NEON ENERGY LIMITED

APPENDIX 4E
PRELIMINARY FINAL REPORT

For the year ended 30 June 2010
A.C.N. 002 796 947

OPERATING AND FINANCIAL REVIEW

The 2009/10 year has been a year of transition and consolidation for the company. Following the global financial crisis in late 2008 and the merger of Salinas and Neon in October 2009, the company has emerged in a strong financial and operational position to take advantage of renewed optimism in world commodity markets. The company has added key personnel, moved significant value added projects forward and implemented a disciplined strategy. Neon is now an exploration and production company comprised of profitable US production coupled with large exploration potential in an emerging energy market.

Neon's revenue for the 2010 fiscal year was $7.6m (2009: $19.0m). The gross operating profit for the year was $2.0m (2009: $8.68m). Corporate, administration and finance expenses of $4.3m (2009: $4.7m) resulted in a net operating loss before impairment charges of $2.3m (2009: profit $5.6m). An impairment charge of $36k against exploration and evaluation expenditures incurred in current and prior years resulted in a consolidated loss of the Group for the financial year of $2.3m (2009: $10.9m).

Production at North San Ardo suffered during the first half of the year, a direct and predictable response to the lack of investment as a consequence of the global financial crisis. While annual production for the year was lower than the previous year, the decline in production was reversed by the drilling of an additional production well, and also upgrading of the field water disposal facilities which were previously constraining production. The drilling of further production wells and investment in a field wide cyclic steaming project are expected to further increase production throughout financial year 2011, and this combined with the overall strengthening of commodity prices is expected to substantially improve the Company's revenue from North San Ardo next year. Production for the year was 102,550 barrels of oil (2009: 206,588). Field operating expenses of $2.6m were lower than the previous year (2009: $3.3m) while royalty payments of $1.5m were significantly reduced (2009: $3.8m) as a direct result of lower production volumes (50%) and average price received (20%).

The company's efforts in controlling corporate and administrative costs, even with the additional activity resulting from the acquisition of Neon Energy Australia Pty Ltd (NEA), have resulted in a reduction of $0.4m on the previous year's costs (2010: $4.3m, 2009: $4.7m).

Exploration activity in the USA during the year was limited primarily to leasing activities. Neon anticipates an increase in exploration activity as the Company investigates the potential for unconventional resources in the context of completing an exploration prospectivity assessment of the more than 12,000 acres currently under license.

In Vietnam the Company was awarded offshore exploration Block 105-110/04 ("Block 105") in January, and subsequently farmed out an interest in that block and Block 120 to KrisEnergy Ltd (still subject to approval by the Vietnam granting authority) in order to fund the seismic work commitment and generate funds through the payment of past costs associated with the blocks. Neon remains Operator of both blocks and successfully completed its first offshore operations with the acquisition of 3,828 km of data, ahead of schedule and under budget. This represents total completion of the seismic work program commitment for both blocks. The new data is presently being processed, and early indications suggest that a significant improvement in data quality has been achieved. After processing is complete the Neon technical team will incorporate the new data to refine the geological and geophysical interpretation, and define and rank the key prospects within each block. Thereafter the Company expects to gain an independent assessment of the prospective resource on each block, prior to determining the Company's strategy as the joint venture commences preparations for drilling on each block.

RESULTS

- Sales revenues decreased 60% to $7.6m (2009: $19.0m).
- Cash of $1.8 million with no debt.
- EBITDAX down 112% to ($0.8m) (2009: $6.9m). EBITDAX is calculated as earnings before interest, tax, depreciation, amortisation and impairment provisions.
- Loss of $2.3m (2009: loss $10.9m) after $0.03m (2009: $14.7m) of non-cash impairment provisions recorded against exploration and development assets.

Kenneth Charsinsky
Managing Director
31 August 2010

NEON ENERGY LIMITED
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FOR THE YEAR ENDED 30 JUNE 2010

REPORTING PERIOD

The reporting period is the year ended 30 June 2010 with the corresponding reporting period being for the year ended 30 June 2009.

RESULTS FOR ANNOUNCEMENT TO THE MARKET

	$'000
Revenue	Down 60% to 7,570
Loss from ordinary activities after tax attributable to members	Down 79% to **(2,292)**
Net loss for the period	Down 79% to **(2,292)**

DIVIDENDS

	Amount per security	**Franked amount per security**
Final dividend – no final dividend is proposed	n/a	n/a
Interim dividend	n/a	n/a
Record date for determining entitlements to the dividend	n/a	

NET TANGIBLE ASSETS

	2010	**2009**
Net tangible asset backing per ordinary security	$0.13	$0.14

The above results should be read in conjunction with the notes and commentary within this report.

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COMPLIANCE STATEMENT

1. This report, and the accounts upon which this report is based, have been prepared in accordance with AASB Standards.
2. This report, and the accounts upon which the report is based, use the same accounting policies.
3. This report gives a true and fair view of the matters disclosed.
4. This report is based upon the accounts to which the following applies:

	The accounts have been audited		The accounts have been subject to review.
4	The accounts are in the process of being audited or subject to review.		The accounts have *not* yet been audited or reviewed.

5. The entity has a formally constituted audit committee.

Gabriel Chiappini

Company Secretary

31 August 2010

NEON ENERGY LIMITED
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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Consolidated 2010 $	Consolidated 2009 $
Continuing operations		
Revenue	7,570,450	19,034,270
Operating Expenses	(2,619,399)	(3,287,008)
Royalty Payments	(1,522,264)	(3,808,091)
Depreciation & Amortisation Expense	(1,409,945)	(3,110,946)
Costs related to inventory sale	-	(150,000)
Cost of Sales	(5,551,608)	(10,356,045)
Gross Profit	**2,018,842**	**8,678,225**
Other income	-	943
Net realised gain on foreign exchange	18,749	-
	18,749	943
Impairment of exploration and evaluation assets	(35,775)	(5,208,720)
Impairment of oil and gas properties in development	-	(9,523,079)
Corporate and administration expenses	(4,280,424)	(4,706,311)
Other expense	-	(98,378)
Finance costs	(14,325)	(1,816)
	(4,330,524)	(19,538,304)
Loss before income tax	**(2,292,933)**	**(10,859,136)**
Income tax expense	-	-
Loss after tax for the period	**(2,292,933)**	**(10,859,136)**
Other Comprehensive Income		
Foreign currency translation gain/(loss)	(1,677,857)	6,619,318
Other comprehensive income for the period	**(3,970,790)**	**(4,239,818)**
Total comprehensive income for the period	**(3,970,790)**	**(4,239,818)**
	Cents	**Cents**
Basic loss per share	(0.78)	(4.60)
Diluted loss per share	(0.78)	(4.60)

The above results should be read in conjunction with the notes and commentary within this report.

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Consolidated 2010 $	Consolidated 2009 $
CURRENT ASSETS		
Cash and cash equivalents	1,841,315	3,702,595
Trade and other receivables	993,220	756,810
Inventories	95,509	233,984
TOTAL CURRENT ASSETS	**2,930,044**	**4,693,389**
NON-CURRENT ASSETS		
Available for sale investments	62,527	62,527
Property, plant and equipment	391,864	316,948
Oil and gas properties in development	25,016,584	24,645,044
Exploration and evaluation assets	18,433,597	4,600,283
TOTAL NON-CURRENT ASSETS	**43,904,572**	**29,624,802**
TOTAL ASSETS	**46,834,616**	**34,318,191**
CURRENT LIABILITIES		
Trade and other payables	687,474	858,824
Provisions	676,977	368,058
TOTAL CURRENT LIABILITIES	**1,364,451**	**1,226,882**
NON-CURRENT LIABILITIES		
Deferred Tax Liability	2,145,000	-
Provisions	1,715,666	601,185
TOTAL NON-CURRENT LIABILITIES	**3,860,666**	**601,185**
TOTAL LIABILITIES	**5,225,117**	**1,828,067**
NET ASSETS	**41,609,499**	**32,490,124**
EQUITY		
Contributed equity	112,582,667	100,526,627
Reserves	685,187	1,328,919
Accumulated losses	(71,658,355)	(69,365,422)
TOTAL EQUITY	**41,609,499**	**32,490,124**

The above results should be read in conjunction with the notes and commentary within this report.

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Issued Capital $	Retained Earnings $	Option & Rights Premium Reserve $	Foreign Currency Translation Reserve $	Total Equity $
At 1 July 2008	**101,301,355**	**(58,506,286)**	**1,216,871**	**(7,033,154)**	**36,978,786**
Foreign currency translation	-	-	-	6,619,318	6,619,318
Total income and expense for the period recognised directly in equity	**-**	**-**	**-**	**6,619,318**	**6,619,318**
Loss for the period	-	(10,859,136)	-	-	(10,859,136)
Total income and expense for the period	**-**	(10,859,136)	-	-	(10,859,136)
Share buy-back	(774,728)	-	-	-	(774,728)
Rights granted	-	-	60,635	-	60,635
Options granted	-	-	465,249	-	465,249
At 30 June 2009	**100,526,627**	**(69,365,422)**	**1,742,755**	**(413,836)**	**32,490,124**
At 1 July 2009	**100,526,627**	**(69,365,422)**	**1,742,755**	**(413,836)**	**32,490,124**
Foreign currency translation	-	-	-	(1,677,857)	(1,677,857)
Total income and expense for the period recognised directly in equity	**-**	**-**	**-**	**(1,677,857)**	**(1,677,857)**
Loss for the period	-	(2,292,933)	-	-	(2,292,933)
Total income and expense for the period	**-**	**(2,292,933)**	**-**	**-**	**(2,292,933)**
Shares issued	12,384,540				12,384,540
Rights granted	-	-	20,427	-	20,427
Options granted	-	-	1,013,698	-	1,013,698
Share issue expenses	(328,500)				(328,500)
At 30 June 2010	**112,582,667**	**(71,658,355)**	**2,776,880**	**(2,091,693)**	**41,609,499**

The above results should be read in conjunction with the notes and commentary within this report.

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CONSOLIDATED STATEMENT OF CASH FLOWS

	Consolidated 2010	2009 $
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	7,328,893	22,016,705
Payments to suppliers and employees	(7,192,354)	(12,252,371)
Interest received	119,329	213,627
Finance costs paid	(12,519)	(1,816)
Net cash flows from/(used in) operating activities	**243,349**	**9,976,145**
CASH FLOWS FROM INVESTING ACTIVITIES		
Development expenditure	(3,028,763)	(8,324,063)
Exploration and evaluation expenditure	(2,543,633)	(3,147,628)
Purchase of property, plant and equipment	(62,819)	(105,153)
Purchase of Neon Energy (Australia) net of cash acquired	(1,427,879)	-
Purchase of Paris Valley LLC	(1)	-
Net cash from/(used in) investing activities	**(7,063,095)**	**(11,576,844)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares	5,670,000	-
Transaction costs of issue of shares	(328,500)	-
Share buy-back	-	(815,209)
Loans to Neon Energy (Australia) – pre acquisition	(80,570)	-
Net cash flows from/(used in) financing activities	**5,260,930**	**(815,209)**
Net increase/(decrease) in cash and cash equivalents	(1,558,816)	(2,415,908)
Net foreign exchange differences	(302,464)	45,078
Cash and cash equivalents at beginning of period	3,702,595	6,073,425
Cash and cash equivalents at end of period	**1,841,315**	**3,702,595**

The above results should be read in conjunction with the notes and commentary within this report.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1: BASIS OF PREPARATION OF PRELIMINARY REPORT

(a) Corporate information

The preliminary financial report of Neon Energy Limited and its subsidiaries ("Neon" or the "Group") for the year ended 30 June 2010 was authorised for issue in accordance with a resolution of directors.

Neon is a company incorporated in Australia and limited by shares, which are publicly traded on the Australian Stock Exchange.

(b) Basis of Preparation

The report is based on accounts that are in the process of being audited.

This report does not include all notes normally included in an annual financial report. Accordingly this report is to be read in conjunction with the financial report for the year ended 30 June 2009 and any public announcements made by Neon during the reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The financial report has been prepared on the basis that the company will continue to meet their commitments and can therefore continue normal business activities and realize assets and settle liabilities in the ordinary course of business.

The ability of the company to do this is dependent on funds owed from KrisEnergy for the farm-out of Block 120 and Block 105 announced on 24 March 2010 and 4 May 2010 respectively. These farm outs are currently pending Vietnamese Government approval. At the date of signing this financial report, the Directors are confident of obtaining Government sign-off and as such the going concern basis is appropriate.

The financial report is presented in Australian dollars.

(c) Statement of Compliance

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

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that are relevant to its operations and effective for annual reporting periods beginning on or after 1 January 2009. The adopted Standards and Interpretations did not result in any changes to the accounting policies adopted by the Group.

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Group for the annual reporting period ending 30 June 2010. Each new or amended Standard will be applicable for the Group from the first period beginning 1 July following the application date of the Standard. The expected impact of the new or amended Standards and Interpretations on the Group has not yet been determined.

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NOTES TO THE FINANCIAL STATEMENTS continued

(d) Principles of Consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Neon Energy Limited ("Company" or "Neon" or "Parent Entity") as at 30 June 2010 and the results of all subsidiaries for the year then ended. Neon Energy Limited and its subsidiaries together are referred to as the Group. Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, so as to obtain benefits from its activities generally accompanying a shareholding of more than one-half of the voting rights. The existence and potential effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

The financial statements of the subsidiaries are prepared for the same reporting period as the Parent Entity, using consistent accounting policies. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases. Intercompany transactions and balances, income and expenses and profits and losses between Group companies, are eliminated.

NOTE 2: ANNUAL GENERAL MEETING

The details of the Annual General Meeting are to be advised.

NOTE 3: REVENUES, OTHER INCOME AND EXPENSES

	Consolidated	
	2010	**2009**
	$	**$**
(a) Revenue		
Oil Sales	7,376,826	17,830,140
Finance revenue	118,159	213,626
Other Revenue	75,465	990,504
	7,570,450	19,034,270
(b) Depreciation and amortisation included in the income statement		
Amortisation – oil and gas properties	875,979	2,539,335
Depreciation – oil and gas properties	533,965	571,611
	1,409,944	3,110,946
Depreciation – other plant and equipment	171,802	103,068
	1,581,746	3,214,014
(c) Other income		
Other	-	943
Net realised gain on foreign exchange	18,749	-
	18,749	943

NOTES TO THE FINANCIAL STATEMENTS continued

(d) Corporate and Administrative Expenses

Depreciation – other plant and equipment	171,802	103,068
Employee Benefits (i)	2,961,444	4,336,271
Operating Leases (ii)	343,197	290,840
Travel Expenses	212,451	240,904
Other	591,530	(44,772)
	4,280,424	4,706,311

(i) Employee Benefits

Wages and salaries	2,102,052	3,065,010
Medical insurance	139,804	226,744
Superannuation expenses	68,555	113,599
Other	83,080	158,331
Payroll taxes	135,602	246,703
Share based payments expense	432,351	525,884
	2,961,444	4,336,271

*Note that the above-mentioned employee benefits expenses are shown prior to capitalisation of expenses to exploration and development assets.

(ii) Operating Leases

Office equipment	17,649	35,533
Office premises	325,547	255,307
	343,197	290,840

(e) Impairment of exploration and evaluation assets and oil and gas development properties

North San Ardo	-	9,523,079
North Yowlumne	-	47,772
Southern San Joaquin Basin	-	2,250,077
Salinas Valley	-	1,751,243
Others	35,775	1,159,628
	35,775	14,731,799

(f) Other expenses

Net loss on sale of assets	-	5,465
Impairment of available for sale financial assets	-	92,913
	-	98,378

NOTES TO THE FINANCIAL STATEMENTS continued

NOTE 4: 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 Vietnam. Discrete financial information about each of these operating businesses is reported to the executive management team.

The reportable segments are based on aggregated operating segments determined by the similarity of the products produced and sold, as these sources are the Group's major risks and have the most effect on the rate of return.

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
The Group has one customer to which it provides 100% of the oil and gas produced being Conoco-Phillips

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 costs

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

	Segment Revenue		Segment Result	
	30 June 2010 $	30 June 2009 $	30 June 2010 $	30 June 2009 $
Business Segments				
United States of America	7,438,735	17,832,880	772,411	(9,207,716)
Vietnam	-	-	-	-
Unallocated being made up of the following items:				
Finance income	121,878	210,886	121,878	210,886
Other Revenue	9,798	990,504	9,798	990,504
Admin and corporate	-	-	(2,937,438)	(2,572,569)
Depreciation	-	-	(120,510)	(31,862)
Other	-	-	(139,072)	(248,379)
Consolidated	7,570,411	19,034,270	(2,292,933)	(10,859,136)

NOTES TO THE FINANCIAL STATEMENTS continued

	Segment Assets 30 June 2010 $	Segment Assets 30 June 2009 $
Business Segments		
United States of America	32,158,539	30,900,057
Vietnam	12,147,035	-
Unallocated being made up of the following items:		
Cash	1,372,248	3,154,310
Receivables	172,759	91,988
Investments	62,527	62,527
Property, plant & equipment	921,509	109,309
Consolidated	46,834,617	34,318,191

NOTE 5: EARNINGS PER SHARE

	Consolidated 2010 $	Consolidated 2009 $
The following reflects the income and share data used in the calculations of basic and diluted loss per share:		
Net profit/(loss)	(2,292,933)	(10,859,136)
Adjustments	-	-
Earnings used in calculating basic and diluted loss per share	(2,292,933)	(10,859,136)

	Consolidated Number of Shares 2010	Consolidated Number of Shares 2009
Weighted average number of ordinary shares used in calculating basic earnings per share	295,023,449	237,368,719
Effect of dilutive securities:		
Share options	-	-
Convertible preference shares	-	-
Adjusted weighted average number of ordinary shares used in calculating diluted earnings per share	295,023,449	237,368,719

Potential ordinary shares are not considered dilutive and accordingly diluted earnings per share is the same as basic earnings per share.