



I'll Huff And I'll Puff ...

Neon Set To Develop Oil And Gas Interests

Ken Charsinsky, Neon Managing Director

A SX-listed petroleum exploration and production company Neon Energy is looking to develop oil and gas interests in Vietnam and California, building on a portfolio that includes the already producing North San Ardo (NSA) field, onshore California in the Salinas Basin.

Ken Charsinsky, Neon Managing Director, told *PESA News* it is an exciting time for the company, which he believes has a significant period of growth ahead of it.

"We're an unrecognised gem right now, and one of the things that we intend to do over the coming weeks and months is to step up our efforts in telling our story to the marketplace", he said.

Neon has large interests in two offshore blocks in Vietnam: Block 105 and Block 120. Block 105, located in the central Song Hong Basin, covers an area of 7,192 km²; Block 120 covers an area of 8,469 km² in the Quang Ngai Graben. The blocks are regarded by Neon as being highly prospective for large accumulations of oil and gas.

Neon, which has been in Vietnam since early 2009, recently announced a farm-out of Block 120 to KrisEnergy and Enovation

Resources. The deal, subject to the approval of Vietnamese authorities, entails Neon farming out a 50% participating interest in return for reimbursement of past costs plus full funding of forthcoming 2D seismic acquisition and processing (capped at US\$3 MM). Neon will retain operatorship.

Neon was awarded a PSC for Block 105-110/04 in January 2010. It is conducting early interpretation and regional studies to determine areas of interest for a 2D seismic survey, currently planned for June 2010 following acquisition of its seismic survey on Block 120. Neon holds a 90% interest in the block and is the operator; Enovation holds the remaining 10%.

"We're continuing to search for new opportunities in Southeast Asia, where we have competitive advantage from our large unique geoscientific database. We've also recently received a bit of industry notoriety in that Neon is recognised as the operator of two very prospective blocks in Vietnam, which is a country that has become a very popular exploration address recently", Charsinsky said.

"Vietnam combines many positive attributes, including high marks for contract sanctity, transparency and commercial terms. They

offer large underexplored blocks with the kind of potential that interests even the largest companies. Not surprisingly therefore, the list of current license holders includes such well known multinationals as Gazprom, Chevron, Origin, Premier and recent entries ExxonMobil and BHP. There's just not that many places around the world where you can find this combination of positive attributes."

Elsewhere, Charsinsky said Neon has in excess of 20,000 acres under lease in the Californian Salinas and San Joaquin basins. He said they have identified a significant number of prospects and leads in the general area, two of which are drill-ready on the company's current acreage.

"We are looking for partners now", he said, stating Neon has recently brought to fruition work started several years ago. "We assembled 11 3D surveys and looked at this very mature area regionally in a sequence stratigraphic framework to identify new opportunities. To my knowledge, we're the only company to have used this approach in the area, and it has helped us to identify quite a bit of untapped potential, 46 prospects and leads to date."

Neon is the operator and 100% equity holder in the NSA field, which commenced



North San Ardo field location map.

commercial development in late 2006. Neon recently announced the successful completion of drilling operations on the Lombardi 17-27H well, which commenced production at a rate of 225 bbl/d, nearly doubling production at the field.

Charsinsky said Neon will seek to enhance production at the NSA field via 'cyclic steam flooding', a method of enhanced oil recovery in which steam is injected into the reservoir, heating the heavy crude and causing it to flow at higher rates.

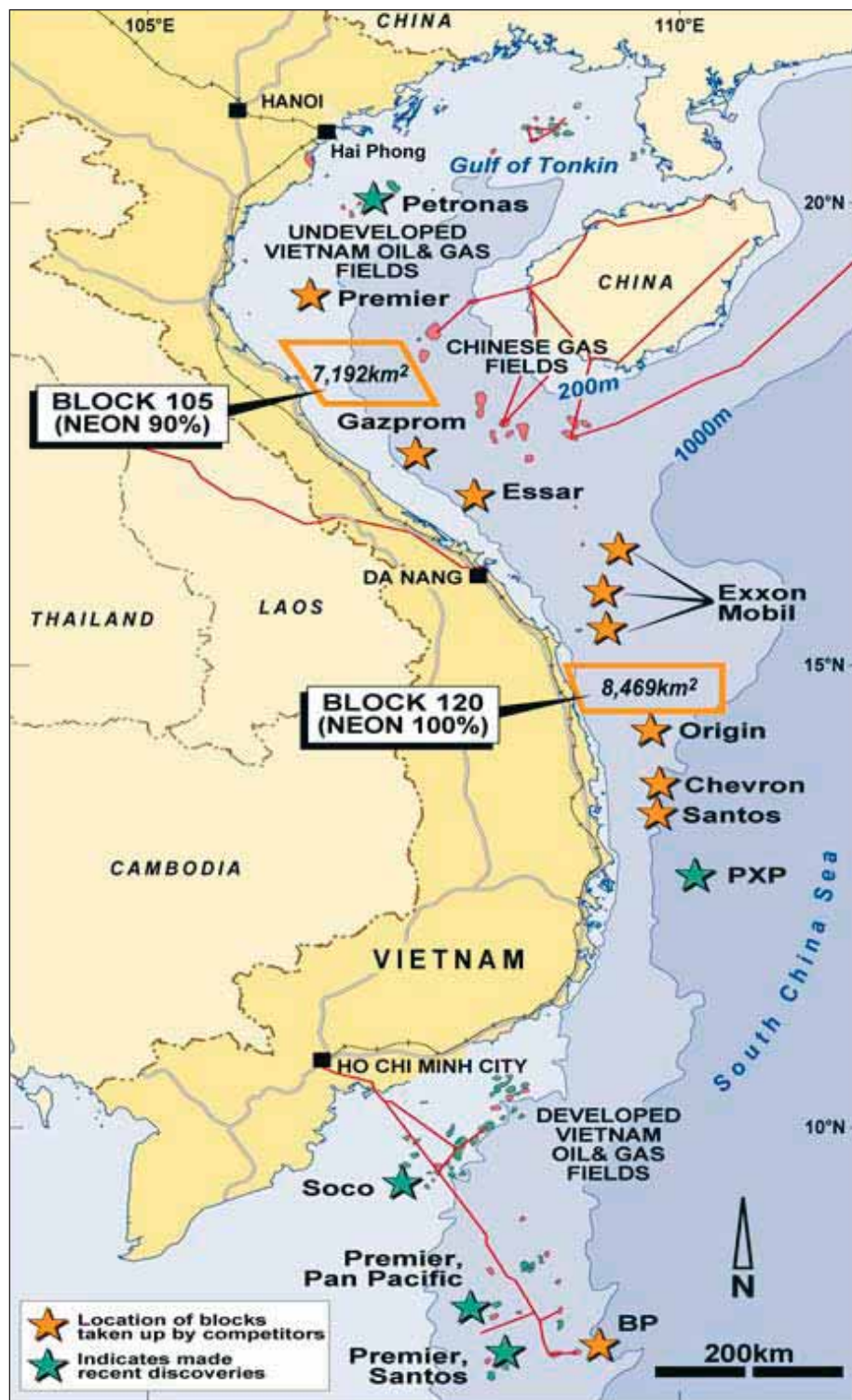
"Heating the oil near the well bore increases its viscosity, which allows it to move more freely in the reservoir. This translates into higher production rates", he said, stating Neon has completed successful testing of the technique on one of the vertical wells at NSA.

"Our cyclic steaming, or 'huff and puff', test yielded a 150% boost to the production rates for the vertical trial well. However, most of our producing wells are horizontal, and these wells should respond even more favourably to the steam than a vertical well.

"It's not surprising that heating the reservoir had this result. We are very near to the giant San Ardo field which is operated by Chevron. That field has been under full steam flood for many years and is reportedly one of the most successful steam floods in the world. We're producing from similar formations and the nature of the oils are similar, so the risk of failure for us is low.

"We plan to begin a program of cyclically steaming all the wells on our central pad—the field produces from three concrete pads—and we expect this project to commence in June of this year. We should get a production boost from each well after steaming. That boost is expected to commence within weeks of the commencement of steam injection.

"In addition to that expected production increase, we are evaluating other development



Block 105-110/04 and Block 120 location map.

well locations. We expect to drill at least one more later this year, and the combination of the cyclic steaming with the additional production from new wells should add significant new production in the short term. Successful results from our 'huff and puff' project will provide information from which we will make a decision regarding a full field steam flood."

Charsinsky said Neon will continue to evolve as a company and push ahead with the development of its assets.

"Neon is about the growth story, and we want our investors to join with us because they want to participate in that growth. We've got a strong involved board with a successful track record, short-term development upside in California, medium-term exploration opportunities, and very large longer term targets in Vietnam. Combined with an active effort to expand our portfolio, utilising the competitive advantages of our database and strong technical team, we have all the tools we need to grow our business." ■