



5 November 2014

Chairman's Letter to Shareholders

Proposed Merger of Equals with MEO Australia

Dear Shareholder,

As you would be aware, Neon Energy (**Neon**) has recently announced an all scrip "merger of equals" with MEO Australia (**MEO**). On 17 September 2014 I wrote to you regarding the unsolicited off-market proportional takeover offer by Evoworld Corporation Pty Ltd (**Evoworld**), and highlighted that the Board and Management of Neon Energy has for some time been progressing various corporate growth opportunities. The proposed merger with MEO represents the culmination of that process.

The Board of Neon unanimously supports the proposed transaction with MEO, and believe that the MEO merger offers a superior alternative to the Evoworld offer, for reasons outlined within this letter.

It is a condition of the Merger Implementation Agreement with MEO that Neon's shareholders do not approve the Evoworld resolutions to replace the current Neon Board with Evoworld nominees, or approve the Evoworld offer, at the general meetings to be held on 12 November 2014. Put simply, your vote will help decide whether Evoworld will assume control of Neon to pursue an uncertain strategy, or if Neon shareholders will be part of a new, well funded junior E&P company with clear goals for sustained growth in the oil and gas sector.

If you wish for the merger with MEO to proceed it is important that you vote AGAINST Evoworld's resolutions for both meetings in advance of the proxy deadline.

Your Board encourages you to submit your proxy votes for both meetings by 2pm (WST) on Monday, 10 November 2014.

Transaction overview

The proposed "merger of equals" between Neon and MEO is an all-scrip transaction that will be implemented by way of an MEO scheme of arrangement. MEO shareholders will receive 0.7369 Neon shares for each MEO share held, resulting in Neon and MEO shareholders each holding 50% of the Merged Group. The merger values your Neon shareholding at 3.8 cents per share¹, relative to the 3.5 cents per share offered by Evoworld (for only 30% of your shareholding).

The Board of the Merged Group will be comprised of two Directors from Neon (myself as Chairman, and Ken Charsinsky as Non-Executive Director) and two Directors from MEO (Stephen Hopley and Michael Sweeney, both as Non-Executive Directors). The Merged Group will reside in Melbourne, with a management team led by Peter Stickland (currently Exploration Manager of MEO) as Chief Executive Officer.

Transaction highlights

At a time when many junior oil & gas companies face considerable funding constraints, the Merged Group will be in a strong financial position, with net cash of A\$37 million. Your Board considers that this, combined with a significant and diverse asset portfolio, including near-term production opportunities, will place the Merged Group in an excellent position to achieve substantial shareholder value over the coming months and years. In addition to MEO's and Neon's existing assets, both companies have been aggressively pursuing new venture opportunities, such that the Merged Group will have a pipeline of business development opportunities which are expected to result in the addition of significant new exploration and production assets within the first twelve months of the Merged Group's operations.

A priority of the Merged Group's Board will be to rationalise the corporate structure in order to target a substantial reduction in corporate overheads for the Merged Group from the current combined c. \$8.5 million per annum to approximately \$3.5 million per annum. The new organisation will combine the

¹ Based on MEO's 30 day VWAP to 4 November 2014 of 2.8 cents per share.

skills and experience of the two companies while retaining the capital and human resources to transform the Merged Group into a sustainable and cash-generative junior exploration and production company.

The Evoworld Offer

As previously communicated, your Board regards the Evoworld offer as an opportunistic bid to gain control of Neon and its substantial cash assets. We believe the proposed merger with MEO is superior to Evoworld's offer, in the following respects:

- The MEO merger values Neon at 3.8 cents per share. This is relative to Evoworld's offer of 3.5 cents per share for only 30% of your shareholding
- The MEO merger provides Neon shareholders with exposure to an exciting portfolio of oil & gas growth opportunities, both existing and new. This is in comparison to the Evoworld offer, for which Evoworld has provided only limited and vague information regarding the forward strategy for the company
- The Merged Group will retain independence within its Board. This may not be the case if Evoworld are successful in their bid to remove the current Board of Neon Energy and replacing it with Evoworld's nominee Directors
- The Merged Group will benefit from reductions to corporate overheads, while retaining the critical capabilities necessary to compete in the upstream oil & gas sector. Evoworld have suggested they will consider cost saving measures, but have provided no insight regarding their planned future direction for Neon
- The MEO merger will benefit *all* shareholders, whereas your Board has concerns this may not be the case if Evoworld's nominee Directors are appointed to the Neon Board. This opinion is based on prior transactions undertaken by the individuals behind the Evoworld offer, as explained in detail in the Explanatory Memorandum sent with the Notices of Meeting on 3 October 2014

How to Vote

Shareholders are able to vote online at www.investorvote.com.au using the control numbers for each of the two general meetings. The control number for the requisitioned meeting to consider replacing Neon's Directors with Evoworld's nominees is 137363. The control number for the meeting to consider the proportional takeover offer by Evoworld is 137362. Shareholders will require their HIN or SRN details to vote.

I should like to encourage Neon shareholders to be part of this opportunity to create a new well capitalised oil and gas company. The Directors of Neon Energy greatly value the support provided by our shareholders throughout what has been a challenging period for Neon and, with your continued support we look forward to executing our growth strategy for the benefit of all shareholders. I wish to thank you in anticipation of your continued support of Neon, and if you have any queries regarding the MEO merger or the Evoworld offer please contact Market Eye on +61 (03) 9591 8900.

Yours sincerely,



Alan Stein
Chairman (on behalf of Neon Energy's Board of Directors)