

DIRECTORS' REPORT

Neon's executive remuneration is structured as a mix of fixed annual remuneration and variable remuneration, through "at risk" short term and long term incentive components. The mix of these components varies for different management levels. While fixed remuneration is designed to provide a predictable "base" level of remuneration, the short term and proposed long term incentive programs reward executives when performance conditions are met or exceeded.

For the Managing Director and senior executives the target remuneration mix is as follows:



Senior Executives – Target remuneration mix

4. Components of Executive Remuneration

During 2014, the Company has a Remuneration scheme for Executives and employees that consists of the following components:

Fixed Remuneration ("FR"); and

Incentive Schemes, comprising:

- Short Term Incentive Plan(i) ("STIP") – an annual cash and / or equity based incentive, which may be offered at the discretion of the Board, linked to the Company and individual performance.
- Long Term Incentive Plan(i) ("LTIP") – Performance rights, which may be granted annually at the discretion of the Board, linked to performance conditions measured over a three-year period.
- Employee Share Option Scheme ("ESOP") – an allocation of share options granted at the discretion of the Board as a means to attract and retain employees where use of a leveraged option instrument may be consistent with Neon's understanding of market practice.

(i) As noted in the message from the Remuneration Committee announced at the time, the STIP and LTIP have been suspended until further notice with no STIP awards vesting or LTIP awards awarded for the 2013 performance year.

Fixed Remuneration

Fixed Remuneration ("FR") consists of base remuneration as well as employer contributions to superannuation funds. Overall remuneration levels are reviewed annually by the Board through a process that considers individual performances, market conditions and the overall performance of the Company.

DIRECTORS' REPORT

As noted earlier in the Remuneration Report, the Board engaged consulting group Talent2 to provide market data and insights on fixed remuneration of industry peer companies and based on that review the Board made no adjustments to fixed remuneration to its Key Management Personnel.

Outcome for 2014: As part of the rebuild phase for 2014 Key Management Personnel had their fixed cash remuneration reduced by 15% during the year.

Performance Linked Remuneration

Performance linked remuneration includes both short-term and long-term incentives and is designed to reward Executives for meeting or exceeding their financial and personal objectives. Details of cash and / or equity short term incentives (STIP) paid by the Company during the year are provided in this report. The STIP is an "at risk" bonus provided in the form of cash and / or equity, while the long-term incentive is provided through the LTIP and ESOP. The LTIP and ESOP are linked to the Company's share price and are set out in more detail in this Remuneration Report.

Short Term Incentive Plan (STIP)

The STIP is "at risk" cash and / or equity based incentive measuring performance over a 12-month period coinciding with Neon's financial year. It is offered annually to Executives at the discretion of the Board when key performance measures are achieved within or over a financial year. The STIP is designed to put a proportion of executive remuneration at risk against meeting both financial and non-financial targets.

The performance conditions are set by the Board for each 12 month period and may vary from year to year and from participant to participant but reflect the financial and operational goals of Neon. Individual KPI's are given different weightings depending on their role or importance to Neon.

The amount of cash and / or equity available for the STIP will be determined annually by the Board and will be allocated at the Board's discretion. No STIP was awarded in 2013 or 2014.

DIRECTORS' REPORT

Long Term Incentive Plan (LTIP)

The aim of the LTIP component of Remuneration is to:

- Align the interests of Executives and shareholders;
- Provide targeted but competitive remuneration and a long-term incentive for the retention of key Executives; and
- Support a culture of Executive share ownership.

To achieve these aims, the LTIP will include relevant performance hurdles, agreed in advance, as a key element, with vesting of rights over a period that is consistent with the realisation of the medium and long-term strategic objectives of the Company as approved by the Board.

Under the LTIP, participants are offered an award of rights to acquire ordinary shares in the Company (referred to here as "Performance Rights"). The offer of Performance Rights under the LTIP takes the form of a conditional entitlement to be issued shares in the Company for nil consideration at the end of the applicable performance period subject to the satisfaction of performance conditions. LTIP participants are not entitled to participate in any new issue of securities of the Company as a result of their holding Performance Rights. In addition, participants are not entitled to vote nor to receive dividends as a result of their holding Performance Rights.

The performance condition for the vesting of the rights relate to Total Shareholder Return (TSR). The basis of this measure is to align the interests of shareholder return with the reward to which an executive might become entitled.

Neon's TSR performance over the three-year performance period will be ranked against the TSR performance of a peer group of 21 companies being a mix of South East Asia and USA focused companies and other competing ASX listed companies.

The companies in the comparator group are listed below, with the following companies dropping out of the comparator group since FY12, Acer Energy Limited and Texon Petroleum Limited:

Antares Energy Limited	Otto Energy Limited
Buccaneer Energy Limited	Pancontinental Oil & Gas NL
Carnarvon Energy Limited	Pan Pacific Petroleum NL
Cooper Energy Limited	Petsec Energy Limited
Cue Energy Resources Limited	Senex Energy Limited
Lonestar Resources Limited (formerly Amadeus Energy Limited)	Azonto Petroleum Limited (formerly Rialto Energy Limited)
Entek Energy Limited	Strike Energy Limited
Horizon Oil Limited	Sundance Energy Australia Limited
Kairiki Energy Limited	Sun Resources NL
Nido Petroleum Limited	Tap Oil Limited
Oilex Limited	

DIRECTORS' REPORT

Where Neon's TSR performance relative to the comparator group (as reviewed by an external advisor to Neon) over the three year measurement period is ranked:

- Below the 50th percentile, 0% of the rights will vest
- Above the 50th percentile and below the 75th percentile, 75% vest
- At or above the 75th percentile, 100% vest

The number of companies in the peer group is reduced if and when any of the peer group companies are removed from being listed on the ASX.

The number of shares allocated is dependent on the total shareholder return (relative to the peer group companies) thresholds being met. 100% of the Performance Rights are tested for vesting at the end of the three-year vesting period with the first three year testing period being 30 June 2014.
Generally, on cessation of employment, unvested rights will lapse, unless the Board in its sole discretion determines otherwise.

As noted earlier the board and management of Neon have agreed to suspend the LTIP for the 2014 financial year and no LTIP award was granted for the 2013 performance year.

In the event of a change of control of the Company, the Directors have the discretion to waive the vesting requirements.

ESOP

Neon shareholders approved the ESOP at a General Meeting held on the 20 April 2011, which allows the Board to issue options to Eligible Employees (being staff, directors and consultants) pursuant to ASX Listing Rules and the Corporations Act. The ESOP is not regarded as part of the on-going remuneration program, however may be used as a supplement to other forms of remuneration in one off situations that warrant a specific retention purpose such as a sign on incentive for new senior hires or for one-off awards where the STIP or LTIP programs may not be appropriate. The granting of options is not directly related to the Company's performance, however the change in share price is the key performance criteria for the ESOP as the realised value arising from options issued under the ESOP is dependent upon an increase in the share price to above the exercise price of the options.

The terms of the ESOP are at the discretion of the Board and generally provide that options issued pursuant to the plan will vest as follows:

As to 50% of any options issued, 12 months from the date the options are issued,

As to the total amount of options issued, any time after the expiration of 24 months from the date of issue.

The options have a life of 3 years from the date of issue, after which time they will expire. Participants ceasing to be Eligible Employees will be offered three months from the date of cessation of holding office, employment and/or consulting as the case may be in which to exercise the relevant vested options, failing which said options forfeited.

DIRECTORS' REPORT

Other terms relevant to the ESOP are as follows;

- No monies will be payable for the issue of the Options.
- Each Option shall carry the right in favour of an Eligible Employee to subscribe for one Share.
- Options shall be issued at an exercise price to be determined by the Directors and shall be no less than 110% of the weighted average market price (as quoted by ASX) of the Company's shares for the 28 trading days prior to the issue of the Options. The issue price of Shares, the subject of the Options, shall be payable in full on exercise of the Options.
- Options shall not be listed for official quotation on the Australian Stock Exchange.
- Shares allotted pursuant to an exercise of Options shall rank, from the date of allotment, equally with existing Shares of the Company in all respects.
- Option holders shall not be entitled, by virtue of the unexercised Options, to participate in rights issues or bonus Share entitlements in the same manner as holders of ordinary shares.
- The Board retains its discretion over ESOP terms and conditions.
- In the event of any reconstruction (including consolidation, sub-division, reduction or return) of the issued capital of the Company, the number of options or the exercise price of the options or both shall be reconstructed (as appropriate) in accordance with the Listing Rules.

5. The Relationship between Performance and Remuneration

5 year performance snap-shot

In considering Neon's performance for shareholder wealth, the Board have regard to the following measures in respect of the current financial year and the previous four financial years.

	FY 2014	FY 2013	6 months to 31 Dec 2012	FY 2012	FY 2011	FY 2010
Net Profit/(loss) of the Group	11.8m	($89.9m)	($2.8 m)	($2.0 m)	($0.8m)	($2.3m)
Dividends paid	None	None	None	None	None	None
Share price (year-end)	3.5 cents	27.0 cents	25.5 cents	31.5 cents	39.5 cents	10.5 cents

DIRECTORS' REPORT

STIP outcomes for the year

During the year ended 31 December 2014, no STIP vested. This follows on from the company's decision to not award any STIP during financial period to 31 December 2014. There have been no awards of equity in the form of ordinary shares to Executives and participants in the STIP for the reporting period.

LTIP and ESOP outcomes for the year

At the current date the milestones for achievement of 2011 Long term Incentive Rights which were due for assessment at 30 June 2014 none of the rights vested into shares.

No LTIP grants were made during the period due to the company assessing its remuneration structure and mix.

No options have been issued to executives or other key management personnel under the terms of the ESOP during the reporting period. As disclosed in Note 25 two million options were issued as a sign-on inducement to recruit high calibre staff that were not key management personnel. Prior issues that have vested in the current year are disclosed at Notes 20 and 25 of the financial statements.

6. Non-Executive Director Remuneration

The Board policy is to remunerate non-executive directors at market rates for time, commitment and responsibilities. The Board determines payments to the non-executive directors and reviews their remuneration annually with reference to comparative companies. The comparator group is the same group used to measure TSR for the purposes of the LTIP. This detailed review was last completed in 2013 with no increases in NED remuneration for FY13.

The total annual remuneration for all Non-Executive Directors for the 12 months to 31 December 2014 was $115,625 (FY 2013: $115,475) which includes fees for additional services requested by the Company and any superannuation where applicable.

POSITION	BASE FEE	COMMITTEE FEES	TOTAL FEES
Chairman	$60,000	$0	$60,000
Non-Executive Director	$50,000	$0	$50,000

Non-Executive Directors are entitled to participate in the ESOP and this may be used as a sign on incentive for new Board appointments, or in unique situations that require a specific purpose. During the reporting period there have been no awards of Options made to Non-Executive Directors under the ESOP.

Non-Executive Directors are not entitled to participate in the STIP or LTIP.

DIRECTORS' REPORT

7. Employment Contracts

It is Neon policy that employment contracts for Executives are unlimited in term but capable of termination by either party with due notice. All Executive contracts have a notice period of four months or less.

Treatment of termination provisions are as follows:

	Treatment of STIP on termination	Treatment of unvested LTIP on termination
Resignation	Unvested awards forfeited	Unvested awards forfeited
Termination for cause	Clawback of deferred STI payments at the boards' discretion.	Unvested awards forfeited
Termination in cases of death, disablement, redundancy or notice without cause	Pro-rated for time at boards' discretion	Pro-rated for time at boards' discretion

DIRECTORS' REPORT

8. Key Management Personnel Remuneration Details

Details of remuneration to Key Management Personnel of the Company and Group for the financial year 12 months to 31 December 2014 together with the comparative for the period to 31 December 2013 are as follows:

		Short-Term			Post Employment	Share-Based Payments			Termination Benefit	Total		
	Year	Salary & Fees $	Bonus Cash $	Other $		Shares $	Rights $	Options $	$	$	% Performance Related	Value of options as proportion of remuneration
Non-Executive Directors												
Alan Stein	Dec 14	60,000	-	-	5,625	-	-	-	-	65,625	0%	0%
Chairman	Dec 13	60,000	-	-	5,475	-	-	-	-	65,475	0%	0%
John Lander	Dec 14	50,000	-	-	-	-	-	-	-	50,000	0%	0%
	Dec 13	50,000	-	-	-	-	-	-	-	50,000	0%	0%
Peter Pynes	Dec 14 Dec 13	-	-	-	-	-	-	-	-	-		
Tim Kestell	Dec 14	-	-	-	-	-	-	-	-	-		
	Dec 13											
Total Remuneration	Dec 14	110,000	-	-	5,625	-	-	-	-	115,625		
	Dec 13	110,000	-	-	5,475	-	-	-	-	115,475		
Executive Directors												
Ken Charsinsky Managing	Dec 14	421,976	-	-	39,527	-	169,179	-	-	630,682	26.82%	26.82%
Director	Dec 13	458,715	-	-	41,858	-	186,025	-	-	686,598	27.09%	27.09%
Total Remuneration	Dec 14	421,976	-	-	39,527	-	169,179	-	-	630,682		
	Dec 13	458,715	-	-	41,858	-	186,025	-	-	686,598		

DIRECTORS' REPORT

	Year	Short-Term Salary & Fees $	Short-Term Bonus Cash $	Short-Term Other $	Post Employment	Share-Based Payments Shares $	Share-Based Payments Rights $	Share-Based Payments Options $	Termination Benefit $	Total $	% Performance Related	Value of options as proportion of remuneration
Key Management Personnel												
Ben Newton	Dec 14	264,425	-	-	39,527	-	96,887	-	-	400,839	24.17%	24.17%
Chief Financial Officer (employment ceased 1 February 2015)	Dec 13	289,854	-	-	25,504	-	95,428	-	-	410,786	23.23%	23.23%
David Cliff Exploration Manager	Dec 14	134,832	-	-	26,370	-	93,593	-	116,707	371,502	25.19%	25.19%
(employment ceased 28 February 2014)	Dec 13	288,990	-	-	26,370	-	93,593	-	-	408,953	22.90%	22.90%
Iain Smith Commercial Manager	Dec 14	264,908	-	-	24,173	-	89,463	-	-	378,544	23.63%	23.63%
(employment ceased 1 February 2015)	Dec 13	264,908	-	-	24,173	-	89,463	-	-	378,544	23.63%	23.63%
Donald Nelson (i) Resident Manager	Dec 14	183,662	-	-	18,226	-	64,258	-	825,479	1,091,625	5.89%	5.89%
(USA) (employment ceased 30 June 2014)	Dec 13	283,959	-	22,588	10,551	-	84,852	38,868	-	440,818	19.25%	28.06%
Richard Jason New	Dec 14	250,572	-	-	23,470	-	23,470	88,791	-	386,303	6.08%	29.08%
Ventures Manager	Dec 13	-	-	-	-	-	-	-	-	-	-	-
Total Remuneration of Key Management	Dec 14	1,630,375	-	-	176,918	-	536,850	88,791	942,186	3,375,120		
Personnel	Dec 13	1,696,426	-	22,588	133,931	-	549,361	38,868	-	2,441,174		

(i) In his role as Resident Manager of the USA office, Mr Nelson received other remuneration in the form of health insurance.

DIRECTORS' REPORT

9. Other Statutory Disclosures

For the purpose of determining the amount of remuneration required to be disclosed in each reporting period for each director or key management personnel, the Company uses the following methodologies to determine the remuneration values:

With respect to share options, the Company uses the Black-Scholes model to determine the fair value of the options as at the date of their issue. The fair value of the options granted is allocated over the vesting period for each of the directors and executives.

With respect to the Performance Rights, the value that has been ascribed as remuneration has been determined by an independent valuation which determined the value of the Performance Rights based on the probability of the Performance Rights vesting on the date of issue.

Equity Instruments

All options refer to options over ordinary shares of the Company which are exercisable on a one-for-one basis. Performance Rights are rights to a fully paid ordinary share in the Company subject to satisfaction of the vesting criteria as determined by the Board.

Options and rights over equity instruments granted as Remuneration

There were no options or rights over ordinary shares in the Company that were granted as Remuneration to key management personnel during the reporting period, except for 34,078,862 LTI Performance Rights that were granted to employees for the FY13 period but were not issued until May 2014 as they were subject to shareholder approval. Subsequent to the Annual General Meeting held on 30 May 2014, Neon allotted 34,078,862 LTI Performance Rights that were in relation to the FY13 period.

The details of the Performance Rights issued to Mr Ken Charsinsky are set out below:

2014	Held at 1 Jan 2014	Granted as Remuneration	Cancelled	Held at 31 December 2014	Vested and Exercisable at 31 Dec 2014
Directors					
Ken Charsinsky (i)	2,262,885	11,467,890	(899,758)	12,831,017	-

Grant Date	Expiry Date	Fair Value per right	Share Price on Grant Date	Expected Volatility	Risk Free Interest Rate	Dividend Yield	Life of Right
01/06/14	01/12/15	.0060	.160	70%	2.78%	0.00%	11 mths
01/06/14	1/03/15	.0044	.160	70%	2.78%	0.00%	2mths

List of options and rights held as at the date of this report are set out below:

Key Management Personal	Options	Long term incentive rights
Alan Stein	-	-
John Lander	-	-
Ken Charsinsky	-	12,831,017
Ben Newton	-	8,578,643
Iain Smith	-	7,763,824
Ric Jason	2,000,000	7,500,000
David Cliff	-	-

DIRECTORS' REPORT

Options over equity instruments granted as compensation

The movement during the reporting period in the number of options over ordinary shares in the Company held, directly, indirectly or beneficially by each Director or executive, including their related parties, is as follows:

2014	Held at 1 Jan 2014	Granted Remuneration	Options Exercised	Options Expired	Other	Held at 31 December 2014	Vested and Exercisable at 31 Dec 2014
Directors							
Alan Stein	-	-	-	-	-	-	-
John Lander	-	-	-	-	-	-	-
Ken Charsinsky	-	-	-	-	-	-	-
Other Key Management Personnel							
Ben Newton	-	-	-	-	-	-	-
Dave Cliff	-	-	-	-	-	-	-
Donald Nelson	2,200,000	-	-	(2,200,000)	-	-	-
Iain Smith	-	-	-	-	-	-	-
Richard Jason	2,000,000	-	-	-	-	2,000,000	-

2013	Held at 1 Jan 2013	Granted Remuneration	Options Exercised	Options Expired	Other	Held at 31 December 2013	Vested and Exercisable at 31 Dec 2013
Directors							
Alan Stein	-	-	-	-	-	-	-
John Lander	-	-	-	-	-	-	-
Ken Charsinsky	-	-	-	-	-	-	-
Other Key Management Personnel							
Ben Newton	2,500,000	-	(1,250,000)	(1,250,000)	-	-	-
Dave Cliff	2,500,000	-	(1,250,000)	(1,250,000)	-	-	-
Donald Nelson	2,200,000	-	-	-	-	2,200,000	2,200,000
Iain Smith	-	-	-	-	-	-	-
Richard Jason	-	2,000,000	-	-	-	2,000,000	-

Movement in Performance Rights

The movement during the reporting period in the number of Performance rights held, directly, indirectly or beneficially by each Director or executive, including their related parties, is as follows:

2014	Held at 1 Jan 2014	Granted as Remuneration	Cancelled	Held at 31 December 2014	Vested and Exercisable at 31 Dec 2014
Directors					
Ken Charsinsky (i)	2,262,885	11,467,890	(899,758)	12,831,017	-
Other Key Management Personnel					
Ben Newton	1,136,900	7,883,950	(442,207)	8,578,643	-
Dave Cliff	1,119,210	-	(1,119,210)	-	-
Donald Nelson	1,006,020	-	(1,006,020)	-	-
Iain Smith	1,061,319	7,227,022	(424,517)	7,863,824	-
Richard Jason	-	7,500,000		7,500,000	-

DIRECTORS' REPORT

2013	Held at 1 July 2013	Granted as Remuneration	Held at 31 Dec 2013	Vested and Exercisable at 31 Dec 2013
Directors				
Ken Charsinsky (i)	899,743	1,363,142	2,262,885	-
Other Key Management Personnel				
Ben Newton	1,136,900	-	1,136,900	-
Dave Cliff	1,119,210	-	1,119,210	-
Donald Nelson	1,006,020	-	1,006,020	-
Iain Smith	1,061,319	-	1,061,319	-

Ken Charsinsky was awarded 1,363,142 Performance rights for the period ended 31 December 2012which were not granted as they remained subject to shareholder approval as at 31 December 2012. They were subsequently approved at a meeting of shareholders on 12th April 2013.

Modification of terms of equity settled share based payment transactions

No terms of equity-settled share-based payment transactions (including options and rights granted as Remuneration to Key Management Personnel) have been altered or modified by the issuing entity during the reporting period or the prior period.

Exercise of options granted as remuneration

During the reporting period, No shares were issued to Key Management Personnel on the exercise of options.

Performance Rights

During the reporting period no shares were issued to Key Management Personnel under the Performance Rights Scheme.

END OF REMUNERATION REPORT

INDEMNIFICATION OF OFFICERS

Under the Constitution the Company is obliged, to the extent permitted by law, to indemnify an officer (including Directors) of the Company against liabilities incurred by the officer in that capacity, against costs and expenses incurred by the officer in successfully defending civil or criminal proceedings, and against any liability which arises out of conduct not involving a lack of good faith.

During or since the end of the financial year, the Company has paid insurance premiums in respect of a contract insuring all of the Directors of the Company against legal costs incurred in defending proceedings for conduct involving:

i A wilful breach of duty; or

ii A contravention of sections 182 or 183 of the Corporations Act 2001, as permitted by section 199B of the Corporations Act.

The premiums paid or payable for the above policy are unable to be disclosed pursuant to a confidentiality clause within the contract of insurance.

DIRECTORS' REPORT

INDEMNIFICATION OF AUDITORS

To the extent permitted by law, the Company has agreed to indemnify its auditors, Ernst & Young Australia, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young during or since the financial year.

NON-AUDIT SERVICES

The Directors are satisfied that the provision of non-audit services during the financial year by the auditor (EY) is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001, as:

i The only non-audit services provided by EY were advice relating to tax and industry remuneration policy and practice;

ii The audit division (including partner and staff) involved with the audit of the Group were not involved with the provision of the non-audit services; and

iii Fees totalling $177,231 was paid to EY for non-audit services - details of amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in Note 21 to the Financial Statements.

Based on the above, the Board is satisfied that the nature and scope of the non-audit service provided did not compromise the auditor's independence.

AUDITOR'S 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.

PETER PYNES

Non-Executive Director
Perth, 31 March 2014

Ernst & Young
11 Mounts Bay Road
Perth WA 6000 Australia
GPO Box M939 Perth WA 6843

Tel: +61 8 9429 2222
Fax: +61 8 9429 2436
ey.com/au

Auditor's independence declaration to the Directors of Neon Energy Limited

In relation to our audit of the financial report of Neon Energy Limited for the year ended 31 December 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

Ernst & Young

D S Lewsen
Partner
31 March 2015

CORPORATE GOVERNANCE STATEMENT

Principle	Corporate Governance best practice recommendation	Compliance	How we comply
1	Lay solid foundations for management and oversight		
1.1	Establish and disclose the functions reserved to the Board and those delegated to senior executives	✓	The Board of Directors of Neon Energy Limited is responsible for the corporate governance framework of the Group having regard to the ASX Corporate Governance Council published guidelines, principles and recommendations. The Company has an established system of corporate governance, founded on frequent communications between Directors and management. The Board of Neon represents shareholders' interest in building a successful oil and gas business that seeks to optimise medium to long-term financial gains for shareholders. By not focusing on short-term gains for shareholders, the Board believes this will ultimately result in the interest of all stakeholders being appropriately addressed when making business decisions. The Board also recognises its responsibility towards a wider group of stakeholders, together with its social responsibilities including socio economic and environmental responsibilities. The health and safety of all its employees, contractors and other people involved in any of Neon's operations is also of paramount importance to both the Board and senior executives of the Company. The Board is responsible for ensuring that Neon is managed in such a way to best achieve this desired result. Given the current size and operation of the business, the Board currently undertakes an active, not passive role. The Board is responsible for evaluating and setting the strategic direction for Neon, establishing goals for management and monitoring the achievement of these goals. The Managing Director is responsible to the Board for the day-to-day management of the Company. The Board has sole responsibility for the following: Determining the strategic direction of the Group and measuring performance of management against approved strategies; Review of the adequacy of resources for management to properly carry out approved strategies and business plans; Adopting operating and capital expenditure budgets at the commencement of each financial year and monitoring the progress by both financial and non-financial key performance indicators; Monitoring the Group's medium term capital and cash flow requirements; Approving and monitoring financial and other reporting to regulatory bodies, shareholders and other organisations; Determining that satisfactory arrangements are in

CORPORATE GOVERNANCE STATEMENT

Principle	Corporate Governance best practice recommendation	Compliance	How we comply
			place for auditing the Group's financial affairs; Review and ratify systems of risk management and internal compliance and control, codes of conduct and compliance with legislative requirements in conjunction with management; and Ensuring that policies and compliance systems consistent with generally accepted good practice and the Group's objectives are in place and that the Company and its officers act legally, ethically and responsibly on all matters in conjunction with management. Appointing and removing Executive Directors and any other executives and approving their remunerations; Appointing and removing the Company Secretary and Chief Financial Officer and approving their remunerations; The Board's role and the Group's corporate governance practices are being continually reviewed and improved as required
1.2	Disclose the process for evaluating the performance of senior executives	✓	It is the responsibility of the Remuneration Committee to review and evaluate the performance of the Company's senior executives, this process is delegated to the Managing Director. The Managing Director's performance is reviewed by the Remuneration Committee. At present the Company does not have any full time executives or management.
1.3	Companies should provide the information indicated in the Guide to reporting on Principle 1.		Evaluations of the performance of the Managing Director and Chief Financial Officer have occurred and were in accordance with the process disclosed at 1.2 above. Refer to remuneration report.
2	Structure of the Board to add value		
2.1	A majority of the Board should be independent directors	×	The majority of the Board is not independent. The Neon Board comprises four directors: one independent non-executive directors and three non –independent non-executive directors. The Board is chaired by an independent director. Neon believes that employing a materiality concept is essential in judging whether customer, supplier, consultant or professional adviser relationships affect the independence of Neon directors. The Board assesses the independence of its directors in accordance with ASX recommendations and has determined that Mr Stein are considered independent directors.
2.2	The chairperson should be an independent director	✓	The Chairman, Mr Alan Stein is considered by the Board to be independent.
2.3	The roles of chairperson and Managing Director should not be exercised by the same individual	✓	The Chairman, Mr Alan Stein, facilitated the relationship between the Board and, previous Managing Director Mr Ken Charsinsky.

CORPORATE GOVERNANCE STATEMENT

Principle	Corporate Governance best practice recommendation	Compliance	How we comply
2.4	The Board should establish a nomination committee	✘	The Company does not presently have a separate nomination committee as required by Best Practice Recommendations The size of the Company and Board does not warrant the establishment of a separate nomination committee. The duties of such committee have been considered and adopted by the Board. The Company does not have a documented procedure for the selection and appointment of directors. The Board informally reviews the skill set of and market expectations for its directors on a regular basis and considers these factors when appointing / re-electing directors. The Board invites persons with relevant industry experience and financial experience to assist it in its appointment of directors.
2.5	The process for evaluating the performance of the Board, its committees and individual directors should be disclosed.	✓	The Board has adopted a self-evaluation process to measure its own performance and the performance of any committees that may get formed during each financial year. Also, an annual review is undertaken in relation to the composition and skills mix of the Directors of the Company. Arrangements put in place by the Board to monitor the performance of Neon executives and management include: Annual performance appraisal meetings incorporating analysis of key performance indicators with each individual to ensure that the level of reward is aligned with respective responsibilities and individual contributions made to the success of the Company; and Monitoring the performance of Neon with respect to the Company meeting the objectives, both financial and operational, set by the Board at the commencement of each financial year.
2.6	The 'Guide to Reporting on Principle 2' provides that certain information should be included in the corporate governance section of the Company's Annual Report or be made publicly available ideally on the Company's website.		As at the date of this statement, the Company is of the view that it has complied with each of the recommendations under Principle 2, except for Recommendation 2.1 and 2.4. An explanation for the departures from Recommendation 2.1 and 2.4 is set out above.
3	Promote ethical and responsible decision making		
3.1	Establish a code of conduct and disclose the code or a summary of the code as to:	✓	The Board has adopted a Code of Conduct for Directors to promote ethical and responsible decision making by the Directors. The code is based on a code of conduct for Directors prepared by the Australian Institute of Company Directors. The principles of the code are: A Director must act honestly, in good faith and in the best interests of Neon as a whole; A Director has a duty to use due care and diligence in fulfilling the functions of office and exercising the powers
	(a) the practices necessary to maintain confidence in the Company's integrity;		
	(b) the practices necessary to take into account their legal obligations and the reasonable expectations		

CORPORATE GOVERNANCE STATEMENT

Principle	Corporate Governance best practice recommendation	Compliance	How we comply
	of their stakeholders;		attached to that office. A Director must use the powers of office for a proper purpose, in the best interests of the Company as a whole. A Director must recognise that the primary responsibility is to Neon's shareholders as a whole but should, where appropriate, have regard for the interest of all stakeholders of the Group. A Director must not make improper use of information acquired as a Director. A Director must not take improper advantage of the position of Director. A Director must not allow personal interests, or the interests of any associated person, to conflict with the interests of the Company. A Director has an obligation to be independent in judgment and actions and to take all reasonable steps to be satisfied as to the soundness of all decisions taken as a Board. Confidential information received by a Director in the course of the exercise of directorial duties remains the property of the Company and it is improper to disclose it, or allow it to be disclosed, unless that disclosure has been authorised by the Company, or the person from whom the information is provided, or is required by law. A Director should not engage in conduct likely to bring discredit upon the Company. A Director has an obligation at all times, to comply with the spirit, as well as the letter of the law and with the principles of the Code. The Board and employees of Neon will abide by all the laws of the jurisdictions the Company works within and seek mutually beneficial relationships in all our dealings with business partners, suppliers and other stakeholders. The Code of Ethics and Conduct provides guidelines aimed at maintaining high ethical standards, corporate behaviour and accountability within the Company. The policy seeks also to help establish a Code of Ethics and Conduct that will attract directors and employees who have similar personal codes of ethics and conduct. Neon Directors and employees are expected to: Respect the law and act in accordance with it; Respect confidentiality and not misuse Company information, assets or facilities; Value and maintain professionalism; Avoid real or perceived conflicts of interest; Act in the best interests of shareholders; By their actions contribute to Neon's reputation as a good corporate citizen which seeks the respect of the community and environment in which it operates; Perform their duties in ways that minimise environmental impacts and maximise workplace safety; Exercise fairness, courtesy, respect, consideration and
	(c) the responsibility and accountability of individuals for reporting and investigating reports of unethical practices;		

CORPORATE GOVERNANCE STATEMENT

Principle	Corporate Governance best practice recommendation	Compliance	How we comply
			sensitivity in all dealings within their workplace and with customers, suppliers and the public generally; and Act with honesty, integrity, decency and responsibility at all times. An employee that breaches the Code of Ethics and Conduct may face disciplinary action. If an employee suspects that a breach of the Code of Ethics and Conduct has occurred or will occur, he or she must notify management of that breach. No employee will be disadvantaged or prejudiced if he or she reports in good faith a suspected breach. All such reports will be acted upon and kept confidential.
3.2	Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the board to establish measurable objectives for achieving gender diversity for the board to assess annually both the objectives and progress in achieving them.	✓	The Board has adopted a policy concerning diversity and has disclosed the policy on its website.
3.3	Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress towards achieving them.	✘	Neon encourages diversity in its workforces and to that end has adopted an equal opportunity and anti-discrimination policy which seeks to provide equal employment opportunities to all employee's regardless of race, gender, religion, age, nationality or any other grounds while providing a workplace where everyone is treated equally and fairly and where discrimination, harassment and inequality are not tolerated. Further the Group does not positively discriminate in favour of any group of people and positions of employment are based on technical ability, qualifications and experience. Therefore although the company supports the recommendations contained in the ASX *Corporate Governance Principles and Recommendation,* it does not follow the recommendations requiring the company to establish measurable objectives for achieving gender diversity as this contradicts our position of not discriminating in favour of any group of people. While not setting specific targets for achieving gender diversity, Neon does not discriminate in favour of or against the appointment of women at any level in the organisation, nor does it discriminate based on gender in setting salary levels, training and development or in other advancement opportunities. This will always be based on technical abilities and qualifications with no consideration to gender.
3.4	Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women in the board	✘	Neon encourages diversity in its workforces and to that end has adopted an equal opportunity and anti-discrimination policy which seeks to provide equal employment opportunities to all employee's regardless of race, gender, religion, age, nationality or any other grounds while providing a workplace where everyone is treated equally and fairly and where discrimination, harassment and inequality are not tolerated. Further the Group

CORPORATE GOVERNANCE STATEMENT

Principle	Corporate Governance best practice recommendation	Compliance	How we comply
			does not positively discriminate in favour of any group of people and positions of employment are based on technical ability, qualifications and experience. Therefore although the company supports the recommendations contained in the ASX *Corporate Governance Principles and Recommendation,* it does not follow the recommendations requiring the company to establish measurable objectives for achieving gender diversity as this contradicts our position of not discriminating in favour of any group of people. While not setting specific targets for achieving gender diversity, Neon does not discriminate in favour of or against the appointment of women at any level in the organisation, nor does it discriminate based on gender in setting salary levels, training and development or in other advancement opportunities. This will always be based on technical abilities and qualifications with no consideration to gender. The table below provides actual data on gender diversity that currently exists within the group. Actual Number / % Women employed whole organisation: 0 / 0.% Women in senior executive roles: 0 / 0.0% Women in board positions: 0 / 0.0% Neon will review its position on disclosure of women in senior executive positions in future annual reports. At present the Company does not have any employees either male or female.
3.5	Provide related disclosures: An explanation of any departure from Recommendation 3 Posting to the company's web site any applicable code of conduct or a summary and the diversity policy or a summary of its main provisions	✗	Explanation of departures from Principles and Recommendations 3.1, 3.2, 3.3 and 3.4 (if any) are set out above. The Company will also explain any departures from Principles and Recommendations 3.1, 3.2, 3.3 and 3.4 (if any) in its future annual reports. The Corporate Governance Policies which includes the Diversity Policy and Corporate Code of Conduct is posted on the Company's website.
4	Safeguard integrity in financial reporting		
4.1	The Board should establish an audit committee	✓	The Company has established an Audit Committee, which will formally adopt Terms of Reference during the financial year. The purpose of the audit committee is to assist the Board to meet its responsibilities in relation to the Company's financial reporting, compliance with legal and regulatory requirements, internal controls, risk management procedures and the internal and external audit functions. Key activities of the Audit Committee: Approval of the scope, plan & fees for external audits

CORPORATE GOVERNANCE STATEMENT

Principle	Corporate Governance best practice recommendation	Compliance	How we comply
			Review independence and performance of external auditor Review significant accounting policies and procedures Review key risks and the risk management framework Review and recommendation to the Board for the adoption of the Company's half year and annual financial statements
4.2	Structure the audit committee so that it consists of:		The Audit Committee convenes at least twice a year and comprised of the Non-Executive Directors. The external auditors, the Chief Financial Officer and Senior Corporate Accountant will attend Audit Committee meetings by invitation. The committee complies with the structure as required by the Best Practice Recommendation 4.2.
	a) only non-executive directors	✗	
	b) majority of independent directors	✗	
	c) independent chairperson, who is not the chairperson of the Board	✗	
	d) at least three members	✓	
4.3	The audit committee should have a formal charter	✓	The Audit Committee has a formal charter that can be made available on request.
4.4	The 'Guide to Reporting on Principle 4' provides that certain information should be included in the corporate governance section of the Company's Annual Report or be made publicly available ideally on the Company's website.	✓	Due to the current composition of the board the Company is of the view that it is difficult to comply with each of the recommendations under Principle 4.
5	Make timely and balanced disclosure		
5.1	Establish written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance. These policies or a summary of the policies should be disclosed.	✓	Neon's Continuous Disclosure Policy details the process by which information is disclosed to the market. The Chair has ultimate authority and responsibility for market disclosure, which is delegated on a day to day basis to the Managing Director and Chief Financial Officer, who seek approval from the Chair on all significant matters. At present there is no Executive, with the full board active in disclosures to the market. Neon requires all employees and Directors to inform the Managing Director or in his absence, the Company Secretary, of any potentially price sensitive material or information as soon as practicable after they become aware of that information. The Company will promptly disclose such information to the market, subject to the following procedures and guidelines. Information is material if it is likely that the information would influence investors who commonly acquire securities on ASX in deciding whether to buy, sell or hold the Company's securities. Neon complies in full with the requirements of ASX Listing Rule

CORPORATE GOVERNANCE STATEMENT

Principle	Corporate Governance best practice recommendation	Compliance	How we comply
			3.1 in the implementation of this policy. The Managing Director is responsible for interpreting and monitoring the Company's disclosure policy and where necessary informing the Board. The Company Secretary is responsible for all communications with ASX. Prior to any media or ASX release being made, two Directors, one of which must be the Managing Director, must first approve the release by email or telephone.
5.2	In accordance with the 'Guide to Reporting on Principle 5', the Company has made its Continuous Disclosure and Compliance Policy available on its website.	✓	The Company's Continuous Disclosure Policy is available on the Company's website.
6	Respect the rights of shareholders		
6.1	Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.	✓	The Company's communication strategy requires communication with shareholders and other stakeholders in an open, regular and timely manner so that the market has sufficient information to make informed investment decisions on the operations and results of Neon. The strategy provides for the use of systems that ensure a regular and timely release of information about the Company is provided to shareholders. Mechanisms employed include: Media and ASX announcements; Maintenance of an informative website; Regular presentations to shareholders and investors; Directors answering queries from shareholders in a timely manner via email or telephone; Regular statutory reporting, both to ASX and shareholders; and Presentations by Managing Director at the Annual General Meeting and General Meeting's. The Board encourages full participation of shareholders at the Annual General Meeting to ensure a high level of accountability and understanding of Neon's strategy and goals.
6.2	Companies should provide the information indicated in the Guide to reporting on Principle 6.		The Continuous Disclosure Policy can be found on the company's website.

CORPORATE GOVERNANCE STATEMENT

7	Recognise and manage risk		
7.1	The Company should establish policies for risk oversight and management	✓	Neon is committed to risk management as part of good governance and business practice with a program of risk identification, assessment, management, monitoring, review and regular reporting.
7.2	The Board should require management to design and implement the risk management and internal control system to manage the company's material risks and report to it on whether those risks are being managed effectively. The Board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.	✗	The identification and effective management of risk, including calculated risk taking, is viewed as an essential part of the Group's approach to creating long term shareholder value. Management is responsible for designing, implementing and reporting on the adequacy of the Group's risk management and internal control system. As part of the company's director meetings, management reports to the Board on the Group's key risks as they arise and the extent to which it believes these risks are being managed. The Board is responsible for reviewing and approving the Group's risk management and internal control system and satisfying itself at least on an annual basis that management has developed and implemented a sound system of risk management and internal control. The company does not have a formal Risk Management Committee and is in the process of adopting a more formal risk structure. The Group operates a standardised risk management process that provides a consistent framework for the identification, assessment, monitoring and management of material business risks. The Group has developed a series of operational risks which the Group believes to be inherent in the industry in which it operates. These include: Fluctuations in commodity prices and exchange rates; Accuracy of hydrocarbon reserve and resource estimates; Reliance on licenses, permits and approval from regulatory authorities; Ability to obtain additional financing; and Changing operating, market and regulatory environments. The risks identified above are not exhaustive and are identified for the purposes of helping investors assess the risk profile of the Group operating within the oil and gas industry.
7.3	The Board should disclose whether it has received assurance from the Managing Director and the Chief Financial Officer that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk	✓	The Board receives a written assurance from the Managing Director and the Chief Financial Officer that to the best of their knowledge and belief, the declaration provided by them in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in relation to financial reporting risks. The Board notes that due to its nature, internal control

CORPORATE GOVERNANCE STATEMENT

	management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks		assurances from the Managing Director and the Chief Financial Officer can only be reasonable rather than absolute.
7.4	Companies should provide the information indicated in the Guide to reporting on Principle 7.	✓	In accordance with the 'Guide to Reporting on Principle 7', the Company provides the following information: (a) The Company has not departed from Recommendations 7.1 to 7.4. (b) The Board has received the report from management under Recommendation 7.2. (c) The Board received assurance from previous Managing Director Mr Ken Charsinsky, and Mr Ben Newton as Chief Financial Officer, under Recommendation 7.3 The company's risk management policies are available on the company's website (within Audit Committee Charter).
8	**Remunerate fairly and responsibly**		
8.1	The Board should establish a remuneration committee	✓	The Company has established a Remuneration Committee, which has a formal remuneration committee charter. The purpose of the Remuneration Committee is to assist the Board in establishing employment and compensation policies and practices, including recruitment, retention and remuneration of employees. Key activities of the Remuneration Committee: Reward employees fairly and responsibly Reviewal of the appointment and remuneration of new key staff, for recommendation to the board Review of the annual remuneration report, for recommendation to the Board The Remuneration Committee convenes twice a year and consists of two independent non-executive directors and the Managing Director. The Chief Financial Officer will attend Remuneration Committee meetings by invitation.
8.2	The remuneration committee should be structured so that it: Consists of a majority of independent directors	✗	The remuneration committee consists of a majority of Independent Directors. The Full board has assumed the responsibility of the Remuneration Committee.
	Is chaired by the independent chair	✗	The Full board has assumed the responsibility of the Remuneration Committee.
	Has at least 3 members	✗	The Full board has assumed the responsibility of the Remuneration Committee.

CORPORATE GOVERNANCE STATEMENT

8.3	Companies should clearly distinguish the structure of non-executive director's remuneration from that of executive directors and senior executives	✓	Refer Director's Report
8.4	Companies should provide the information indicated in the Guide to reporting on Principle 8.	✓	In accordance with the 'Guide to Reporting on Principle 8', the Company provides the following information: (a) there are no schemes for retirement benefits, other than statutory superannuation, in existence for the Non-Executive Directors; (b) as at the date of this statement, the Company is of the view that it has complied with each of the Recommendations under Principle 8.

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2014

	Note	Year ended 31 Dec 2014 $	Year ended 31 Dec 2013 $
Other income	3(a)	65,947	829,560
Corporate and administration expenses	3(b)	(6,377,209)	(4,202,404)
Finance costs		(43,856)	(58,930)
Impairment of exploration and evaluation assets	3(c)	(100,000)	-
Net gain on foreign exchange		2,822,987	562,210
Loss before income tax expense for continuing operations		(3,632,131)	(2,869,564)
Income tax (expense)/benefit	4	-	4,485,427
(Loss)/profit for the period for continuing operations		(3,632,131)	1,615,863
Discontinued operations			
Profit / (Loss) after tax for the period from discontinued operations	22	15,409,053	(91,498,648)
Profit / (Loss) for the period		11,776,922	(89,882,785)
Other comprehensive income			
Items reclassified subsequently to Profit or Loss:			
Exchange differences on translation of foreign operations		(1,076,089)	10,765,596
Recycle of foreign currency translation reserve of discontinued operations		(2,365,999)	-
Total comprehensive income/(loss) for the period attributable to members of the parent entity		8,334,834	(79,117,189)
		Cents	Cents
Basic earnings/(loss) per share		2.13	(16.30)
Diluted earnings/(loss) per share		2.04	(16.30)
Basic loss/(earnings) per share for continuing operations		(0.66)	0.29
Diluted loss/(earnings) per share for continuing operations		(0.66)	0.29

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2014

	Note	Consolidated As at 31 Dec 14 $	Consolidated As at 31 Dec 13 $
CURRENT ASSETS			
Cash	17(a)	15,694,912	9,700,017
Other financial assets	17(c)	6,041,790	1,147,875
Trade and other receivables	5	208,975	1,458,045
Inventories	6	-	118,086
TOTAL CURRENT ASSETS		21,945,677	12,424,023
NON-CURRENT ASSETS			
Property, plant and equipment	7	8,826	148,926
Oil and gas properties	8	-	27,358,498
Exploration and evaluation assets	9	-	4,765,243
TOTAL NON-CURRENT ASSETS		8,826	32,272,667
TOTAL ASSETS		21,954,503	44,696,690
CURRENT LIABILITIES			
Trade and other payables	10	100,259	26,936,621
Provisions	11	181,172	2,590,438
TOTAL CURRENT LIABILITIES		281,431	29,527,059
NON-CURRENT LIABILITIES			
Provisions	11	-	2,529,458
TOTAL NON-CURRENT LIABILITIES		-	2,529,458
TOTAL LIABILITIES		281,431	32,056,517
NET ASSETS		21,673,072	12,640,173
EQUITY			
Contributed equity	12(a)	171,571,258	171,571,258
Reserves	12(b)	5,427,401	8,171,424
Accumulated losses	13	(155,325,587)	(167,102,509)
TOTAL EQUITY		21,673,072	12,640,173

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2014

	Note	Consolidated Year Ended 31 Dec 14 $	Consolidated Year Ended 31 Dec 13 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		3,971,635	8,916,548
Payments to suppliers and employees		(9,366,939)	(12,201,390)
Interest received		78,075	472,499
Finance costs paid		(43,856)	(29,273)
Net cash flows used in operating activities	17(b)	(5,361,085)	(2,841,616)
CASH FLOWS FROM INVESTING ACTIVITIES			
Development expenditure		(75,635)	(2,689,682)
Exploration and evaluation expenditure		(13,789,850)	(12,209,920)
Proceeds from sale of interest in exploration and evaluation assets		-	6,556,804
Proceeds from the sale of US assets		22,978,268	-
Investments in short term deposits		-	(1,147,875)
Purchase of property, plant and equipment		-	(43,994)
Net cash from/(used in) investing activities		9,112,783	(9,534,667)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		-	619,800
Net cash flows from financing activities		-	619,800
Net increase/(decrease) in cash and cash equivalents		3,751,698	(11,756,483)
Net foreign exchange differences		2,243,197	806,507
Cash and cash equivalents at beginning of period		9,700,017	20,649,993
Cash and cash equivalents at end of period	17(a)	15,694,912	9,700,017

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2014

	Issued Capital $	Retained Earnings $	Option & Rights Premium Reserve $	Foreign Currency Translation Reserve $	Total Equity $
At 1 January 2013	170,951,258	(77,219,724)	4,042,948	(7,323,508)	90,450,974
Loss for the year	-	(89,882,785)	-	-	(89,882,785)
Other comprehensive income	-	-	-	10,765,596	10,765,596
Total comprehensive (loss)/income for the year	-	(89,882,785)	-	10,765,596	(79,117,189)
Shares issued	620,000				620,000
Rights granted	-	-	604,785	-	604,785
Options granted	-	-	81,603	-	81,603
At 31 December 2013	171,571,258	(167,102,509)	4,729,336	3,442,088	12,640,173
At 1 January 2014	171,571,258	(167,102,509)	4,729,336	3,442,088	12,640,173
Profit for the year	-	11,776,922	-	-	11,776,922
Other comprehensive loss	-	-	-	(3,442,088)	(3,442,088)
Total comprehensive income/(loss) for the year	-	11,776,922	-	(3,442,088)	8,334,834
Rights granted	-	-	609,814	-	609,814
Options granted	-	-	88,791	-	88,791
At 31 December 2014	171,571,258	(155,325,587)	5,427,941	-	21,673,612

NOTES TO THE FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

The financial report of Neon Energy Limited (the Company) for the year ended 31 December 2014 was authorised for issue in accordance with a resolution of the directors on 31 March 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. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and other authoritative standards and other authoritative pronouncements of the Australian Accounting Standards Board.

The financial report complies with Australian Accounting Standards and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

The financial report has also been prepared on a historical cost basis.

The financial report is presented in Australian dollars unless otherwise stated.

Except as disclosed below, the accounting policies adopted are consistent with those disclosed in the Annual Financial Report for the year ended 31 December 2013. Certain comparative information has been reclassified to be presented on a consistent basis with the current year's presentation.

Changes in accounting policy and disclosures

The Group has adopted all new and amended Australian Accounting Standards and Interpretations effective from 1 January 2014 including:

AASB 2011-4 Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements [AASB 124];
AASB 2012-3 Amendments to Australian Accounting Standards — Offsetting Financial Assets and Financial Liabilities;
AASB 2013-3 Amendments to AASB 136 — Recoverable Amount Disclosures for Non-Financial Assets;
AASB 2013-4 Amendments to AASB 139 — Novation of Derivatives and Continuation of Hedge Accounting;
AASB 1031 (2013) Materiality;
AASB 1048 (2013) Interpretation of Standards;
AASB 2013-9 (part B) Amendments to Australian Accounting Standards - Materiality; and
Interpretation 21 Levies.

NOTES TO THE FINANCIAL STATEMENTS

2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation (continued)

New and amended Standards and Interpretations did not result in any significant changes to the Group's accounting policies.

The Group has not elected to early adopt any other new or amended Standards or Interpretations that are issued but not yet effective. The following Standards and interpretations have recently been issued or amended but are not yet effective and have not been adopted by the Group as at the financial reporting date. They are not likely to have a material impact on the Group.

Reference	Title	Summary
AASB 9 *Financial Instruments*	Periods beginning on or after 1 January 2018	A finalised version of AASB 9 which contains accounting requirements for financial instruments, replacing AASB 139 *Financial Instruments: Recognition and Measurement*. The Standard contains requirements in the areas of classification and measurement, impairment, hedge accounting and derecognition.
AASB 15 *Revenue from Contracts with Customers*	Periods beginning on or after 1 January 2017	AASB 15 provides a single, principles based five-step model to be applied to all contracts with customers. Guidance is provided on topics such as the point in which revenue is recognised, accounting for variable consideration, costs of fulfilling and obtaining a contract and various related matters. New disclosures about revenue are also introduced.
AASB 2014-4 *Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations*	Periods beginning on or after 1 January 2016	This Standard sets out the guidance on the accounting for acquisition of interests in joint operations in which the activity constitutes a business.
AASB 119 - *Defined Benefit Plans: Employee contributions - AASB 2014-1, Part B*	Periods beginning on or after 1 July 2014	This Standard makes amendments relating to the requirement for contributions from employees or third parties that are linked to service.
AASB 2014-4 *Clarification of acceptable methods of depreciation and amortisation (amendments to AASB 116 and AASB 138)*	Periods beginning on or after 1 January 2016	This Standard clarifies that a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate for property, plant and equipment.
Annual Improvements to IFRSs AASB 2014-1, Part A.Cycle	Periods beginning on or after 1 July 2014	This Standard sets out amendments to International Financial Reporting Standards (IFRSs) and the related bases for conclusions and guidance made during the International Accounting Standards Board's Annual Improvements process. These amendments have not yet been adopted by the AASB.
Annual Improvements to IFRSs AASB 2014-1, Part A.Cycle	Periods beginning on or after 1 July 2014	This Standard provides clarification amendments to IFRS 1, IFRS 3, IFRS 13 and IFRS 40.
Annual Improvements to IFRSs 2015–1 Cycle	Periods beginning on or after 1 July 2014	This Standard provides clarification amendments to IFRS 5, IFRS 7, IFRS 9 and IFRS 134.
Disclosure Initiative Amendments to IAS 1- AASB 2015-2	Periods beginning on or after 1 January 2016	This initiative amends AASB 101 *Presentation of Financial Statements* to address perceived impediments to preparers exercising their judgement in presenting their financial reports by making the following changes: • clarification that information should not be obscured by aggregating or by providing immaterial information; • clarification that the list of line items to be presented in these statements can be disaggregated and aggregated as relevant; and • additional examples of possible ways of ordering the notes to clarify that understandability and comparability should be considered when determining the order of the notes.

NOTES TO THE FINANCIAL STATEMENTS

(a) Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2014. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

The contractual arrangement with the other vote holders of the investee
Rights arising from other contractual arrangements
The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- De-recognises the assets (including goodwill) and liabilities of the subsidiary
- De-recognises the carrying amount of any non-controlling interests
- De-recognises the cumulative translation differences recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognised in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities

(b) Business Combinations

Business combinations are accounted for using the acquisition method. The cost of any acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. Acquisition costs incurred are expensed.

NOTES TO THE FINANCIAL STATEMENTS

(b) Business Combinations (continued)

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

The difference between the above items and the fair value of consideration (including the fair value of any pre-existing investment in the acquiree) is goodwill or a discount on acquisition.

(c) Operating Segments

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. This includes start up operations which are yet to earn revenues. Management will also consider other factors in determining operating segments such as the existence of a line manager and the level of segment information presented to the board of directors.

Operating segments have been identified based on the information provided to the chief operating decision maker – being the executive management team.

During the period the Group has disposed of its interests in two operations, each previously representing their own segment for the purposes of AASB 8 *Operating Segment,* those segments being South East Asia and the USA. The Group has disclosed the discontinued operations results within the segment disclosures and accordingly has not separately disclosed discontinued operations in a separate note. Results from discontinue operations are set out in Note 22.

(d) Foreign Currency Translation

Both the functional and presentation currency of Neon Energy Limited is Australian Dollars. The functional currency of all controlled entities other than those noted below is Australian Dollars.

Company Name	Functional Currency	Functional Currency
Neon Energy Corporation	United States Dollar (pre 1 May 2014)	Australian Dollars (post 1 May 2014)
Neon Energy (Paris Valley) LLC	United States Dollar (pre 1 May 2014)	Australian Dollars (post 1 May 2014)
Neon Energy (Indonesia) Ltd	United States Dollar (pre 30 June 2014)	Australian Dollars (post 30 June 2014)
Neon Energy (Song Hong) Pty Ltd	United States Dollar (pre 30 June 2014)	Australian Dollars (post 30 June 2014)
Neon Energy (Nam Con Son)	United States Dollar (pre 30 June 2014)	Australian Dollars (post 30 June 2014)
Neon Energy (India) Pty Ltd	United States Dollar (pre 30 June 2014)	Australian Dollars (post 30 June 2014)

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.
Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction.

NOTES TO THE FINANCIAL STATEMENTS

Foreign Currency Translation (continued)

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rate at the date when the fair value was determined.

Where the functional currency of a subsidiary of Neon is not Australian Dollars the assets and liabilities of the subsidiary at reporting date are translated into the presentation currency of Neon at the rate of exchange ruling at the statement of financial position date and the statements of comprehensive income are translated by applying the average exchange rate for the period. Any exchange differences arising on this translation are taken to the foreign currency translation reserve.

During the period the Group disposed of its operations in the USA and South East Asia. The economic environment of the subsidiaries that held the interests in those operations at the date of disposal ceased to be predominantly influenced by fluctuations in United States dollars, instead being predominantly impacted by Australian dollars. Accordingly, the functional currency of those subsidiaries changed on that date in accordance with the table above.

(e) Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue from the sale of oil, gas and condensate is recognised in the profit or loss when the significant risks and rewards of ownership have been transferred to the buyer. Interest revenue is recognised as the interest accrues using the effective interest method.

(f) Income Tax

The income tax expense for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the Parent Entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future, nor if the deferred tax arises on the initial recognition of an asset or liability that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against tax liabilities and the deferred tax liabilities relate to the same taxable entity and the same taxation authority. Neon and its wholly owned Australian controlled entities have not implemented the tax consolidation legislation.

NOTES TO THE FINANCIAL STATEMENTS

(g) Impairment of Non-financial Assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the recoverable amount of the asset. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and the asset's value in use cannot be estimated to be close to its fair value. In such cases the asset is tested for impairment as part of the cash-generating unit to which it belongs. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount.

In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses relating to continuing operations are recognised in those expense categories consistent with the function of the impaired asset. Where fair value less costs to dispose is an applicable valuation, best available information is used which includes similar market transaction data, valuations from external parties and negotiations with third parties in regards to asset sales.

An assessment is also made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

(h) Cash and Cash Equivalents

"Cash and cash equivalents" includes cash at bank and in hand, deposits held at call with financial institutions, with an original maturity of three months or less and other short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined.

(i) Trade and Other Receivables

Trade receivables, which generally have 30-90 day terms, are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for any uncollectible amounts.

Collectability of trade receivables is reviewed on an ongoing basis. Debts that are known to be uncollectible are written off when identified. An allowance for doubtful debts is raised when there is objective evidence that the group will not be able to collect the debt.

NOTES TO THE FINANCIAL STATEMENTS

(j) Investments and Other Financial Assets

Financial assets in the scope of AASB 139 *Financial Instruments: Recognition and Measurement* are classified as either financial assets at fair value through profit or loss, loan and receivables, held-to-maturity investments, or available-for-sale investments. When financial assets are recognised initially they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial asset on initial recognition.

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the market place.

(i) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

(k) Property, Plant and Equipment

Plant and equipment is stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

Plant and equipment are depreciated at rates based upon their expected useful lives with depreciation rates ranging between 7.5% and 50% dependent upon the specific type of asset subject to the depreciation charge.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

An item of plant and equipment is derecognised upon disposal or when no further economic benefits are expected from its use or disposal. Gains and losses on disposals are determined by comparing the net disposal proceeds with carrying amount of the asset. These are included in the profit or loss in the period the asset is derecognised.

(l) Trade and Other Payables

Trade and other payables are carried at amortised cost and represent liabilities for the goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days.

NOTES TO THE FINANCIAL STATEMENTS

(m) Employee Leave Benefits

Liabilities for wages and salaries are recognised in accruals and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-monetary benefits and annual leave due to be settled within twelve months of the reporting date are recognised in provisions in respect of employees' service up to the reporting date, and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Contributions to the defined contribution superannuation fund are recognised as an expense as they become payable. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

(n) Contributed Equity

Ordinary shares are classified as equity. Issued and paid up capital is recognised at the fair value of the consideration received by the Company.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(o) Dividends

Provision is made for the amount of any dividend declared on or before the end of the year but not distributed at balance date.

(p) Earnings per Share (EPS)

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the year, adjusted for bonus elements in ordinary shares issued during the year.

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(q) Exploration Expenditure

Exploration and evaluation costs, including the costs of acquiring leases, are capitalised as exploration and evaluation assets on an area of interest basis.

NOTES TO THE FINANCIAL STATEMENTS

Exploration Expenditure (continued)

Exploration and evaluation assets are only recognised if the rights to the area of interest are current and either:

i the expenditures are expected to be recouped through successful development and exploitation of the area of interest or its sale; or
ii Activities in the area of interest have not at the reporting date, reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves and active and significant operations in, or in relation to, the area of interest are continuing.

Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For the purpose of impairment testing, exploration and evaluation assets are allocated to cash-generating units to which the exploration activity relates. The cash generating unit shall not be larger than the area of interest. Where there is no cash generating unit, within an area of interest, and it is determined that the exploration and evaluation asset does not meet the impairment test, the capitalised expenditure is written off to the profit and loss account.

Once the technical feasibility and commercial viability of the extraction of oil or gas in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified to oil and gas properties.

(r) Oil and Gas Properties

Assets in Development
When the technical and commercial feasibility of an undeveloped oil or gas field has been demonstrated the field enters its development phase. The costs of oil and gas assets are transferred from exploration and evaluation expenditure and reclassified into development phase and include past exploration and evaluation costs, development drilling and other subsurface expenditure, surface plant and equipment, and any associated land and buildings.

When commercial operation commences the accumulated costs are transferred to oil and gas assets – producing assets.

Producing assets
The costs of oil and gas assets in production are separately accounted for as tangible assets, and include past exploration and evaluation costs, pre-production development costs and the ongoing costs of continuing to develop reserves for production and to expand or replace plant and equipment and any associated land and buildings.

These costs are subject to depreciation and depletion. Depletion charges are calculated using a unit of production method which will amortise the cost of carried forward exploration, evaluation and development expenditure over the life of the estimated proved plus probable reserves, in a cash generating unit, together with the development expenditure necessary to develop the hydrocarbon reserves in the respective cash-generating units.

Oil & gas facilities, including storage facilities and pipelines, are depreciated over 15 years on a straight-line basis.Provisions for future restoration are made where there is a present obligation as a result of development or production activity, and is capitalised as a component of the cost of those activities. The provision for restoration policy is discussed in full in Note 2(u).

NOTES TO THE FINANCIAL STATEMENTS

(s) Goods and Services Tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the balance sheet.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

(t) Inventories

Inventories are valued at the lower of cost and net realisable value. The net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Oil produced in storage which comprise of extracted crude oil stored in tanks and pipeline systems are valued at the lower of cost and net realisable value. The net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Costs are assigned on the basis of weighted average costs.

(u) Share Based Payments

Equity settled transactions:
The Group provides benefits to Directors, employees, consultants and other advisors of the Group in the form of share-based payments, whereby the Directors, employees, consultants and other advisors render services in exchange for shares or rights over shares (equity-settled transactions).

The cost of these equity-settled transactions is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an external valuer using a Black-Scholes model.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the market price of the shares of Neon Energy if applicable.

Equity-settled awards granted by Neon Energy Limited to employees of subsidiaries are recognised in the parent's separate financial statements as an additional investment in the subsidiary with a corresponding credit to equity. As a result, the expense recognised by Neon Energy Limited in relation to equity-settled awards only represents the expense associated with grants to employees of the parent. The expense recognised by the Group is the total expense associated with such awards.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant recipient become fully entitled to the award (the vesting period).

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the Group's best estimate of the number

NOTES TO THE FINANCIAL STATEMENTS

Share Based Payments (continued)

of equity instruments that will ultimately vest. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date. The income statement charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is only conditional upon a market condition.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share.

(v) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Restoration Provisions
The Group recognises any legal or constructive restoration obligation as a liability at its present value at the time a legal liability or constructive obligation exists and when a reliable estimate of the amount of the obligation can be made. The carrying amount of the long lived assets to which the obligation relates is increased by the asset retirement obligation costs and amortised over the producing life of the asset. Restoration provisions are based on the estimated cost of restoration work required at the end of the useful life of the producing fields, including removal of facilities and equipment required or intended to be removed, together with abandonment of producing wells. These estimates of the asset retirement obligations are based on current technology, legal requirements and future costs, which have been discounted to their present value. In determining the asset retirement obligations, the Company has assumed no significant changes will occur in the relevant legislation in relation to restoration of sites in the future.

Where a restoration obligation is assumed as part of the acquisition of an asset or obligation, the liability is initially measured at the present value of the future cash flows to settle the present obligation as at the acquisition date.

Over time, the liability is accreted to its present value each period based on a risk adjusted pre-tax discount rate appropriate to the risks inherent in the liability. The unwinding of the discount is recorded within finance costs. Upon settlement of the liability, the Company either settles the obligation for its recorded amount or incurs a gain or loss upon settlement.

(w) Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A finance lease is where substantially all the risks and benefits of the leased item are transferred to the lessee. All other leases are classified as operating leases and payments are recognised as an expense in the income statement. The Group currently does not have any finance leases.

NOTES TO THE FINANCIAL STATEMENTS

(x) Joint Arrangements

Joint arrangements are arrangements of which two or more parties have joint control. Joint control is the contractual agreed sharing of control of the arrangement which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. Joint arrangements are classified as either a joint operation or joint venture, based on the rights and obligations arising from the contractual obligations between the parties to the arrangement.

To the extent the joint arrangement provides the Group with rights to the individual assets and obligations arising from the joint arrangement, the arrangement is classified as a joint operation and as such, the Group recognizes its:

- Assets, including its share of any assets held jointly;
- Liabilities, including its share of any liabilities;
- Revenue from the sale of its share of the output arising from the joint operation;
- Share of revenue from the sale of the output by the joint operation; and
- Expenses, including its share of any expenses incurred jointly

To the extent the joint arrangement provides the Group with rights to the net assets of the arrangement, the investment is classified as a joint venture and accounted for using the equity method. Under the equity method, the cost of the investment is adjusted by the post acquisition changes in the Group's share of the net assets of the venture.

(y) Significant accounting judgments, estimates and assumptions

The carrying amount of certain assets and liabilities are often determined based on the estimates and assumptions of future events. In the process of applying Neon Energy's accounting policies, the Board has made the following judgments which have the most significant effect on amounts recognised in the financial statements.

I Exploration and Evaluation Assets

Neon's accounting policy for exploration and evaluation expenditure is set out in Note 2(p). The application of this policy necessarily requires the Board to make certain estimates and assumptions as to future events and circumstances, in particular the assessment of whether economic quantities of reserves have been found. Any such estimates and assumptions may change as new information becomes available. If, after having capitalised expenditure under the policy, the Board concluded that the Company is unlikely to recover the expenditure by future exploration or sale, then the relevant capitalised amount is written off to the income statement. Changes in assumptions may result in a material adjustment to the carrying amount of exploration and evaluation assets.

II Reserve Estimates

Estimates of recoverable quantities of proven and probable reserves that Neon reports includes assumptions regarding commodity prices, exchange rates, discount rates, production and transportation costs for future cash flows. It also requires interpretation of complex geological and geophysical models in order to make an assessment of the size, shape, depth and quality of reservoirs and anticipated recoveries of hydrocarbons from said reservoirs. The economic, geological and technical factors that Neon uses to estimate reserves may change from period to period. Changes in reported reserves can impact development and production asset carrying values and the recognition of deferred tax assets, due to changes in expected future cash flows.

NOTES TO THE FINANCIAL STATEMENTS

Significant accounting judgments, estimates and assumptions (continued)

III Share-Based Payment Transactions

Neon measures the costs of equity-settled transactions with employees by reference to the fair value of the equity investments at the date of which they are granted. The fair value is determined using the Black-Scholes model, using the assumptions detailed in Note 25.

IV Provision for Rehabilitation Costs

Rehabilitation and restoration costs are a normal consequence of oil extraction and the majority of this expenditure is incurred at the end of a well's life. In determining an appropriate level of provision consideration is given to the expected future costs to be incurred, the timing of these expected future costs (largely dependent on the life of the well), and estimated future level of inflation.

The ultimate cost of Rehabilitation and restoration is uncertain and costs can vary in response to many factors including changes to the relevant legal requirements, the emergence of new restoration techniques or experience at other wells. The expected timing of expenditure can also change, for example in response to changes in oil reserves or to production rates.

Changes to any of the estimates could result in significant changes to the level of provisioning required, which would in turn impact future financial results.

NOTES TO THE FINANCIAL STATEMENTS

3. REVENUES, OTHER INCOME AND EXPENSES

	Consolidated Year Ended 31 Dec 14 $	Consolidated Year Ended 31 Dec 13 $
(a) Revenue/income		
Interest income	65,947	484,971
Research and development tax rebate	-	335,563
Other revenue	-	9,026
	65,947	829,560
(b) Corporate and Administrative Expenses include:		
Depreciation – other plant and equipment	17,463	40,808
Employee Benefits (i)	2,786,831	2,749,924
Operating Leases	277,836	230,873
Travel Expenses	126,825	313,547
Consultants	1,450,570	527,828
Accounting and Legal	1,046,148	277,924
Other	671,536	61,500
	6,377,209	4,202,404
(i) Employee Benefits		
Wages and salaries	1,414,409	1,824,374
Medical insurance	65,658	107,657
Superannuation expenses	144,209	181,453
Other	386,770	(109,594)
Payroll taxes	77,180	59,645
Share based payments expense	698,605	686,389
	2,786,831	2,749,924
(c) Impairment of exploration and evaluation assets		
Western Australia	(100,000)	-
	(100,000)	-

NOTES TO THE FINANCIAL STATEMENTS

4. INCOME TAX

	Note	Consolidated Year Ended 31 Dec 14 $	Consolidated Year Ended 31 Dec 13 $
(a) Recognised in the statement of comprehensive income			
Current income tax			
Current income tax charge		-	-
Deferred income tax			
Origination and reversal of temporary differences		-	(4,485,427)
Deferred tax assets not brought to account		-	-
Income tax benefit reported in the statement of comprehensive income		-	(4,485,427)
(b) Reconciliation between tax expense and accounting profit before income tax			
Accounting loss before income tax		11,776,922	(94,368,212)
At the domestic income tax rate of 30% (2013: 30%)		3,533,077	(28,310,464)
Effect of tax rate in foreign jurisdictions		209,419	(5,119,857)
Expenditure not allowable for income tax purposes		-	385,049
Deferred tax assets not brought to account		1,137,957	28,559,845
Non-assessable gains		(4,880,453)	-
Income tax benefit reported in the statement of comprehensive income		-	(4,485,427)

(c) Deferred income tax

Deferred income tax relates to the following:

	31 Dec 14 $	31 Dec 13 $
Deferred tax liabilities		
Exploration and evaluation assets	-	1,151,380
Other	-	99,267
Deferred tax assets used to offset deferred tax liabilities	-	(1,250,647)
	-	-
Deferred tax assets		
Capital losses	-	1,809,486
Revenue tax losses	-	22,873,715
Exploration assets	-	20,385,860
Other	-	1,628,630
Deferred tax assets used to offset deferred tax liabilities	-	(1,250,647)
Deferred tax assets not brought to account	-	(45,447,044)
	-	-

At 31 December 2014 unrecognised deferred tax assets included $63,613,867 of revenue losses and $46,783,090 of capital losses.

NOTES TO THE FINANCIAL STATEMENTS

4. INCOME TAX (Continued)

The benefit of deferred tax assets not brought to account will only be brought to account if:-

i future assessable income is derived of a nature and of an amount sufficient to enable the benefit to be realised;
ii the conditions for deductibility imposed by tax legislation continue to be complied with; and
iii no changes in tax legislation adversely affect the Company in realising the benefit.

At 31 December 2014, there is no recognised or unrecognised deferred tax liability (Dec 2013: nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries as the Group has no liability for additional taxation should such amounts be remitted.

(d) Tax consolidation

Neon Energy Ltd and its 100% owned Australian resident subsidiaries formed a tax consolidated group with effect from 28 October 2009. Neon Energy Ltd is the head entity of the tax consolidated group. Members of The Group have entered into a tax sharing agreement that provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations.

5. TRADE AND OTHER RECEIVABLES

	Consolidated	
	Dec 14 $	Dec 13 $
Trade debtors	1,953	905,124
Prepayments	55,066	105,880
Interest receivable	-	12,128
Receivable from joint operators	-	63,359
Research and development grant receivable	-	335,563
Other receivables	151,956	35,991
Total trade and other receivables	208,975	1,458,045

All trade debtors are current. No amounts are past due or impaired.

6. INVENTORIES

	Consolidated	
	Dec 14 $	Dec 13 $
Oil produced in storage	-	118,086
Total inventories at lower of cost and net realisable value	-	118,086

NOTES TO THE FINANCIAL STATEMENTS

	Consolidated Dec 14 $	Consolidated Dec 13 $
7. PROPERTY, PLANT & EQUIPMENT		
Office furniture and equipment:		
Cost	529,601	671,769
Accumulated depreciation	(520,775)	(522,843)
Net carrying amount	8,826	148,926
(b) Reconciliation		
Carrying amount at beginning of year	148,926	181,252
Foreign exchange effects	-	7,242
Additions	-	43,994
Disposals	(106,930)	(3,556)
Depreciation charge for the year	(33,170)	(80,006)
Carrying amount at end of year	8,826	148,926

8. OIL AND GAS PROPERTIES

December 2014	Plant and Equipment $	Development $	Total $
Opening Balance	7,159,928	20,198,570	27,358,498
Foreign exchange differences	(333,037)	(560,240)	(893,277)
Additions	75,635	1,084	76,719
Rehabilitation adjustment	-	-	(329,972)
Amortisation	-	(329,972)	1,022,705
Depreciation	(192,779)	-	(192,779)
Disposal of oil and gas properties	(6,709,747)	(19,309,442)	(26,019,188)
Total oil and gas properties	-	-	-

December 2013	Plant and Equipment $	Development $	Total $
Opening Balance	6,219,472	23,498,585	29,718,057
Foreign exchange differences	909,538	3,955,587	4,865,125
Additions	594,512	1,476,891	2,071,403
Rehabilitation adjustment	-	(971,747)	(971,747)
Amortisation	-	(1,022,705)	(1,022,705)
Depreciation	(563,594)		(563,594)
Impairment of oil and gas properties (i)	-	(6,738,041)	(6,738,041)
Total oil and gas properties	7,159,928	20,198,570	27,358,498

(i) The impairment at 31 December 2013 related to activities which began six months prior to that balance date, whereby, the Company engaged external consultants to identify appropriate commercial transactions that will bring value for shareholders. That process resulted in expressions of interest being received from third parties. As at 31 December 2013, based on those expressions of interest the Company reduced the carrying value of all Californian oil and gas properties to their recoverable amounts and Californian exploration and evaluation areas of interest to nil, with the exception of Paris Valley. The oil and gas properties and Paris Valley recoverable amounts were determined to be USD$25m. The recoverable amount was determined with reference to the most acceptable offer made for the purchase of the interests in Neon's Californian projects in late 2013, reflective of offers in an active market. Such a valuation technique is classified as a level 3 valuation basis within the fair value hierarchy in the context of AASB 13 *Fair Values*. The properties were subsequently sold in May 2015.

NOTES TO THE FINANCIAL STATEMENTS

9. EXPLORATION AND EVALUATION ASSETS

		Consolidated Dec 14 $		Dec 13 $
Opening Balance		4,765,243		41,734,784
Foreign exchange differences		(684,171)		6,209,521
Sale of exploration and evaluation assets		(3,109,868)		-
Current period expenditure		7,794,742		37,043,559
Rehabilitation adjustment		-		(256,879)
Relinquished exploration assets		(6,463,160)		-
Impairment of exploration and evaluation assets	(i) & (ii)	(2,302,786)	(i) & (iii)	(79,911,886)
Depreciation of geoscience database		-		(53,856)
Total Exploration and Evaluation assets		-		4,765,243

Note, that impairments recognised during the periods presented were a result of the following:

(i) South East Asia – The current period impairment $2,202,786 (2013:$47,111,036) was a result of relinquishing the title of Neon's Indonesia interests on exit of the joint venture during the period. In the prior period, the impairment related to the write-off of Neon's interests in Vietnam as a result of the poor technical results of the drilling which occurred in late 2013.

(ii) Australia – The current period expense of $100,000 relates to the impairment of the WA-503-P license with the Company ceasing to progress exploration of the prospect's commercial or technical feasibility. The company has subsequent to balance date signed an agreement to assign its full interest in the asset following a negotiated settlement in regards to the seismic work for the same block for $600,000USD in March 2015

(iii) USA – The prior period impairment of $32,800,850 was a result of an assessment of fair value less cost to dispose with reference to offers being made for the purchase of the interests in Neon's Californian projects in late 2013. The basis for valuation is set out in note 8 (i).

The recoverability of the carrying amount of the exploration and evaluation assets is dependent on the successful development and commercial exploitation, or alternatively the sale, of the respective areas of interest.

10. TRADE AND OTHER PAYABLES

	Dec 14 $	Dec 13 $
Trade creditors – unsecured (i)	35,980	641,538
Accruals	37,500	196,333
Joint operations payable –Vietnam Block 105 and 120 (ii)	-	26,098,263
Other expenses	26,779	487
Total Trade and Other Payables	100,259	26,936,621

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

(ii) At 31 December 2013, the Company accounted for its best estimate of drilling costs incurred at Cua Lo #1 (Offshore Vietnam Block 105) and Ca Ngu #1 (Offshore Vietnam Block 120). This included accruals based on joint venture expenditure statements provided by the operator, Eni. At the time significant uncertainty existed regarding the quantum of the drilling obligations. These obligations were finalised in 2014 when Neon exited the venture and settled the claims with joint venture partners.

NOTES TO THE FINANCIAL STATEMENTS

	Note	Consolidated Dec 14 $	Consolidated Dec 13 $
11. PROVISIONS			
Current			
Employee benefits		181,172	243,746
Restoration and rehabilitation (i)		-	2,346,692
		181,172	2,590,438
Non-Current			
Restoration and rehabilitation (i)		-	2,529,458
Movements in Restoration & Rehabilitation Provision			
Opening Balance		4,876,150	3,436,712
Liability incurred during period		-	3,116,697
Rehabilitation adjustment		-	(1,228,626)
Obligations disposed of during the period		(4,889,497)	-
Accretion		13,347	29,658
Liability fulfilled during the period		-	(997,072)
Foreign exchange difference		-	518,781
Closing Balance		-	4,876,150

(i) Restoration obligations were disposed of in the period a long with the discontinued operations reported in Note 22.

NOTES TO THE FINANCIAL STATEMENTS

	Note	Consolidated Dec 14 $	Consolidated Dec 13 $
12. CONTRIBUTED EQUITY AND RESERVES			
(a) Contributed equity			
Issued and fully paid capital			
- Ordinary shares	12(c)	171,571,258	171,571,258

Fully paid shares entitle the holder to participate in dividends and to one vote per share at meetings of the Company. Ordinary shares participate in the proceeds on winding up of the Company in proportion to the number of shares held.

(b) Reserves

	Dec 14 $	Dec 13 $
Option premium reserve opening	3,434,172	3,352,569
Movements	88,791	81,603
Closing option premium reserve	3,522,963	3,434,172
Performance Rights Premium Reserve Opening	1,295,164	690,379
Movements	609,814	604,785
Performance Rights Premium Reserve Closing	1,904,978	1,295,164
Foreign Currency Translation Reserve Opening	3,442,088	(7,323,508)
Movement	(3,442,088)	10,765,596
Foreign Currency Translation Reserve Closing	-	3,442,088
Total Reserves	5,427,941	8,171,424

Nature and Purpose of reserves

Option Premium Reserve
The option premium reserve is used to record the fair value of share based payments in the form of options issued by the Company.

Performance Rights Premium Reserve
The Performance rights premium reserve is used to record the fair value of share based payments in the form of Performance rights made by the Company.

Foreign Currency Translation Reserve
The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

NOTES TO THE FINANCIAL STATEMENTS

12. CONTRIBUTED EQUITY AND RESERVES (Continued)

Movements in ordinary shares on issue during the past two years were as follows:

		Consolidated	
Date	Details	Number of Ordinary Shares	$
1 Jan 2013	Closing Balance	549, 937,848	170,951,258
Jul 2013	Conversion of options	2,700,000	540,000
Aug 2013	Conversion of options	400,000	80,000
31 Dec 2013	Closing Balance	553,037,848	171,571,258
31 Dec 2014		553,037,848	171,571,258

Movements in options on issue during the past two years were as follows:

		Consolidated	
Date	Details	Number of options	$
31 Dec 2012	Opening balance	8,400,000	3,352,569
Jul 2013	Exercise of options	(2,700,000)	-
Jul 2013	Expiration of options	(2,700,000)	-
Aug 2013	Exercise of options	(400,000)	-
Aug 2013	Issue of options	2,000,000	42,735
Sep 2013	Expiration of options	(400,000)	-
Dec 2013	Vesting of options granted in previous years	-	38,868
31st Dec 2013	Closing balance	4,200,000	3,434,172
May 2014	Expiration of options	(1,100,000)	-
May 2014	Expiration of options	(1,100,000)	-
31 Dec 2014	Closing Balance	2,000,000	3,434,172

NOTES TO THE FINANCIAL STATEMENTS

12. CONTRIBUTED EQUITY AND RESERVES (Continued)

Terms and conditions of unlisted Employee Share Options

The unlisted Employee Share Options listed below were issued after 20 April 2011 and therefore are based upon the terms and conditions of the Neon Energy Share Option Plan ("ESOP") as approved by Shareholders on 20 April 2011. Options issued under the approved ESOP have expiry dates and exercise prices as per the following table:

Number Outstanding	Expiry Date	Exercise Price $	Class
1,000,000	20/08/2016	0.60	ESOP
1,000,000	20/08/2016	1.00	ESOP

The terms of the ESOP are at the discretion of the board and generally provide that options issued pursuant to the plan will vest as follows:

As to 50% of any options issued, 12 months from the date the options are issued,

As the total amount of options issued, any time after the expiration of 24 months from the date of issue.

The options have a life of 3 years from the date of issue, after which time they will expire. Participants ceasing to be Eligible Employees will be offered three months from the date of cessation of holding office, employment and/or consulting as the case may be in which to exercise the relevant vested options, failing which said options will be forfeited.

Other terms relevant to the ESOP are as follows;

- No monies will be payable for the issue of the Options.
- Each Option shall carry the right in favour of an Eligible Employee to subscribe for one Share.
- Options shall be issued at an exercise price to be determined by the Directors and shall be no less than 110% of the weighted average market price (as quoted by ASX) of the Company's shares for the 28 trading days prior to the issue of the Options. The issue price of Shares, the subject of the Options, shall be payable in full on exercise of the Options.
- Options shall not be listed for official quotation on the Australian Stock Exchange.
- Shares allotted pursuant to an exercise of Options shall rank, from the date of allotment, equally with existing Shares of the Company in all respects.
- Option holders shall not be entitled, by virtue of the unexercised Options, to participate in rights issues or bonus Share entitlements in the same manner as holders of ordinary shares.
- The Board retains its discretion over ESOP terms and conditions.

In the event of any reconstruction (including consolidation, sub-division, reduction or return) of the issued capital of the Company, the number of options or the exercise price of the options or both shall be reconstructed (as appropriate) in accordance with the Listing Rules.

NOTES TO THE FINANCIAL STATEMENTS

12. CONTRIBUTED EQUITY AND RESERVES (Continued)

Movements in rights on issue during the past two years were as follows:

		Consolidated	
Date	Details	Number of Rights	$
31 December 2012	Opening balance	5,875,023	690,379
	Issue of Performance rights	1,363,142	49,189
	Vesting of rights issued in prior years	-	555,596
31 December 2013	Closing balance	7,238,165	1,295,164
	Issue of Performance rights	34,078,862	698,065
	Cancellation of Performance rights	(4,543,527)	-
31 December 2014	Closing balance	36,773,500	1,993,229

During the year, no rights were issued to management or senior employees.
The fair value of the Performance rights is estimated at the date of grant using a Monte Carlo simulation model.

Terms and conditions of Neon Energy Share Incentive Plan

Under the LTIP, participants are offered an award of rights to acquire ordinary shares in the Company (referred to here as “Performance Rights”). The offer of Performance Rights under the LTIP takes the form of a conditional entitlement to be issued shares in the Company for nil consideration at the end of the applicable performance period subject to the satisfaction of performance conditions.

The current agreed performance conditions are two fold:

- A positive individual performance review of the eligible staff; and

- The Company’s relative share price performance over a three-year period against a peer group of 21 companies being a mix of South East Asia and USA focused companies and other competing ASX listed companies.

  - Neon share price relativity <50%, 0% vest
  - Neon share price relativity >50% but less than 75%, 75% vest
  - Neon in top quartile of performers >75%, 100% vest

The 21 peer group companies, to which the relative share price of Neon is measured, are listed below:

Antares Energy Limited	Otto Energy Limited
Buccaneer Energy Limited	Pancontinental Oil & Gas NL
Carnarvon Energy Limited	Pan Pacific Petroleum NL
Cooper Energy Limited	Petsec Energy Limited
Cue Energy Resources Limited	Senex Energy Limited
Lonestar Resources Limited (formerly Amadeus Energy Ltd	Azonto Petroleum Limited (formerly Rialto Energy Limited)
Entek Energy Limited	Strike Energy Limited
Horizon Oil Limited	Sundance Energy Australia Limited
Kairiki Energy Limited	Sun Resources NL
Nido Petroleum Limited	Tap Oil Limited
Oilex Limited	

NOTES TO THE FINANCIAL STATEMENTS

12. CONTRIBUTED EQUITY AND RESERVES (Continued)

The number of companies in the peer group is reduced if and when any of the peer group companies are removed from being listed on the ASX.

The number of shares allocated is dependent on the total shareholder return (relative to the 21 peer group companies) thresholds being met. 100% of the Performance Rights are tested for vesting at the end of the three-year vesting period. In the event of a change of control of the Company, the Directors have the discretion to waive the vesting requirements.

13. ACCUMULATED LOSSES

	Consolidated	
	Dec 14 $	Dec 13 $
Opening balance	(167,102,509)	(77,219,724)
Net profit/(loss) for the year	11,776,922	(89,882,785)
Closing balance	(155,325,587)	(167,102,509)

Dividends

No dividends were declared or paid during or since the end of the financial year.

Franking Credits

In respect to the payment of dividends by Neon in subsequent reporting periods (if any), no franking credits are currently available, or are likely to become available in the next 12 months.

14. EARNINGS PER SHARE

	Consolidated	
	Dec 14 $	Dec 13 $
The following reflects the profit and loss used to calculated basic and diluted earnings per share		
Earnings used in calculating basic and diluted profit/(loss) per share attributable to equity holders	11,776,922	(89,882,785)
Earnings used in calculating basic and diluted profit/(loss) per share from continuing operations	(3,632,131)	1,615,863
Basic earnings/(loss) per share	2.13	(16.30)
Diluted earnings/(loss) per share	2.04	(16.30)
Basic (loss)/earnings per share from continuing operations	(0.66)	0.29
Diluted (loss)/earnings per share from continuing operations	(0.66)	0.29

NOTES TO THE FINANCIAL STATEMENTS

14. EARNINGS PER SHARE (Continued)

	Consolidated	
	Number of Shares Dec 14	Number of Shares Dec 13
Weighted average number of ordinary shares used in calculating basic earnings per share	553,037,848	551,339,319
Effect of dilutive securities:		
Performance rights	24,934,819	-
Adjusted weighted average number of ordinary shares used in calculating diluted earnings per share	577,972,667	551,339,319

In 2013 potential ordinary shares not considered dilutive for the purpose of determining diluted earnings per share were 11,438,165.

	Consolidated	
	Number of Shares Dec 14	Number of Shares Dec 13
Weighted average number of ordinary shares used in calculating basic earnings per share from continuing operations	553,037,848	551,339,319
Effect of dilutive securities:		
Share options	-	509,207
Performance rights	-	6,841,136
Adjusted weighted average number of ordinary shares used in calculating diluted earnings per share from continuing operations	553,037,848	558,689,662

In 2014, potential ordinary shares not considered dilutive for the purposes of determining earnings per share from continuing operations, accordingly diluted earnings per share was the same as basic earnings per share. The total number of potential ordinary shares not considered dilutive at 31 December 2014 for the purpose of calculating diluted earnings per share from discontinued operations was 38,773,484.

There have been no movements in shareholdings subsequent to the reporting period as at the date of this report.

15. JOINT ARRANGEMENTS

		Interest	
Name of Operation	Principal Activity	Dec 14	Dec 13
Block 105-110/04 Offshore Vietnam	Oil and gas exploration	-	25%
Block 120 Offshore Vietnam	Oil and gas exploration	-	25%
Tanjung Aru	Oil and gas exploration	-	42%

Joint Operations Net Assets

The Consolidated Entity's share of assets and liabilities in jointly controlled operations is nil at the reporting balance date Detailed below is only historical data for the comparative period. The Group's share of joint operation's assets and liabilities recorded in the consolidated financial statements and are as follows:

NOTES TO THE FINANCIAL STATEMENTS

	Consolidated	
	Dec 14	Dec 13
	$	$
Share of the joint operation's statement of financial position		
Current Assets	-	4,123,058
Non-current Assets	-	1,280,131
Current Liabilities		(23,570,023)
Non-current Liabilities	-	-
Equity	-	(18,166,834)

15. JOINT ARRANGEMENTS (Continued)

	Consolidated	
	Dec 14	Dec 13
	$	$
Commitments through Joint Operations		
Share of the joint operation's commitments		
Exploration Commitments	-	4,723,190

16. COMMITMENTS AND CONTINGENCIES

a) Operating lease expenditure contracted for is payable as follows:		
Not later than one year	22,290	268,696
Later than one year but not later than five years	-	21,489
	22,290	290,185

The company vacated the leased premises on 31 January 2015 as the lease expired.

b) Oil and gas and 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
	-	275,245
c) Exploration Commitments		
Not later than one year	685,000	4,723,190
Later than one year but not later than five years	-	-
	685,000	4,723,190

d) Contingent liabilities

Included in other financial assets is USD $4.0 m (AUD$4.9m at 31 December 2014) held in escrow for a period of no longer than 12 months in accordance with the conditions of the sale and purchase agreement in relation to the disposal of the Company's interests in California. Any undisclosed obligations relating to the interests disposed by Neon at the time of the sale may be subject to claim recovery by the purchasers. The company does not know of or believe any such obligations to exist at as at the date of this report.

NOTES TO THE FINANCIAL STATEMENTS

17. NOTES TO THE CASH FLOW STATEMENT

(a) Cash

For the purposes of the cash flow statement, cash includes cash at bank and on hand, bank bills, short term deposits at call and bank overdrafts. Cash as at the end of the financial year as shown in the cash flow statement is reconciled to cash at bank and on hand. Short term deposits that don't meet the definition of cash and cash equivalents are shown in the cash flow statement as an investing activity.

	Consolidated	
	Dec 14 $	Dec 13 $
Cash at bank and on hand	15,694,912	9,700,017
Closing balance	15,694,912	9,700,017

(b) Reconciliation of net profit/(loss) before tax to net cash used in operating activities.

Net profit/(loss) before tax	11,776,922	(94,368,212)
Adjustments for non-cash income and expense items		
Depreciation and amortisation	555,921	1,720,161
Impairment loss on exploration and evaluation assets	2,302,786	79,911,886
Impairment loss on oil and gas properties	-	6,738,041
Plug and abandon costs	-	3,116,697
Gain on exit of joint venture	(16,168,861)	-
(Gain)/loss on sale of assets	(2,024,406)	3,556
Share based payments expensed	698,065	686,389
Accretion	13,347	29,658
Net gain on foreign exchange	(2,822,987)	(562,210)
	(5,669,513)	(2,724,034)
Changes in assets and liabilities		
(Increase)/Decrease in Assets		
Trade and other receivables	1,222,148	(505,035)
Inventory	-	(32,764)
Increase/(Decrease) in liabilities		
Trade and other payables	(864,493)	410,927
Provisions	(49,227)	9,290
Net cash used in operating activities	(5,361,085)	(2,841,616)

(c) Other financial assets

Included in other financial assets is USD $4.0 m (AUD$4.9m at 31 December 2014) held in escrow for a period of no longer than 12 months in accordance with the conditions of the sale and purchase agreement in relation to the disposal of the Company's interests in California as well as AUD$1.1m in term deposits with maturities greater than 3 months at balance date.

NOTES TO THE FINANCIAL STATEMENTS

18. PARENT ENTITY INFORMATION

Information Relating to Neon Energy Ltd	Dec 14 $	Dec 13 $
Current assets	15,859,491	9,643,174
Total assets	15,866,564	37,709,741
Current liabilities	(143,556)	(450,434)
Total liabilities	(143,556)	(450,434)
Issued capital	171,571,258	171,571,258
Retained earnings	(161,275,650)	(139,041,087)
Performance rights reserve	1,904,438	1,295,164
Option premium reserve	3,552,963	3,434,172
Total shareholders equity	15,723,008	37,259,307
Loss of Neon Energy Ltd	22,234,563	(45,845,707)
Total comprehensive Profit/(loss) of Neon Energy Ltd	22,234,563	(45,845,707)

Contingent Liabilities
There are no contingent liabilities of the parent entity as at 31 December 2014.

Contractual Commitments
The parent entity has commitments of $22,290 (Dec 2013: $239,732) which relate to the lease for the office and printer.

19. CONTROLLED ENTITIES

All controlled entities are included in the consolidated financial statements. The Parent Entity does not guarantee to pay the deficiency of its controlled entities in the event of a winding up of any controlled entity. The financial year end of the controlled entities is the same as that of the Parent Entity.

Name of Controlled Entity	Place of Incorporation	% of Shares held	
		Dec 14	Dec 13
Neon Energy Corporation	United States	100	100
Paris Valley LLC	United States	100	100
RECL Asia Sdn Bhd (Dormant)	Malaysia	100	100
Renewable Energy Corporation Pty Ltd (Formerly REL Operations Pty Ltd) (Dormant)	Australia	100	100
REL Australia Pty Ltd (1) (Dormant)	Australia	50	50
Neon Energy (Australia) Pty Ltd	Australia	100	100
Neon Exploration Pty Ltd	Australia	100	100
Neon Energy (Nam Con Son) Pty Ltd	Australia	100	100
Neon Energy (India) Pty Ltd	Australia	100	100
Neon Energy (Indonesia) Pty Ltd	Australia	100	100
Neon Energy (Song Hong) Pty Ltd	Australia	100	100

(1) This company is included in the Group as Neon has nominated all Directors (being two) of the company and therefore has the capacity to control the financial and operating policies of the company

NOTES TO THE FINANCIAL STATEMENTS

20. RELATED PARTIES AND KEY MANAGEMENT PERSONNEL

Transactions with Related Parties in the Consolidated Group

The consolidated group consists of Neon Energy Limited (the ultimate Parent Entity in the wholly owned group) and its controlled entities (see Note 19).

Neon entered into the following transactions during the year with related parties in the wholly owned group:

- Loans were advanced on long and short term inter-company accounts.

These transactions were undertaken on commercial terms and conditions, except that:

i There is no fixed repayment of loans between the related parties; and
ii No interest is payable on the loans.

Transactions with Related Parties of the Consolidated Group

The following were key management personnel of Neon at any time during the reporting period and unless otherwise indicated were key management personnel for the entire period.

Directors	
Dr Alan Stein	Chairman (Non-Executive)
John Lander	Non Executive Director (resigned 19 December 2014)
Kenneth Charsinsky	Managing Director
Other Key Management Personnel	
Donald Nelson	Resident Manager (USA) (terminated 30 June 2014)
Ben Newton	Chief Financial Officer (terminated 1 February 2015)
Iain Smith	Commercial Manager (terminated 1 February 2015)
David Cliff	Exploration Manager (terminated 28 February 2014)

The key management personnel compensation included in administration expenses are as follows:

	Consolidated	
	Dec 14	Dec 13
	$	$
Short-term	1,630,375	1,719,014
Termination benefit	942,186	-
Post employment	176,918	133,931
Share-based payments	625,641	588,229
	3,375,120	2,441,174

NOTES TO THE FINANCIAL STATEMENTS

20. RELATED PARTIES AND KEY MANAGEMENT PERSONNEL (continued)

Other Related Party or Key Management Personnel Transactions with the Company or its Controlled Entities

Options over equity instruments granted as compensation

The movement during the reporting period in the number of options over ordinary shares in the Company held, directly, indirectly or beneficially by each Director or executive, including their related parties, is as follows:

2014	Held at 1 Jan 2014	Granted Remuneration	Options Exercised	Options Expired	Other	Held at 31 December 2014	Vested and Exercisable at 31 Dec 2014
Other Key Management Personnel							
Ben Newton	-	-	-	-	-	-	-
Dave Cliff	-	-	-	-	-	-	-
Donald Nelson	2,200,000	-	-	(2,200,000)	-	-	-
Iain Smith	-	-	-	-	-	-	-
Richard Jason	2,000,000	-	-	-	-	2,000,000	-

2013	Held at 1 Jan 2013	Granted Remuneration	Options Exercised	Options Expired	Other	Held at 31 December2013	Vested and Exercisable at 31 Dec 2013
Other Key Management Personnel							
Ben Newton	2,500,000	-	(1,250,000)	(1,250,000)	-	-	-
Dave Cliff	2,500,000	-	(1,250,000)	(1,250,000)	-	-	-
Donald Nelson	2,200,000	-	-	-	-	2,200,000	2,200,000
Iain Smith	-	-	-	-	-	-	-
Richard Jason	-	2,000,000	-	-	-	2,000,000	-

Movement in Performance Rights

The movement during the reporting period in the number of Performance rights held, directly, indirectly or beneficially by each Director or executive, including their related parties, is as follows:

2014	Held at 1 Jan 2014	Granted as Remuneration	Cancelled	Held at 31 December 2014	Vested and Exercisable at 31 Dec 2014
Directors					
Ken Charsinsky (i)	2,262,885	11,467,890	(899,758)	12,831,017	-
Other Key Management Personnel					
Ben Newton	1,136,900	7,883,950	(442,207)	8,578,643	-
Dave Cliff	1,119,210	-	(1,119,210)	-	-
Donald Nelson	1,006,020	-	(1,006,020)	-	-
Iain Smith	1,061,319	7,227,022	(424,517)	7,863,824	-
Richard Jason	-	7,500,000		7,500,000	-

NOTES TO THE FINANCIAL STATEMENTS

20. RELATED PARTIES AND KEY MANAGEMENT PERSONNEL (continued)

2013	Held at 1 July 2013	Granted as Remuneration	Held at 31 Dec 2013	Vested and Exercisable at 31 Dec 2013
Directors				
Ken Charsinsky (i)	899,743	1,363,142	2,262,885	-
Other Key Management Personnel				
Ben Newton	1,136,900	-	1,136,900	-
Dave Cliff	1,119,210	-	1,119,210	-
Donald Nelson	1,006,020	-	1,006,020	-
Iain Smith	1,061,319	-	1,061,319	-

Ken Charsinsky was awarded 1,363,142 Performance rights for the period ended 31 December 2012which were not granted as they remained subject to shareholder approval as at 31 December 2012. They were subsequently approved at a meeting of shareholders on 12th April 2013.

Movements in shareholdings

The movements during the reporting period in the number of ordinary shares in the Company held, directly, indirectly or beneficially by each key management personnel, including their related parties, is as follows:

2014	Held at 1 Jan 2014	Purchases	Received on exercise of options/rights	Granted as remuneration	Sold	Held at 31 Dec 2014
Directors						
Ken Charsinsky	2,488,005	-	-	-	-	2,488,005
Alan Stein	9,041,321	-	-	-	(8,041,321)	1,000,000
John Lander	4,735,913	-	-	-	(4,735,913)	-
Other Key Management Personnel						
Ben Newton	306,157	-	-	-	(264,142)	42,015
Iain Smith	1,064,498	-	-	-	(1,064,498)	-

All equity transactions with key management personnel have been entered into under terms and conditions no more favourable than those the Group would have adopted if dealing at arm's length.

2013	Held at 1 July 2013	Purchases	Received on exercise of options/rights	Granted as remuneration	Other	Held at 31 Dec 2013
Directors						
Ken Charsinsky	2,394,248	-	-	93,757	-	2,488,005
Alan Stein	9,041,321	-	-	-	-	9,041,321
John Lander	4,735,913	-	-	-		4,735,913
Other Key Management Personnel						
Ben Newton	213,657	-	1,250,000	-	(1,157,500)	306,157
Iain Smith	1,364,498	-	-	-	(300,000)	1,064,498
David Cliff	33,217	-	1,250,000	-	(1,037,500)	245,717
Donald Nelson	70,192	-	-	-	-	70,192

NOTES TO THE FINANCIAL STATEMENTS

21. REMUNERATION OF AUDITORS

The following total remuneration was received, or is due and receivable, by the Groups' auditors Ernst & Young in respect of:

	Consolidated	
	Year ended Dec 14	Year ended Dec 13
	$	$
Auditing the financial statements for the full year and review of half year	112,476	93,857
Tax and remuneration services	177,231	86,079
	289,707	179,936

22. SEGMENT INFORMATION

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.

Major customers

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 $3,066,511 (Dec 2013: $9,212,549) made up 100% (Dec 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

NOTES TO THE FINANCIAL STATEMENTS

22. SEGMENT INFORMATION (continued)

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

	Discontinued Operations		Continuing Operations	
2014	USA	SEA	Corporate	Total
Oil Sales	3,066,511	-	-	3,066,511
Interest Revenue	929	-	65,947	66,876
Other Revenue	7,432	-	-	7,432
Segment Revenue	3,074,872	-	65,947	3,140,819
Exploration expensed and impaired	-	(2,202,786)	(100,000)	(2,302,786)
Depreciation and Amortisation	(522,751)	-	(33,170)	(555,921)
Gain on exiting from joint ventures		16,168,861	-	16,168,861
Gain on disposal of assets	2,024,406	-	-	2,024,406
Other Income	-	-	2,822,987	2,822,987
Operating Expenses	(1,529,148)	-	-	(1,529,148)
Income Tax Benefit	-	-	-	-
Royalty Payments	(675,659)	-	-	(675,659)
Plug and Abandon Costs	-	-	-	-
Admin and Corporate	(887,331)	(41,410)	(6,387,895)	(7,316,636)
Segment Result	1,484,388	13,924,664	(3,632,131)	11,776,922
2013	USA	SEA	Corporate	Total
Oil Sales	9,212,549	-	-	9,212,549
Interest Revenue	-	-	484,971	484,971
Other Revenue	-	-	9,026	9,026
Segment Revenue	9,212,549	-	493,997	9,706,546
Exploration expensed and impaired	(38,929,164)	(47,720,763)	-	(86,649,927)
Depreciation and Amortisation	(1,622,146)	(53,856)	(44,159)	(1,720,161)
Other Income	-	-	897,773	897,773
Operating Expenses	(5,063,848)	-	-	(5,063,848)
Income Tax Benefit	-	-	4,485,427	4,485,427
Royalty Payments	(2,000,536)	-	-	(2,000,536)
Plug and Abandon Costs	-	(3,116,697)	-	(3,116,697)
Admin and Corporate	(2,128,513)	(75,674)	(4,217,175)	(6,421,362)
Segment Result	(40,531,658)	(50,966,990)	1,615,863	(89,882,785)

NOTES TO THE FINANCIAL STATEMENTS

22. SEGMENT INFORMATION (continued)

Discontinued Operations

During the period to 31 December 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.

	31 Dec 2014	31 Dec 2013
	$	$
United States of America		
Revenue	3,066,511	9,212,549
Cost of sales	(2,727,558)	(8,686,530)
Gross Profit	338,953	526,019
Other Income	8,361	-
Net gain/(loss) on sale of assets	2,024,406	(3,556)
Corporate and administration expenses	(887,331)	(2,124,957)
Impairment expense	-	(38,929,164)
Profit / (Loss) before income tax	1,484,389	(40,531,658)
Tax expense	-	-
Profit / (Loss) after tax for the period from a discontinued operation	1,484,389	(40,531,658)
South East Asia		
Revenue	-	-
Cost of sales	-	-
Gross Profit	-	-
Impairment of exploration and evaluation assets	(2,202,786)	(50,837,460)
Corporate and administration expenses	(41,410)	(129,530)
Gain on exiting joint ventures	16,168,861	-
Profit / (Loss) before income tax	13,924,664	(50,966,990)
Tax expense	-	-
Profit / (Loss) after tax for the period from a discontinued operation	13,924,664	(50,966,990)
Profit / (Loss) after tax for the period from all discontinued operations	15,409,053	(91,498,648)
	Cents	Cents
Basic earnings/loss per share of discontinued operations	2.79	(16,60)
Dilutive earnings/loss per share of discontinued operations	2.67	(16.60)

NOTES TO THE FINANCIAL STATEMENTS

22. SEGMENT INFORMATION (continued)

Discontinued Operations (continued)

	31 Dec 2014 $
United States of America	
Operating cash flows	819,900
Investing cash flows	22,902,993
Financing cash flows	(22,322,940)
South East Asia	
Operating cash flows	(41,410)
Investing cash flows	(13,689,840)
Financing cash flows	13,488,807

23. EVENTS SUBSEQUENT TO BALANCE DATE

Effective 31 January 2015, the employment of all remaining Neon employees were terminated, being made redundant in accordance with the terms of their individual employment contracts. Those employees terminated included the Managing Director, Ken Charsinsky. Mr Charsinsky continues in a non-executive Board position.

On 2 February 2015, the company announced that it had changed registered office and contact information. The company's new registered office is Level 1, 248 Hay Street, Subiaco, WA 6008.

On 28 March 2015 the company signed a Deed of Assignment with Rampart Energy Limited and Black Swan Resources Pty Ltd to assign its full interest in Block WA 503P, this follows the negotiated settlement in regards to the Seismic work for the same block.

24. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Exposure to credit and interest rate risk together with exchange rate fluctuations arise in the normal course of Neon's business.

Credit risk

The maximum exposure of the Consolidated Entity to credit risk at balance sheet date in relation to each class of recognised financial asset is limited to the carrying amounts of the financial assets as indicated in the balance sheet. The credit risk relates to trade and other receivables and cash at bank. Receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. No receivables are impaired or past due. Specific concentration of credit risk exists primarily within trade debtors in respect of sale of oil.

Neon Energy Limited aligns itself with financial institutions demonstrating high credit quality to mitigate any credit risk in regard to its cash reserves.

NOTES TO THE FINANCIAL STATEMENTS

24. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Foreign currency risk

As a result of operations in the United States, the Group's balance sheet can be affected by movements in the US$/A$ exchange rates. The Group also has transactional currency exposures. Such exposure arises from sales or purchases by an operating unit in currencies other than the unit's functional currency. The Group currently does not engage in any hedging or derivative transactions to manage foreign currency risk. The table below shows the exposure to assets in currencies other than the functional currency.

	Consolidated	
	Dec 14 $	Dec 13 $
Cash and term deposits	15,694,912	4,323,364
Cash held in escrow (Note 17(c))	4,929,601	-
Other term deposits	1,112,189	
	21,736,702	4,323,364

The following sensitivity analysis is based on the foreign currency risk exposures in existence at the balance sheet date. The 10% sensitivity is based on reasonable possible changes, over a financial year, using an observed range of actual historical rates, for the Australian dollar to the US dollar, for the preceding 5 years.

At 31 Dec 2014, if the Australian Dollar had moved, as illustrated in the table below, with all other variables constant, post tax profit and other comprehensive income would have been affected as follows:

Risk Variable	Sensitivity	Effect on:		Effect on:	
		Profit Dec 14	Other Comprehensive Income Dec 14	Profit Dec 13	Other Comprehensive Income Dec 13
Foreign Exchange	+10%	2,173,670	2,173,670	432,336	432,336
	-10%	(2,173,670)	(2,173,670)	(432,336)	(432,336)

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans if appropriate. Prudent liquidity risk management implies maintaining sufficient cash to meet commitments as and when they fall due. Management monitors rolling cash flow forecasts to manage liquidity risk. The only financial liabilities of the Group at balance date are trade and other payables. The amounts are unsecured and are usually paid within 30 days of recognition.

Capital management

When managing capital, management's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Total equity is what management consider and manage as capital.

During 2014 no dividends were paid (2013: nil).
Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirement.

NOTES TO THE FINANCIAL STATEMENTS

24. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Interest rate risk

The Group has no borrowings at 31 December 2014 (2013: nil). It has no undrawn credit facilities with any financial institution.

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's cash and short-term deposits with a floating interest rate. These financial assets with variable rates expose the Group to cash flow interest rate risk. The Group currently does not engage in any hedging or derivative transactions to manage interest rate risk.

	Dec 14				Dec 13			
Consolidated	Effective Interest Rate	Interest Bearing $	Non-Interest Bearing $	Total $	Effective Interest Rate	Interest Bearing $	Non Interest Bearing $	Total $
Cash	1.40%	15,694,912	-	15,694,912	1.40%	9,368,118	331,899	9,700,017
Other financial assets	2.15%	6,041,790	-	6,041,790	2.15%	319,757	828,118	1,147,875
Trade and other receivables	-	-	208,975	208,975	-	-	1,458,045	1,458,045
Trade and other payables	-	-	(281,431)	(281,431)	-	(26,098,263)	(838,358)	(26,936,621)
		21,736,702	(72,456)	(21,664,246)		(16,404,199)	1,779,704	(14,630,684)

The table below details the interest rate sensitivity analysis of the entity at the reporting date, holding all other variables constant. A 50 basis point favourable (+) and unfavourable (-) change is deemed to be reasonably possible change and is used when reporting interest rate risk.

Consolidated

		Effect On:		Effect On:	
Risk Variable	Sensitivity	Profit Dec 14	Other Comprehensive Income Dec 14	Profit Dec 13	Other Comprehensive Income Dec 13
Interest Variable	+0.50%	108,684	-	48,439	-
	-0.50%	(108,684)	-	(48,439)	-

*The method used to arrive at the possible change of 50 basis points was based on the analysis of the absolute nominal change of the Reserve Bank of Australia (RBA) monthly issued cash rate. It is considered that 50 basis points a 'reasonably possible' estimate.

NOTES TO THE FINANCIAL STATEMENTS

25. SHARE BASED PAYMENT PLANS

Share Options

The Company's share option plan was established to provide an incentive to Directors, key management personnel, consultants and employees to participate in the success of the Company. During the reporting period, there were 2,000,000 options outstanding granted to directors, key management personnel or employees in the prior periods. The Board determines the exercise price of the options having regard for the market price of the shares at the date of grant and the duration of the contractual life of the option.

The terms and conditions of the options over shares outstanding at the end of the period are as set out in the Remuneration Report and Note 12. All options are settled by physical delivery of shares upon the grantee exercising the option in accordance with the conditions:

Grantee and Date of Grant	Number of Options	Vesting Condition	Life of Options
Issued to employees on 20/08/13	2,000,000	Subject to ESOP vesting	36 months
Total share options	2,000,000		

The number and weighted average exercise prices of options are as follows:

	WAEP Dec 13 ($)	Number of Options Dec 13	WAEP Dec 12 ($)	Number of Options Dec 12
Outstanding at the beginning of the period	0.64	4,2000,000	0.33	8,400,000
Granted during the period	-	-	0.80	2,000,000
Exercised during the period		-	0.20	3,100,000
Expired during the period	0.60	2,200,000	0.40	3,100,000
Outstanding at the end of the period	0.80	2,000,000	0.64	4,200,000
Exercisable at the end of the period	-	-	0.50	2,200,000

The options outstanding at 31 December 2014 have an exercise price in the range of $0.60 to $1.00 (2013: $0.40 to $1.00) and an average weighted remaining contractual life of years 0.5 years (Dec 2013: 1.5 years).

The weighted average share price on the date of the exercise of options during the period was $0.31 (Dec 2013: $0.26)

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on the Black-Scholes model. The contractual life of the option is used as an input into this model. The following tables detail the factors and assumptions that were used in determining the fair value of options on grant date:

Grant Date	Expiry Date	Fair Value per option	Exercise Price	Share Price on Grant Date	Expected Volatility	Risk Free Interest Rate	Divident Yield	Option Life
20/08/13	20/08/16	$0.101	$0.60	$0.33	66%	3.16%	0.00%	3 yrs
20/08/13	20/08/16	$0.101	$0.60	$0.33	66%	3.16%	0.00%	3 yrs
20/08/13	20/08/16	$0.055	$1.00	$0.33	66%	3.16%	0.00%	3 yrs
20/08/13	20/08/16	$0.055	$1.00	$0.33	66%	3.16%	0.00%	3 yrs

NOTES TO THE FINANCIAL STATEMENTS

25. SHARE BASED PAYMENT PLANS (Continued)

Expected volatilities for all options were based on the previous 12 months historical volatility of the Company share price.

Performance Rights

The Company's performance rights plan was established to provide an incentive to Directors, key management personnel, consultants and employees to participate in the success of the Company. During the reporting period, there were no performance rights granted in relation to the 2014 financial period. There were 34,078,862 rights issued Directors and Executives in relation to the 2013 financial period, which were issued on the 1st June 2014 as a result of being subject to shareholder approval.

The terms and conditions of the performance rights outstanding at the end of the period are as set out in the Remuneration Report and Note 12(e). All rights are settled by physical delivery of shares upon the fulfilment of the vesting conditions:

Grantee and Date of Grant	Number of Options	Vesting Condition	Life of Rights
Issued to employees on 31/10/12	1,331,495	Subject to LTIP vesting	32 months
Issued to employees on 12/04/13	1,363,142	Subject to LTIP vesting	27 months
Issued to employees on 1/06/14	17,039,423	Subject to LTIP vesting	10 months
Issued to employees on 1/06/14	17,039,423	Subject to LTIP vesting	19 months
Total Performance Rights	36,773,483		

The rights outstanding at 31 December 2014 have an average weighted remaining contractual life of 1.46 years (Dec 2013: 1.1 years).

The fair value of services received in return for performance rights granted are measured by reference to the fair value of performance rights granted. The estimate of the fair value of the services received is measured based on the Black-Scholes model. The contractual life of the right is used as an input into this model. The following tables detail the factors and assumptions that were used in determining the fair value of options on grant date:

Grant Date	Expiry Date	Fair Value per option	Share Price on Grant Date	Expected Volatility	Risk Free Interest Rate	Dividend Yield	Life of Right
31/10/12	30/06/15	.190	.265	70%	2.54%	0.00%	2.7 yrs
12/04/13	30/06/15	.111	.185	70%	2.87%	0.00%	2.2 yrs
1/06/14	30/06/16	.111	.160	70%	2.87%	0.00%	2.1yrs

Expected volatilities for all rights were based on the previous 12 months historical volatility of the Company share price.

Employment Costs Recognised in Income Statement:

	Consolidated	
	Dec 14 $	Dec 2013 $
Share options granted in 2011 – equity settled	-	38,868
Share options granted in 2013	88,791	42,735
Performance Rights granted in 2011 – equity settled	169,211	341,228
Performance Rights granted in 2012 – equity settled	273,561	263,558
Performance Rights granted in 2013 – equity settled	68,268	-
Performance Rights granted in 2014 – equity settled	98,234	-
Total expense recognised as employee benefit expense	698,065	686,389

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 31 December 2014 and of its performance for the year ended on that date; and
>
> (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*;

(b) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 2; and

(c) this declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the Corporations Act 2001 for the financial year ending 31 December 2014.

On behalf of the Board

Peter Pynes
Non-Executive Director

Perth, 31 March 2014

Building a better working world

Ernst & Young
11 Mounts Bay Road
Perth WA 6000 Australia
GPO Box M939 Perth WA 6843

Tel: +61 8 9429 2222
Fax: +61 8 9429 2436
ey.com/au

Independent auditor's report to the members of Neon Energy Limited

Report on the financial report

We have audited the accompanying financial report of Neon Energy Limited, which comprises the consolidated statement of financial position as at 31December 2014, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, 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 year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the 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 financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit 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.

Opinion

In our opinion:

a. the financial report of Neon Energy Limited is in accordance with the Corporations Act 2001, including:

   i. giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and of its performance for the year ended on that date; and

   ii. complying with Australian Accounting Standards and the Corporations Regulations 2001; and

b. the financial report also complies with International Financial Reporting Standards as disclosed in Note 2.

Report on the remuneration report

We have audited the Remuneration Report included in pages 12 to 25 of the directors' report for the year ended 31 December 2014. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Neon Energy Limited for the year ended 31 December 2014, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Ernst & Young

D S Lewsen
Partner
Perth
31 March 2015

SHAREHOLDER INFORMATION

TWENTY LARGEST SHAREHOLDERS
AT 25 MARCH 2015

	Fully Paid Shares	% Shareholding
EVOWORLD CORPORATION PTY LTD	110,552,266	19.99%
NERO RESOURCE FUND PTY LTD <NERO RESOURCE FUND A/C>	14,332,903	2.59%
ZERO NOMINEES PTY LTD	11,000,000	1.99%
LYDIAN ENTERPRISES PTY LTD <LYDIAN A/C>	10,000,000	1.81%
J P MORGAN NOMINEES AUSTRALIA LIMITED	9,748,330	1.76%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	9,563,903	1.73%
MR ANTHONY TORNATORA <TORNATORA INVESTMENT A/C>	9,410,000	1.70%
ARREDO PTY LTD	9,000,000	1.63%
HAROMA PTY LIMITED	7,541,320	1.36%
BOWER CAPITAL PTY LTD	5,000,000	0.90%
TAO YUAN LIMITED	5,000,000	0.90%
MR PAUL HARTLEY WATTS	5,000,000	0.90%
MR TIMOTHY LEONARD WEIR + MS VANYA MARIAN KELLEHER <THE TIM WEIR SUPER FUND A/C>	5,000,000	0.90%
FIL RESOURCES LTD	4,948,680	0.89%
HAWKES BAY NOMINEES LTD + MR TERRY COFFEY <WILLIAMS FAMILY N2 A/C>	4,900,000	0.89%
ATHOL STEELE PTY LTD	4,745,708	0.86%
CITICORP NOMINEES PTY LIMITED	4,605,685	0.83%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	4,119,280	0.74%
MR CHONG MENG LAI + MADAM BEE HONG TAN	4,000,000	0.72%
MRS GEORGIA DIANE CULLEY + MR DAVID STUART DARRELL CULLEY	3,000,000	0.54%
	241,468,075	43.66

SHAREHOLDER INFORMATION

As at 25 MARCH 2015

DISTRIBUTION OF EQUITY

Analysis of shareholders by size of holding

	Total holders	Number	%
1 - 1,000	376	153,929	0.03
1,001 - 10,000	2,013	10,827,115	1.96
10,001 - 100,000	2,227	83,891,732	15.17
100,001 - 1,000,000	524	162,086,969	29.31
1,000,001 - 9,999,999,999	51	296,078,104	53.54
Total	5,191	553,037,848	100.00

SUBSTANTIAL SHAREHOLDERS

As at the date of this report Evoworld is the only substantial holder of the company.

VOTING RIGHTS

There are no restrictions on voting rights attached to ordinary shares. On a show of hands every member present in person or by proxy shall have one vote and upon a poll each share shall have on a vote. There are no voting rights attached to the unlisted options issued by the Company.

SHARE CAPITAL STRUCTURE

Fully Paid Ordinary Shares	553,037,848
Performance Rights	5,111,829
Options (Unlisted)	2,000,000