



## Quarterly Highlights

- Vietnam 3D seismic results confirm prospectivity
- Selection of well location for *Cua Lo-1* exploration well in Vietnam Block 105
- Mobilisation of drilling rigs for blocks 105 and 120
- *Cua Lo* prospect further derisked, by *Dongfang 13-2* discovery
- Additional prospect identified in Block 120 (*Ca Ngu*)
- Continued improvement in production rate at North San Ardo oil field
- Completion of Glau 2D seismic acquisition programme

## Production & Financial Summary

	June 2013 Qtr	March 2013 Qtr	Change
Production (bbls)	20,200	20,782	-3%
Average Daily Production (bopd)*	244	231	+6%
Revenues (US\$ million)	2.0	2.2	-9%
Average Sale Price per bbl (US\$)	96.93	104.26	-7%
Lifting Cost per bbl (US\$)	64.73	44.80	+44%
Cash & Equivalents at end Quarter (US\$ million)	19.0	23.9	-20%

\*The quoted average daily production is an adjusted figure that removes the effect of a scheduled field shutdown that occurred during the quarter.

## Six Month Outlook

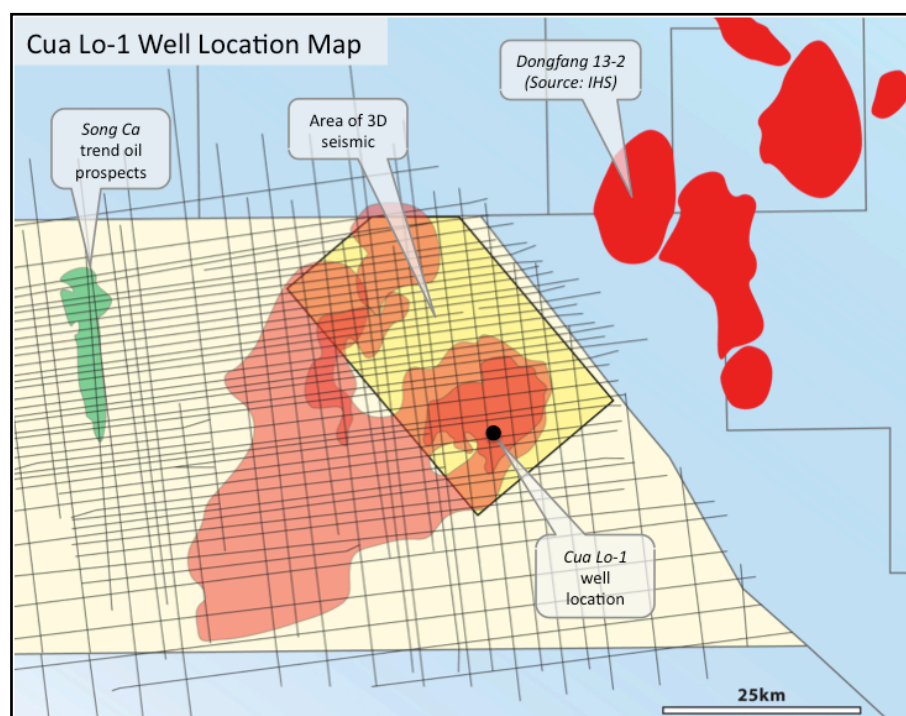
- Block 120 prospect selection (Vietnam)
- Drilling of *Cua Lo-1* and Block 120 high-impact exploration wells (Vietnam)
- Interpretation of Glau seismic data and contingent drilling programme (California)
- Continued production increase at North San Ardo (California)
- Tanjung Aru 3D seismic acquisition (Indonesia)
- Forward plan for Paloma appraisal/development project (California)

## Southeast Asia Overview

**Vietnam Exploration (Block 105, Neon 25%):** Petrovietnam has granted approval for the joint venture to drill the *Cua Lo* exploration prospect and the Ensco 107 jack-up rig is en route to Block 105. The rig is expected to arrive at the *Cua Lo-1* well location on or around 1 August 2013 and the well will spud a few days thereafter. In total, drilling operations are expected to take approximately 45 days (plus additional time required for production testing, if warranted).

*Cua Lo-1* will be drilled in a water depth of 76 metres to a planned Total Depth of 2,826 metres. Neon will be carried through drilling by Eni up to a gross cost cap of US\$25 million, and any costs in excess of the cost cap will be borne by the parties as per their respective working interests. The budgeted dry-hole cost to drill *Cua Lo-1* is US\$35.3 million and Neon's estimated share of drilling costs is therefore US\$2.6 million.

The well will test five clastic reservoir targets, ranging in age from Lower Pliocene to Upper Miocene. All five targets exhibit seismic amplitude anomalies and positive Amplitude vs Offset (AVO) anomalies, both of which can be indicative of the presence of hydrocarbons. The precise well location has been selected in order to intersect the primary prospective zones at locations where the seismic anomalies are most evident.



The Company has recently learned that the *Dongfang 13-2* gas discovery of late 2012 appears to be a close analogue to *Cua Lo*. This new information is of significance because it mitigates the primary risks associated with *Cua Lo*, being reservoir deliverability and gas composition. Reported reserves for the 13-2 discovery are 1.75 TCF of gas, with a flow rate on test of 42.4 million cubic feet of gas per day and low CO<sub>2</sub> content.

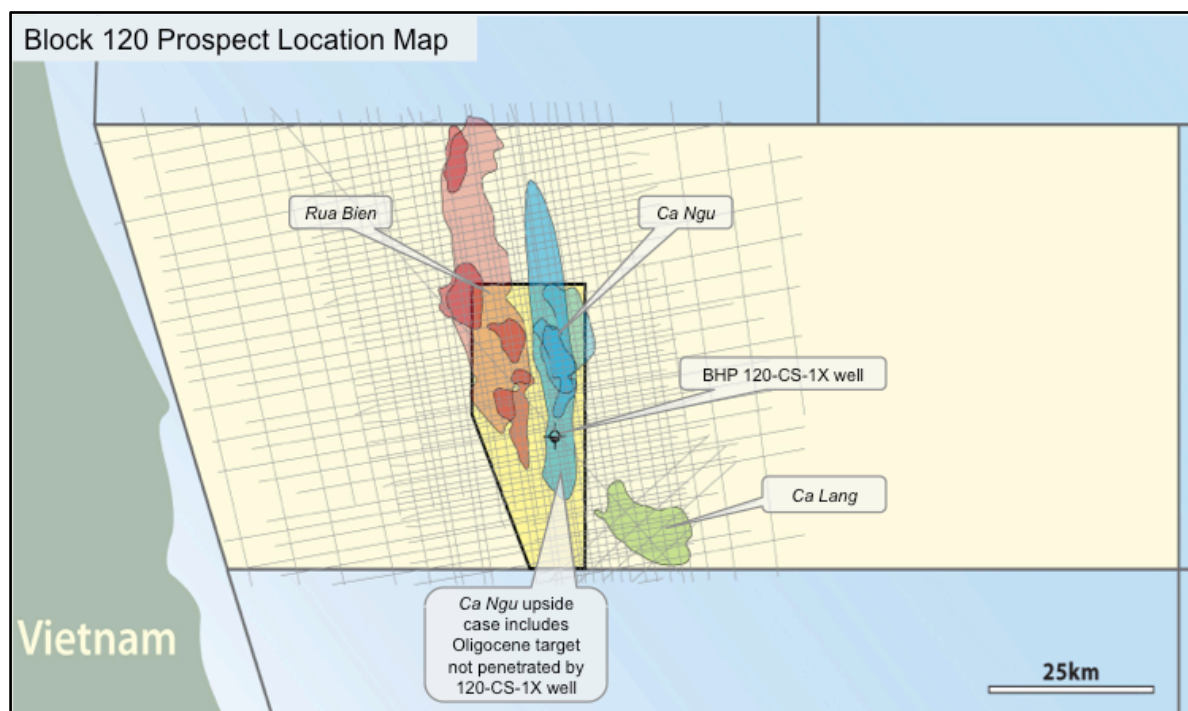
In May 2011 Netherland Sewell & Associates Inc. (NSAI) completed a Prospective Resource Assessment\* for *Cua Lo*, confirming gross unrisked

prospective recoverable resources of 3.9 TCF gas (best estimate) and 13.9 TCF gas (high estimate). NSAI's assessment was based upon only two prospective zones of those identified on the 2D seismic data that was available at that time.

**Vietnam Exploration (Block 120, Neon 25%):** The *Songa Mercur* semi-submersible drilling rig has been contracted to drill the Block 120 exploration well. The rig has mobilised from Cuba and is currently en route to Vietnam, expected to reach Block 120 in early September.

Interpretation of the new 3D seismic data is nearing completion, and the joint venture expects to make a final prospect selection decision in mid August, after completion of site surveys. Geophysical data from the site surveys will contribute to the prospect selection process. The Company will make an announcement regarding the selected prospect after the joint venture receives the usual approvals from Petrovietnam, anticipated to occur in mid August. The 3D seismic data has significantly advanced the joint venture's understanding of the potential reservoir and hydrocarbon distribution within Block 120 and has also revealed an additional prospect, *Ca Ngu*, which together with *Rua Bien* and *Ca Lang* is a candidate for drilling the first exploration well.

The improvement in seismic data quality delivered by the 3D data set reveals a significantly thicker Oligocene syn-rift section than previously thought, which potentially increases the volume of mature source rock available to generate hydrocarbons. The associated increase in depth of burial of the prospective Oligocene section also opens up the possibility of local gas generation within the syn-rift half-graben. Shallow seismic events with strong amplitude anomalies in *Rua Bien* and *Ca Ngu* support the presence of at least some gas within the reservoir and, as such, the three primary prospects within Block 120 are now regarded as prospective for both oil and gas.



On 24 July 2013 the Operator of adjoining Block 121, Origin Energy, confirmed that the 121-CV-1X exploration well has been plugged and abandoned. Drilling encountered wet gas shows in a Miocene secondary objective and confirmed the presence of sandstones in the Oligocene. The 121-CV-1X well is located in the Phu Khanh Basin, structurally down-dip from the identified prospects in Block 120. The presence of wet gas shows supports the presence of a working petroleum system within the Miocene, as previously confirmed by the 120-CS-1X well located within Block 120, and the presence of Oligocene sandstones is encouraging for the Oligocene play which may be tested at an up-dip location by the Block 120 exploration well.

**Indonesia Exploration (Tanjung Aru, Neon 42%):** The joint venture is tendering for a 3D seismic vessel to acquire the 500km<sup>2</sup> 3D seismic commitment within the Tanjung Aru exploration block during the fourth quarter 2013. The survey will compliment the existing 3D seismic dataset and will help the joint venture decide whether to enter the optional second term of the PSC, which commences in late 2014 and requires a single well commitment.

## California Overview

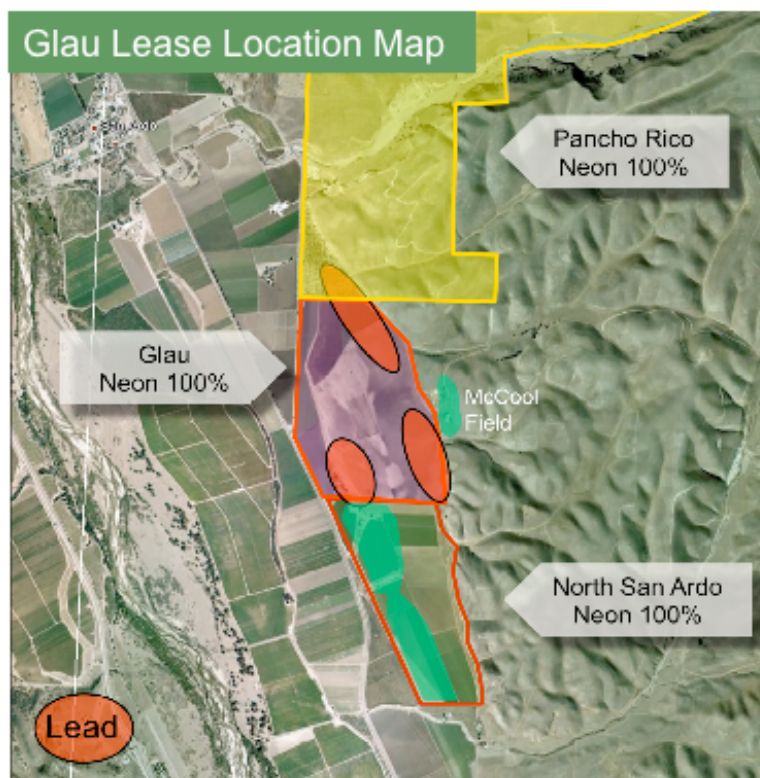
**California Production (North San Ardo):** Quarterly production at North San Ardo (NSA) decreased slightly relative to the previous quarter (20,200 bbls vs 20,782 bbls) due to a scheduled nine day shutdown associated with the ongoing field upgrade and regular maintenance. The field upgrade is designed to remove surface facility production constraints, primarily associated with the disposal of produced water. Without the shutdown, average daily production for the quarter would have been some 244 bopd, a 6% increase over the previous quarter. Most of the increase occurred during the month of June, as the ongoing cyclic steaming operations began to deliver sustained incremental production. During June the field achieved an average rate of production in excess of 300 bopd and at the time of writing production remains above this level.



Per barrel lifting costs were high relative to the previous quarter, primarily due to an increased investment in cyclic steaming operations. The nature of these operations is such that there is a time lag between investment and incremental production, and the Company is confident that the current investment will deliver increased net revenues in subsequent quarters.

**California Exploration (Glau):** The Glau 2D seismic acquisition programme was completed in mid June 2013, and the final processed data is expected to be available by mid August. Interpretation of the data set will take approximately six weeks, and contingent upon the results the Company will commence exploration drilling during the fourth quarter 2013.

The Glau lease is underexplored with only a single stratigraphic test well and minimal legacy seismic coverage. The well confirmed the presence of moveable oil within the reservoir interval that produces at NSA, and the legacy seismic data suggests that prospects that are geologically similar to NSA may extend in to the lease. This provides an excellent opportunity for Neon to add incremental production by drilling low cost wells similar to those drilled in the Lombardi Lease, where initial production rates of up to 1,000 barrels of oil per day were achieved. Neon Energy is confident that valid structures will provide low risk exploration upside to compliment existing production from NSA. Glau drilling permits have been filed with the relevant authority so that drilling can commence as soon as a drillable prospect is identified and a suitable drilling rig contracted. Individual exploration well costs are expected to be approximately US\$400,000.



**California Appraisal (Paloma):** Further to a January 2013 cash call payment default by joint venture partner Solimar Energy (ASX:SGY), Neon Energy has issued Solimar with a Notice of Non Consent in accordance with the terms of the Paloma Joint Operating Agreement. The effect of this notice is that Solimar's working interest in the three Paloma wells transfers to Neon Energy, as does Solimar's interest in a 240 acre area surrounding the wells. In addition Solimar's working interest in the remainder of the Paloma "Western Leases" is reduced from 15% to 10.6%.

Operations at Paloma remain suspended pending completion of a strategic review by Neon Energy. A variety of options are under consideration, and discussions with interested parties continue with a view to introducing a joint venture Operator with the requisite expertise to further appraise and develop the asset. Solimar Energy will not benefit from any farmin agreement pertaining to the existing three wells or the surrounding 240 acre area, and will not benefit from any hydrocarbon production therefrom.

**California Appraisal (Paris Valley):** The ongoing permitting and title clearance process continues, and as such the Company remains unable to confirm the schedule for commencement of operations at this time.

## Corporate

On a cash basis, exploration capital expenditure during the quarter of \$1.27 million was incurred. Development capital expenditure of \$354,000 was incurred at North San Ardo under the ongoing facility upgrade programme. A quarterly cashflow summary is provided in the following table.

	June 2013 Qtr	March 2013 Qtr
<b>Cash Inflows - US\$ '000</b>		
Oil revenue	1,808	2,139
Interest & Other	225	107
Reimbursement from ENI	-	6,788
Total Cash Inflows	2,033	9,034
<b>Cash Outflows - US\$ '000</b>		
Exploration Expenditure	1,270	2,603
Development Expenditure	354	1,501
Operating Expenditure	1,836	1,391
Corporate & Overhead	1,743	1,486
Other	135	105
Total Cash Outflows	5,338	7,086
<b>Cash Position - US\$ '000</b>		
Cash at Beginning of period	23,298	21,532
Net increase / (decrease) in cash on hand	(3,305)	1,948
FX and working capital adjustments	(963)	(448)
Cash at End of Period	19,030	23,298

## Enquiries

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\* Report by NSAI, compiled by Mr. Allen E. Evans, Jr., Vice President – Senior Technical Advisor, and Mr. Eric J. Stevens, Petroleum Engineer, of NSAI. Mr. Evans and Mr. Stevens are qualified in accordance with the ASX listing rule 5.11. Mr. Evans a practicing geologist for 28 years, has given his consent to the release of the Prospective Resources estimates contained in this report, as has Mr. Stevens, a practicing engineer for 9 years. Refer to Neon Energy's ASX original announcement of 9 May 2011.

The estimates of Prospective Resources included in this announcement have been prepared in accordance with the definitions and guidelines set forth in the 2007 Petroleum Resources Management System (PRMS) approved by the Society of Petroleum Engineers (SPE). The PRMS defines Prospective Resources as those quantities of petroleum which are estimated, as of a given date, to be potentially recoverable from undiscovered accumulations.