

# ASX & Media Release

## Solimar Energy Limited

### Quarterly Activities Report and Appendix 5B

For the 3 months ended 31 March 2014



#### COMPANY OVERVIEW\*

<b>ASX / TSXV Codes</b>	SXS (ASX) / SXS (TSXV)
<b>Share Price (ASX)</b>	A\$0.03 per share
<b>Shares on Issue</b>	59,971,216
<b>Unlisted Options</b>	6,635,097
<b>Market Capitalization</b>	A\$1.8m
<b>Average Stock Turnover**</b>	0.21m shares/month
* Figures as at 26 April 2014	
** Over 12 month period Apr 2013-Mar 2014 on ASX	

#### DIRECTORS

<b>Mr Frank Petruzzelli</b>	Chairman
<b>Mr Jason Bednar</b>	Non-Executive Director
<b>Mr Mark Elliott</b>	Non-Executive Director
<b>Dr Charle Gamba</b>	Non-Executive Director
<b>Mr Will Satterfield</b>	Non-Executive Director
<b>Natural Gas Price*</b>	US\$/MMBtu (SoCal Border Spot) \$5.00
<b>Oil Price*</b>	US\$/bbl (Midway Sunset Spot) \$99.26

## HIGHLIGHTS

### Kreyenhagen

- Solimar successfully completed and production tested the upper and lower Temblor heavy oil sandstone zones in well 2-33.
- JV Partner's commitment was agreed to decrease to US\$1.8million with a proportional reduction of working interest earned down to 13.5%.

### Funding / Capital

- The Company proposes to raise up to C\$2.0 million through a non-brokered private placement. The placement was approved at a meeting of shareholders in March 2014. During the quarter two tranches were completed, raising a total of C\$606,800.
- Upon the granting of a first priority security of the Company's (and subsidiaries) assets and an extension fee of C\$250,000. The debentures maturity date was extended to 31 July 2014.

## **OPERATING ACTIVITIES**

### **Kreyenhagen: 85% -100% Working Interest and Operator (San Joaquin Basin)**

Solimar successfully completed and production tested the upper and lower Temblor heavy oil sandstone zones in well 2-33. The lower zone was swab testing using a completions rig for about one week and produced mainly water. The upper zone was produced using a rod pumping unit for about one month and produced mainly oil at rates ranging from 2 to 10 barrels per day. Oil and water samples were taken from both zones to conduct lab analysis for use in evaluating a potential thermal EOR project (steam stimulation).

Forward plans are to drill a new vertical core well to further evaluate the potential for a steam stimulation project. The drilling pad for the new well has already been constructed and Solimar expects to spud at the beginning of May. The core will provide an improved understanding of rock properties and in-situ fluid saturations. The Company hopes to conduct a steam pilot test later this year using existing wells that have been completed for thermal production and a steam generator that is being fabricated. The permits for the steam pilot test have been secured from the State of California.

### **Jacalitos: 100% Working Interest and Operator (San Joaquin Basin)**

This project is contiguous with the Company's greater Kreyenhagen project and is being re-evaluated as part of the regional Kreyenhagen shale oil play.

## **CORPORATE ACTIVITIES**

On 31 January 2014, the Company announced that subject to TSXV approval it intends to complete a non-brokered private placement for aggregate gross proceeds of C\$2.0 million, via the issuance of units at C\$0.065 per unit. Each unit would comprise one ordinary share and one half of one right. Each right would entitle the holder to acquire one warrant, subject to shareholders approving the issue of the warrants.

In connection with the extension of the debenture indenture date 26 June 2012, as amended and restated on 14 August 2013, the Company granted first priority security to the debenture holders over all of the assets of the Company and its subsidiaries and agreed to pay a C\$250,000 extension fee to the debenture holders, on a pro rata basis. The new extension date for the debentures is 31 July 2014.

On 3 February 2014, the first tranche of the proposed C\$2.0 million private placement was completed, raising C\$250,000. The securities issued pursuant to the private placement are subject to a four months statutory resale restriction.

The Company also announced that it had entered into an amending agreement with its JV partner at the Kreyenhagen Heavy Oil Project in California. Following the LOI announced on 23 December 2013, the amending agreement reduces the JV Partner's Farm-In commitment to US\$1.8 million, with a proportional reduction in the earned working interest from 15% to 13.5% and confirmed that the JV partner will not participate in a second farm-in phase to earn additional rights or working interest.

The JV partner will participate in the ongoing testing and capital program within the heavy oil project as at 13.5% working interest.

On 20 February 2014, the Company announced that a second tranche of the proposed C\$2.0 million private placement had been completed. A total of C\$356,800 was raised. In aggregate a total of C\$606,800 had been raised.

Canacol Energy Limited "Canacol" which invested C\$306,800, immediately upon completion had beneficial ownership of and control and direction over 9.64% of the issued shares of the Company. Canacol also held 796,054 warrants. If all such warrants were exercised then Canacol would have beneficial ownership of and control and direction over 10.88% of the then issued shares of the Company.

Securities issued were subject to a four month hold period expiring on 1 June 2014 and 20 June 2014.

On 20 February 2014, the Company's Chief Financial Officer and Company Secretary resigned. Mr Chris Ritchie was subsequently appointed to these positions.

On 27 February 2014, the Company announced a meeting of the Company's shareholders to be held on 28 March 2014. The shareholder meeting was to consider:

1. The ratification of the prior issue of 4,750,319 shares @ C\$0.065 per share to Canacol and Rio Bravo Commercial Enterprises Inc.
2. The ratification of the prior issue of 4,585,066 shares to Canacol @ C\$0.065 per share.
3. The ratification of the prior issue of 598,290 shares @ C\$0.1170 per share and 1,423,490 shares @ C\$0.1124 per share as payment of interest due and payable to debenture holders.
4. Approval of the issue of 4,667,692 unlisted warrants to Canacol and Rio Bravo Commercial Enterprises Inc.
5. Approval of the issue of 21,435,846 shares @0.065 and 10,716,923 units to the holders of 10,716,923 rights.

On 28 March 2014 the Company announced that all resolution had been passed on a show of hands at the Shareholder meeting.

On 31 March 2014, the Company issued 2,763,388 shares @ C\$0.0579 for the payment of interest to debenture holders.

### **Going Concern**

The Company has insufficient cash resources and liquidity at March 31, 2014 to operate as a going concern in the near term and is reliant on the support of significant shareholders, directors and creditors to allow it to continue operations. There is considerable risk that the Company's existing creditors will cease to provide their ongoing support.

The Company's ability to continue as a going concern is dependent upon obtaining necessary funds to meet its current obligations, fund ongoing contractual commitments under its various farm-in and lease agreements, and ultimately achieve profitable operations. While the Company is expending its best efforts, the raising of the necessary funds is not assured.

## LEASES

Project	Oil / Gas	Contract Status	Gross Acres	Solimar Net Acres	Working Interest	Operator
Kreyenhagen	Heavy Oil and Light Oil	Appraisal and development	12,552	12,294	86.5%	Solimar
Tejon Footwall	Light Oil / Gas	Exploration	6,460	265	10%	Lani, LLC
Bayswater (Zodiac) (A)	Light Oil	Appraisal and exploration	34,798 (est.)	286	1.1324%	Zodiac Exploration
Jacalitos	Light Oil	Exploration	516	516	100%	Solimar
		<b>Sub Total</b>	<b>54,326</b>	<b>13,361</b>		

Note:

- A) The Company derives its interest in Bayswater (Zodiac) by virtue of a lease participating in an approximate 100,000 acre pooled area. The acres shown are based on the Company's 1.1324% interest in the pooled area. Not all Gross Acres and Net Acres leased are equal.

*Note that all dates for drilling activities discussed in this quarterly report are subject to rig availability, and may change.*

Jason Bednar  
**Director**  
Solimar Energy Limited

For further information contact: Jason Bednar Director

Phone 1-805-643-4100 or 61-3-9347-2409 and website [www.solimarenergy.com.au](http://www.solimarenergy.com.au)

Neither TSX Venture Exchange nor its Regulation Services Provider (as that term is defined in the policies of the TSX Venture Exchange) accepts responsibility for the adequacy or accuracy of this release.

## **Reader Advisory: Potential resource estimates and forward-looking statements**

This news release contains forward-looking information relating to adding to reserves and resource estimates, planned development and exploration activities on the properties in which the Company has interests, and other statements that are not historical facts. Such forward-looking information is subject to important risks, uncertainties and assumptions. The results or events predicated in this forward-looking information may differ materially from actual results or events. As a result, you are cautioned not to place undue reliance on this forward-looking information.

Forward-looking information is based on certain factors and assumptions regarding, among other things, the impact of increasing competition; the timely receipt of any required regulatory approvals; the ability of the Company to obtain qualified staff, equipment and services in a timely and cost efficient manner; drilling results; the ability of the operator of the projects which the Company has an interest in to operate the field in a safe, efficient and effective manner; the ability of the Company to obtain financing on acceptable terms; field production rates and decline rates; the ability to replace and expand oil and natural gas reserves through acquisition, development of exploration; the timing and costs of pipeline, storage and facility construction and expansion and the ability of the Company to secure adequate product transportation; future oil and natural gas prices; currency, exchange and interest rates; the regulatory framework regarding royalties, taxes and environmental matters in the jurisdictions in which the Company operates; and the ability of the Company to successfully market its oil and natural gas products, and other similar matters. While the Company considers these assumptions to be reasonable based on information currently available to it, they may prove to be incorrect.

Forward looking-information is subject to certain factors, including risks and uncertainties that could cause actual results to differ materially from what is currently expected. These factors include risks associated with instability of the economic environments in which the Company operates or owns interests, oil and gas exploration, development, exploitation, production, marketing and transportation, loss of markets, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environmental risks, competition from other producers, inability to retain drilling rigs and other services, incorrect assessment of the value of acquisitions, failure to realize the anticipated benefits of acquisitions, delays resulting from or inability to obtain required regulatory approvals and ability to access sufficient capital from internal and external sources, reliance on key personnel, regulatory risks and delays, including risks relating to the acquisition of necessary licenses and permits, environmental risks and insurance risks.

The estimates of resources in this news release constitute forward-looking information which is subject to certain risks and uncertainties, including those associated with the drilling and completion of future wells, limited available geological data and uncertainties regarding the actual production characteristics of, and recovery efficiencies associated with, the reservoirs, all of which are being assumed. As estimates, there is no guarantee that the estimated reserves or resources will be recovered or produced. Actual reserves and resources may be greater than or less than the estimates provided in this presentation.

You should not place undue importance on forward-looking information and should not rely upon this information as of any other date. While the Company may elect to, the Company is under no obligation and does not undertake to update this information at any particular time, except as required by law.

## **Resource Definitions**

This discussion has been excerpted from Sections 5.2 and 5.3 of the Canadian Oil and Gas Evaluation Handbook, Second Edition, September 1, 2007. The following definitions relate to the subdivisions in the SPE-PRMS resources classification framework and use the primary nomenclature and concepts contained in the 2007 SPE-PRMS, with direct excerpts shown in italics.

*Production* is the cumulative quantity of petroleum that has been recovered at a given date.

*Reserves* are estimated remaining quantities of oil and natural gas and related substances anticipated to be recoverable from known accumulations, as of a given date, based on the analysis of drilling, geological, geophysical, and engineering data; the use of established technology; and specified economic conditions, which are generally accepted as being reasonable. Reserves are further classified according to the level of certainty associated with the estimates and may be subclassified based on development and production status.

*Contingent Resources* are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations using established technology or technology under development, but which are not currently considered to be commercially recoverable due to

one or more contingencies. Contingencies may include factors such as economic, legal, environmental, political, and regulatory matters, or a lack of markets. It is also appropriate to classify as contingent resources the estimated discovered recoverable quantities associated with a project in the early evaluation stage. Contingent Resources are further classified in accordance with the level of certainty associated with the estimates and may be subclassified based on project maturity and/or characterized by their economic status.

*Undiscovered Petroleum Initially-In-Place* (equivalent to undiscovered resources) is that quantity of petroleum that is estimated, on a given date, to be contained in accumulations yet to be discovered. The recoverable portion of undiscovered petroleum initially in place is referred to as “prospective resources”, the remainder as “unrecoverable”.

*Prospective Resources* are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from undiscovered accumulations by application of future development projects. Prospective resources have both an associated chance of discovery and a chance of development. Prospective Resources are further subdivided in accordance with the level of certainty associated with recoverable estimates assuming their discovery and development and may be subclassified based on project maturity.

### **Classification of Resources**

When evaluating resources, in particular, contingent and prospective resources, the following mutually exclusive categories are recommended:

- Low Estimate: This is considered to be a conservative estimate of the quantity that will actually be recovered from the accumulation. If probabilistic methods are used, this term reflects a P90 confidence level.
- Best Estimate: This is considered to be the best estimate of the quantity that will actually be recovered from the accumulation. If probabilistic methods are used, this term is a measure of central tendency of the uncertainty distribution (most likely/mode, P50/median, or arithmetic average/mean).
- High Estimate: This is considered to be an optimistic estimate of the quantity that will actually be recovered from the accumulation. If probabilistic methods are used, this term reflects a P10 confidence level.

**Company Gross Contingent Resources** are the Company's working interest share of the contingent resources, before deduction of any royalties.

**Company Net Contingent Resources** are the gross contingent resources of the properties in which the Company has an interest, less all Crown, freehold, and overriding royalties and interests owned by others.

Rule 5.3

# Appendix 5B

## Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001, 01/06/10.

Name of entity

SOLIMAR ENERGY LTD

ABN

42 112 256 649

Quarter ended ("current quarter")

31 MARCH 2014

### Consolidated statement of cash flows

Cash flows related to operating activities		Current quarter \$A'000	Year to date (9 months) \$A'000
1.1	Receipts from sales and related debtors	-	54
1.2	Payments for (a) exploration & evaluation	(139)	(269)
	(b) Joint Venture exploration	(288)	(1,673)
	(c) development	-	19
	(d) production	-	(59)
	(e) administration	(190)	(676)
1.3	Dividends received	-	-
1.4	Interest and other items of a similar nature received	-	-
1.5	Interest and other costs of finance paid	-	(283)
1.6	Income taxes paid	-	-
1.7	Other – (see <b>Note A</b> below)	466	1,853
<b>Net Operating Cash Flows</b>		<b>(151)</b>	<b>(1,034)</b>
<b>Cash flows related to investing activities</b>			
1.8	Payment for purchases of: (a) prospects	-	-
	(b) equity investments	-	-
	(c) other fixed assets	-	-
1.9	Proceeds from sale of: (a) prospects	-	277
	(b) equity investments	-	-
	(c) other fixed assets	-	-
1.10	Loans to other entities	-	-
1.11	Loans repaid by other entities	-	-
1.12	Other (provide details if material)	-	-
<b>Net investing cash flows</b>		<b>-</b>	<b>277</b>
1.13	Total operating and investing cash flows (carried forward)	<b>(151)</b>	<b>(757)</b>

+ See chapter 19 for defined terms.

**Solimar Energy Ltd**  
**Appendix 5B – March 2014 Quarter**  
**Mining exploration entity quarterly report**

1.13	Total operating and investing cash flows (brought forward)	(151)	(757)
	<b>Cash flows related to financing activities</b>		
1.14	Proceeds from issues of shares, options, etc.	613	1,054
1.15	Costs of issue and borrowings	(252)	(252)
1.16	Proceeds from borrowings (Debentures)	-	-
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Other (provide details if material) (see <b>Note B</b> )	-	81
	<b>Net financing cash flows</b>	<b>361</b>	<b>883</b>
	<b>Net increase (decrease) in cash held</b>	<b>210</b>	<b>126</b>
1.20	Cash at beginning of quarter/year to date	58	150
1.21	Exchange rate adjustments to item 1.20	(2)	(10)
1.22	<b>Cash at end of quarter (December 31) (Note C)</b>	<b>266</b>	<b>266</b>

**NOTES**

- A.** The A\$1.673m received year to date are the funds contributed by the Kreyenhagen Joint Venture Partner to the Phase I program.
- B.** These were the funds advanced by the Directors who wished to participate in the non-brokered placement and which were approved by shareholders at the AGM.
- C.** The Company has insufficient cash resources and liquidity at 31 December 2013 to operate as a going concern in the near term and is reliant on the support of significant shareholders, directors and creditors to allow it to continue operations.

**Payments to directors of the entity and associates of the directors**

**Payments to related entities of the entity and associates of the related entities**

	Current quarter \$A'000
1.23 Aggregate amount of payments to the parties included in item 1.2	Nil
1.24 Aggregate amount of loans to the parties included in item 1.10	Nil
1.25 Explanation necessary for an understanding of the transactions	

**Non-cash financing and investing activities**

- 2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows
- Nil
- 2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest
- Nil



## Financing facilities available

Add notes as necessary for an understanding of the position.

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities	-	-
3.2 Credit standby arrangements	-	-

## Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation (See Note)	850
4.2 Development	-
4.3 Production	20
4.4 Administration	260
<b>Total</b>	<b>1,130</b>

Note: The anticipated exploration expenditure which relates predominately to a planned third well would only be undertaken when the necessary funding is provided.

## Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	91	57
5.2 Deposits at call	-	-
5.3 Bank overdraft	-	-
5.4 Other (provide details) (see Note below)	175	1
<b>Total: cash at end of quarter</b> (item 1.22)	<b>266</b>	<b>58</b>

Note: Other is the balance of funds held in the Kreyenhagen Joint Venture Account that are assigned specifically to costs incurred on the Kreyenhagen work program.

## Changes in interests in mining tenements

	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1 Interests in mining tenements relinquished, reduced or lapsed	Certain Acreage (Kreyenhagen Trend)		100%	86.5%
6.2 Interests in mining tenements acquired or increased				

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**Mining exploration entity quarterly report**

**Issued and quoted securities at end of current quarter**

*Description includes rate of interest and any redemption or conversion rights together with prices and dates.*

	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1 <b>Preference +securities</b>	<b>n/a</b>			
7.2 Changes during quarter				
(a) Increases through issues				
(b) Decreases through returns of capital, buy-backs, redemptions				
7.3 <b>+Ordinary securities (See Note Below)</b>	<b>59,971,216</b>	<b>59,971,216</b>		
7.4 Changes during quarter				
(a) Increases through issues	12,101,773			
(b) Decreases through returns of capital, buy-backs				
7.5 <b>+Convertible debt securities</b>	<b>80</b>		C\$50,000 (C\$4.0m)	20% p.a Maturity Date 31 Jul 2014
7.6 Changes during quarter				
(a) Increases through issues				
(b) Decreases through securities matured, converted				
7.7 <b>Options</b> (description and conversion factor)	120,000 756,000 128,000 360,000 1,653,317 560,000 244,445 200,000 800,000 480,000 1,333,335 Options convert on 1:1 basis		Exercise price A\$1.97 A\$4.50 A\$3.1875 C\$3.60 C\$3.60 C\$3.75 C\$3.75 A\$3.1875 C\$3.00 C\$2.50 C\$1.25/C\$2.50	Expiry date 28 February 2015 1 July 2014 1 July 2014 5 October 2014 5 October 2014 10 February 2014 4 April 2015 4 July 2016 31 July 2015 30 November 2015 27 September 2015
7.8 Issued during quarter				
7.9 Exercised during quarter				
7.10 Expired during quarter				
7.11 <b>Debentures</b> (totals only)				
7.12 <b>Unsecured notes</b> (totals only)				

+ See chapter 19 for defined terms.

## Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 4).
- 2 This statement does give a true and fair view of the matters disclosed.

Chris Ritchie  
Company Secretary

Date: 28 January 2014

## Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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