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Lodgement of Market Briefing**

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## Market Briefing

**Neon Energy Limited MD on Vietnam drilling results and future company direction**

**Interview with Ken Charsinsky (MD)**

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### Market Briefing

Neon Energy recently concluded the exploration campaign on Blocks 105 and 120, offshore Vietnam, resulting in two sub-commercial hydrocarbon discoveries. Could you please comment on the exploration campaign in light of the company's strategy?

#### Ken Charsinsky

Before answering this question, I wish to state how disappointed the Neon board and management team are with the results from the recent exploration campaign in Vietnam. Like all of our shareholders we had high expectations of making a commercial discovery, and while all the information gathered pre-drill indicated excellent de-risked potential, one can not know for sure about the presence of commercial quantities of hydrocarbons until operations are completed.

The Company's strategy has always been to develop a diversified portfolio of assets, acquire those assets with large initial equity positions and low entry cost, and use that equity to farmout to industry partners as a means to fund exploration, de-risking prospects as far as possible prior to drilling. Blocks 105 and 120, like our other assets, have been developed consistent with this strategy.

While commercial quantities of hydrocarbons were not discovered at the Ca Ngu-1 and Cua Lo-1 locations, the wells discovered hydrocarbons in all of the pre-drill objectives, plus an additional interval at Cua Lo-1. We are now incorporating the new well information in order to determine the future potential of our acreage, and what the optimal forward strategy will be.

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Given its proximity to large producing Chinese gas fields, there was a lot of investor focus on Neon's Cua Lo-1 gas prospect. Why did the production test fail after exploration drilling discovered hydrocarbons in all pre-drill objectives, as well as new intervals?

#### Ken Charsinsky

Reservoir deliverability and gas composition were identified as the primary geological risks for Cua Lo-1 prior to drilling. The decision to undertake production testing was unanimously made by the joint venture partners, based upon the data available to us at that time. That information led the joint venture to believe there was a good possibility of flowing gas at commercial rates, hence the

decision to test. Unfortunately the drill stem test of the 4.5 Ma sandstone achieved less than commercial rates of gas flow, with a high percentage of CO<sub>2</sub>. We are analysing the data to better understand the reservoir distribution within the block and determine the next step, given that hydrocarbons were discovered thereby confirming a working hydrocarbon system within the block.

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Could the Cua Lo-1 test result have been predicted earlier if other evaluation equipment had been used?

### Ken Charsinsky

The rig utilised a gas chromatograph which monitors the levels of a variety of gases, including CO<sub>2</sub>, as the well is being drilled. It does this by sampling the drilling mud as it circulates at the surface. This system is an industry standard, recognised as a reliable indicator of formation fluids entering the wellbore, and it displayed no indication of high CO<sub>2</sub> levels while drilling the 4.5 Ma objective. Retrieval of additional downhole information was attempted but could not be completed, for a variety of reasons. Detailed assessment of all the available data led the joint venture to conclude that CO<sub>2</sub> was not a significant concern.

It is important to point out that low reservoir permeability was the key critical factor that contributed to commercial failure at this location. A large reservoir with high CO<sub>2</sub> could potentially have been developed; however a reservoir that does not flow at commercial rates is a failure regardless of gas composition.

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Do the Vietnam blocks offer any remaining prospectivity?

### Ken Charsinsky

Significant new data has been acquired during drilling and is now being incorporated into the subsurface model in order to determine the future exploration strategy for Blocks 105 and 120.

The Ca Ngu-1 well in Block 120 was designed as a “play finder” well. The results of this well have significant implications for the remaining large prospects as previously identified within the block.

In Block 105 the new data acquired from the Cua Lo-1 well will help to better understand the distribution and development of reservoir facies, in order to identify locations that may offer scope for improved porosity and permeability.

Neon is presently evaluating the new data to assess the remaining prospectivity of both blocks.

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What is Neon’s financial obligation in relation to the Vietnam drilling program carried out to date?

### Ken Charsinsky

The two wells experienced significant cost over-runs. There were a number of contributing factors, including weather downtime due to a particularly extreme typhoon season. Neon was carried up to a gross cost cap of US\$25 million and US\$20 million on the two wells respectively; a total of US\$45 million. Final costings are not yet available and remain subject to reconciliation. Only when that process is complete will Neon be able to determine its remaining financial obligation.

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What is Neon's immediate funding situation?

### Ken Charsinsky

Neon has no urgent requirement to raise funds. However, like all junior E & P companies capital will be required in the medium term as the Company looks to develop and grow our portfolio of opportunities. There are a number of options available to fund the cost over-run in Vietnam, given the company's equity position in the blocks and other assets within its portfolio.

A share placement is not the Company's preferred option for raising funds at this time, and as such there are no current plans to conduct a capital raising.

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You mentioned Neon's diversified portfolio of assets. Can you provide an update on your Tanjung Aru exploration block, located offshore Kalimantan, Indonesia?

### Ken Charsinsky

Our primary focus over the past six months has been the Vietnam exploration effort, given the substantial upside potential of the success case. Meanwhile, together with our joint partners we have continued to progress pre-drill exploration activities on Tanjung Aru.

Operator KrisEnergy is currently tendering for a 3D seismic vessel to acquire new data within the block early this year, the aim of which is to firm up a drilling location on the block. Once completed, the joint venture will have fulfilled its obligation to the Indonesian Government and will have an option to enter into a second phase, which would require a well to be drilled. Consistent with our strategy the intent is to farm down equity in order to fund that drilling obligation.

In addition the Ruby gas field to the south of our block recently commenced production. This provides an excellent opportunity for early monetisation of a Tanjung Aru gas discovery, as the gas pipeline runs adjacent to our block. The economics of gas development in the area are also supported by excellent "frontier" fiscal term, and very strong local gas prices. There are two gas discoveries on the block from 2002, deemed to be non-commercial at the time due to the prevailing low gas price. With gas pricing at a much higher level now, these resources may offer potential for development as tie-backs to any new discovery.

## Market Briefing

What is happening in California?

### Ken Charsinsky

Neon has a number of assets in California across various stages of development.

The cyclic steaming program at North San Ardo has successfully and efficiently reversed the field's natural decline, which previously had to be compensated for by drilling infill wells. Production is presently between 300 to 350 barrels of oil per day, providing positive cashflow to the Company.

In the adjacent Glau lease we are completing acquisition of gravity and magnetic data for incorporation into the seismic interpretation. The aim of this work is to realise drillable prospects and progress exploration and development of the lease.

At Paris Valley, excellent progress has been made regarding permitting and approvals. We anticipate that pilot appraisal operations can commence shortly.

Meanwhile, at Paloma discussions are continuing with a number of industry participants in relation to further appraisal and development programs. Our aim is to form a joint venture that is appropriately funded and resourced with a partner that has unconventional development experience to progress monetisation of this asset.

## Market Briefing

In light of the outcome of exploration activities in Vietnam, is Neon focusing on its current portfolio or looking to add new assets?

### Ken Charsinsky

The Company is looking at both. As outlined, we have a number of activities currently being progressed across our portfolio that have the ability to drive short term and long term growth.

Neon has constantly pursued new ventures and has accelerated that effort over the past few months in order to add to our asset portfolio over the next year. We are currently evaluating a number of opportunities that are consistent with the Company's strategy of acquiring quality assets at a high equity level and relatively low entry cost, providing the opportunity to "farm down" to de-risk prospects via a funded, technically sound work program.

With a strong board and management team, cash on the balance sheet and a number of options available to address Neon's obligation regarding cost over-runs resulting from the Vietnam drilling program, the Company is confident that we will successfully come through this challenging period and create new opportunities for long term shareholder value creation.

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Thank you Ken.

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For further information, please contact Neon Energy Limited on +61 8 9481 1176, or visit [www.neonenergy.com](http://www.neonenergy.com)

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