ANNOUNCEMENT TO THE AUSTRALIAN SECURITIES EXCHANGE: 30 March 2012

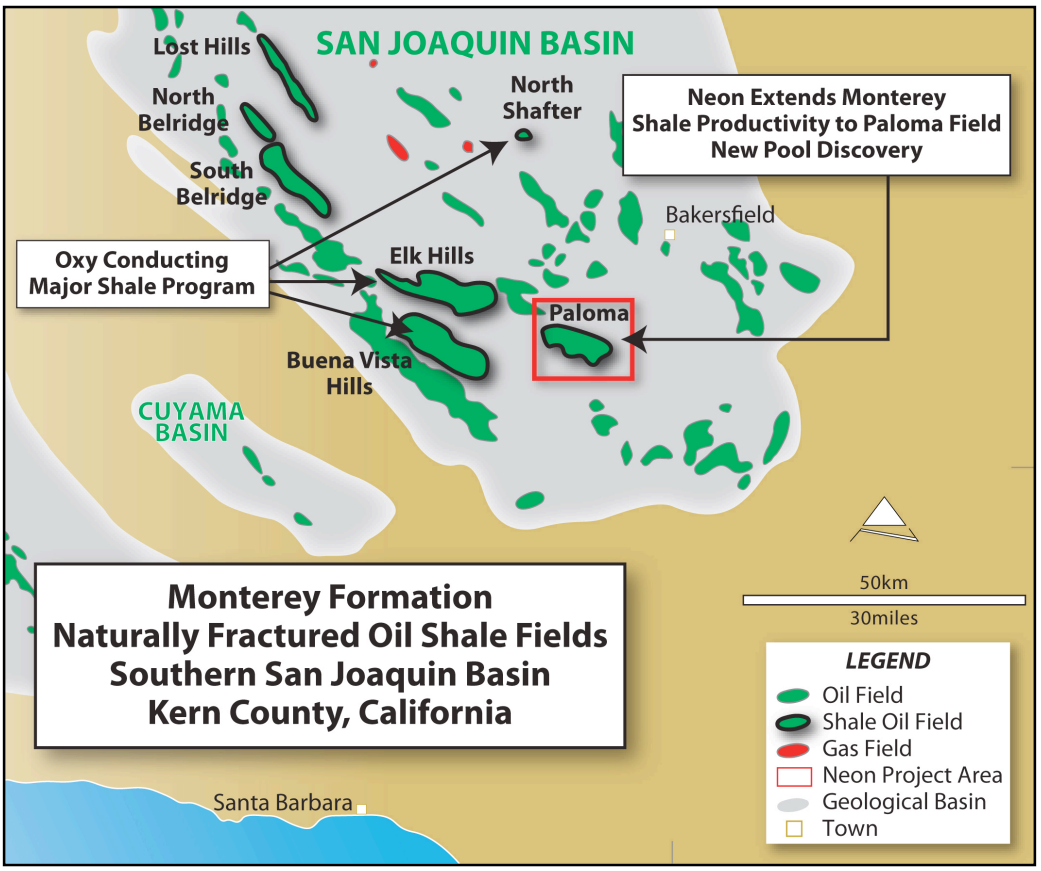
PALOMA DEEP TESTING UPDATE

Highlights

- **Encouraging new production test of oil shale zone**
- **Lower Stevens/Fruitvale previously tested at significant rates**
- **Paloma Deep #2 well to spud late April 2012**

Neon Energy Limited (ASX: NEN) is pleased to provide the following update regarding the ongoing production testing operations at its Paloma Deep discovery, located in the San Joaquin Basin, onshore California.

The Lower Antelope interval, a member of the prolific Monterey Shale Formation, has produced oil and gas during swabbing operations from an interval of naturally fractured interbedded chert, siliceous shale and sandstone. The unstimulated recovery of 35 barrels of 30° API gravity oil from this zone is significant in that these preliminary results are comparable to early results from a number of nearby fields which produce from the Monterey Shale (see figure below).



The US Energy Information Administration[(1)] estimates that the California Monterey Shale play has potential for 15.4 billion barrels of technically recoverable oil, compared to the Bakken play's 3.6 billion barrels and the Eagle Ford play's 3.4 billion barrels.

Based on historical production from the nearby fields the Monterey Shale may have potential to produce 10 to 30 bbls of oil per acre-foot[(2)]. In the case of Neon's estimated 366 foot gross (276 foot net) pay over its 2,847 gross acres, this may translate to 7.9 to 23.6 million barrels of recoverable oil, however additional drilling and production testing is required to confirm this estimate. Neon will also investigate whether modern stimulation techniques, coupled with horizontal development drilling, might accelerate recovery of oil from this zone. During the next few weeks the Company plans to pump-test the lower Antelope Shale oil zone in Paloma Deep #1 in order to determine commerciality.

Based on the encouraging results to date the Company is preparing to drill a follow-up well, to be drilled concurrent with ongoing testing operations at Paloma Deep #1. This second well is designed to evaluate the areal extent of the zones of interest, and to re-evaluate the Lower Stevens/Fruitvale section which previously produced at an unassisted rate of 1.9 MMcfd (million cubic feet per day) of gas and 226 bpd (barrels per day) of oil/condensate, prior to premature cessation of the test as a result of plugging of the test tool.

Since the previous update Neon has also tested a shallower member of the Lower Stevens Formation, and while a small initial gas flow was observed it has now been determined that this zone is non-commercial at the well location.

Neon Energy Managing Director, Ken Charsinsky commented *"The Paloma Deep #1 well represents a significant milestone which could transform the resource base of the Company. We have now proven up two potential Monterey Oil Shale zones in the Fruitvale and the Lower Antelope, in addition to gas/condensate in the Lower Stevens zone. We are bringing forward the drilling of Paloma Deep #2, one month ahead of initial projections, and the well is expected to yield sufficient information to complete a reliable resource assessment."*

The project is operated by Neon with a 75% working interest. Solimar Energy Limited (ASX: SGY) is participating with a 25% working interest, of which 12.5% is being earned through a Farmout Agreement under which Solimar is paying a promoted share of the dry hole and completion/testing costs of the Paloma Deep #1 well, up to an agreed cost cap.

Further updates will be provided as the testing programme progresses.

(1) US Energy Information Administration, July 2011 Review of Emerging Resources: US Shale Gas and Shale Oil Plays
(2) After Louis J. Regan Jr., 1953, Fractured Shale Reservoirs of California, Bulletin of the AAPG

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ATTACHMENT: PALOMA DEEP #1 SCHEMATIC CROSS-SECTION

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