



SOLIMAR ENERGY LIMITED

ABN 42 112 256 649

**Interim financial
report for six months ended**

31 December 2007

SOLIMAR ENERGY LIMITED

CONTENTS

	<i>Page</i>
Corporate Directory	3
Directors' report	4
Lead auditors' independence declaration	7
Consolidated income statement	8
Consolidated balance sheet	9
Consolidated statement of changes in equity	10
Consolidated statement of cash flows	11
Condensed notes to the consolidated financial statements	12
Directors' declaration	15
Lead auditor's review report	16

SOLIMAR ENERGY LIMITED

Corporate Directory

Directors

Mr Frank Petruzzelli – Chairman
Mr Mark Elliott – Non Executive Director
Mr Craig Burton – Executive Director

Company Secretary

Chris Bowyer

Registered Address and Business Address

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Australian Securities Exchange – Perth
Office
Exchange Plaza, 2 The Esplanade
Perth, Western Australia 6000
AUSTRALIA

Share Registry and General Shareholder Queries

Advanced Share Registry Services
110 Stirling Highway
Nedlands WA 6009
AUSTRALIA
Phone: (08) 9389 8033
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SOLIMAR ENERGY LIMITED

Directors' Report

The Directors present their report together with the consolidated financial report for the half-year ended 31 December 2007 and the review report thereon.

Directors

The directors of the company at any time during or since the end of the half-year are:

Name	Period of directorship
Frank Petruzzelli (Chairman)	Appointed 29 June 2007
Craig Burton (Executive Director)	Appointed 17 December 2004
Mark Elliott (Non-Executive Director)	Appointed 29 June 2007

Resignation of Director

Michael John Fry resigned as a Non-Executive Director on 25 August 2007.

Review of Operations – Half-year ended 31 December 2007

Highlights

- Successful commercial testing operations commenced at the Southeast Lost Hills gas project with the testing of the Jack Hamar 3-13 well. Three additional wells are being tested in the first quarter 2008.
- Solimar Energy Limited (Solimar Energy) signed a Farmout Agreement with Sunset Energy Limited involving Solimar Energy's Maricopa and Deer Creek Projects.
- Testing of the South Buckeye 1-18 well yielded initial non-commercial gas test results. Procedures to enhance flow rates are now under review.
- A new target location has been identified at the Ventura South Flank #1 prospect and a redrill opportunity is anticipated in the second quarter of calendar 2008.
- The Maricopa project was advanced for drilling which is expected to occur in the first quarter 2008.

Southeast Lost Hills Project: 50% (San Joaquin Basin)

In December 2007 Solimar Energy commenced work on testing multiple potential gas-bearing intervals in the first of four wells already drilled at the Southeast Lost Hills (SELH) Project — Jack Hamar 1-12, 1-13, 2-13 and 3-13. The SELH Project is located in the San Joaquin Basin, California.

The new extensive testing programs for each of the wells will firstly involve perforating the lowest prospective interval and, if productive, an extensive flow test will begin in preparation for commercial production. A total of 10 intervals have been targeted for testing in the three wells. These reservoir targets are shallow Pliocene sands that pinch out around the flanks of the Lost Hills Anticline. The target intervals to be tested are not greater than 4,000 feet in depth.

The aim of testing the SELH operation is to confirm commercially viable production rates from these wells and to better ascertain the reserves potential. Solimar Energy believes there is potential for a substantial gas accumulation in the shallow Pliocene reservoirs. The commercial development potential of the project is enhanced by strong gas demand in the area, local infrastructure and high gas prices.

SOLIMAR ENERGY LIMITED

The first well to be tested, Jack Hamar 3-13, flowed gas at 633,000 cubic feet per day over a 48 hour testing period at a tubing pressure of 1,185 psi on a 6/64 inch choke. The three additional wells are being tested in the first quarter of calendar 2008.

Solimar Energy is working to commercialise the existing successfully tested Jack Hamar 3-13 well, and potentially any new well that may produce gas from the current testing operation. Work is continuing on a pipeline connection to the Jack Hamar wells. Details are being completed on connection points and the required permits. Terms are also being finalised with a buyer of the gas.

Solimar Energy's wholly-owned US subsidiary, Livingstone Energy, Inc., is Operator in a 50/50 joint venture with Nuenco NL (ASX Code: NEO) in the SELH project.

Ventura South Flank Prospect: 16.5% (Ventura Basin)

As a result of work performed in the first half of this financial year, Solimar Energy together with its Joint Venture partners concluded an evaluation of the data obtained in and around the Ventura South Flank oil and gas exploration prospect in the Ventura Basin, California.

The recent evaluation included analysing the data from the drilling performed by Solimar Energy and its partners in mid 2007 as well as the more recent data obtained from re-entering the old Walter Sexton well (WS#1) drilled in 1935. The recent evaluation included generating a 3-D geological model which demonstrated the two Ventura South Flank (SF#1) boreholes drilled in 2007 were apparently separated from the oil and gas reservoir described in the WS#1 well in the 1930's by a combination of the faulting seen in the SF#1 well and the fault system identified in the seismic interpretation.

The current plan is to finalise the well path for a redrill from the SF#1 well along with costs to determine rig availability in preparation for a final project review by all partners and investors. Early indications suggest the redrill could be scheduled for the second quarter of calendar 2008.

Forbes Gas Project: 50% (Sacramento Basin)

Production testing of the South Buckeye 1-18 well commenced in November 2007. The primary objectives in the Forbes interval were perforated. After swabbing, the well flowed high quality gas but not at commercial flow rates due most likely to a tight reservoir section in this location. The joint venture partners are now evaluating the possibility of fracture stimulating the perforated intervals across this tight section. The well has other shallower potential gas-bearing sections which are also being evaluated for possible testing in the near future.

Aquaduct Fan Project: 10% (San Joaquin Basin)

During the first half of this financial year no exploration activity occurred at this project. At this stage there are no firm plans for drilling the Aquaduct Fan prospect in 2008.

Maricopa Project: 50% (San Joaquin Basin)

During the first half, environmental approvals in relation to the protection of plants and animals were processed with the Californian Department of Fish and Game. A standard requirement for such projects where environmental approvals are obtained involves providing offset acreage for the drill sites. These arrangements are underway and, as required, approvals have to be obtained. The plan is to contract a drilling rig with expectations of drilling to occur in the first quarter of calendar 2008.

Separately, Solimar Energy obtained its operator license with the State of California and the Federal Bureau of Land Management (BLM) and is now in a position to be the operator of record for all its projects. Sunset Energy Limited (ASX Code: SEY) holds a 50% working interest in the project.

SOLIMAR ENERGY LIMITED

Deer Creek Project: 50% (San Joaquin Basin)

Leasing work is continuing at the Deer Creek project. Sunset Energy Limited (ASX Code: SEY) holds a 50% working interest in the project.

Other Work

Solimar Energy continues to review new potential projects in the Sacramento, San Joaquin and Ventura Basins to enhance the value of the company's exploration portfolio.

2008 Drilling Program*

- **Southeast Lost Hills:** testing of the Jack Hamar 1-13; 2-13; and 1-12 wells (current).
- **Maricopa:** plans are to contract a drill and rig and begin drilling in 1st Quarter of calendar 2008.
- **Ventura South Flank well:** re-evaluating the Ventura South Flank #1 well and plans to redrill the well early in the second half of calendar 2008.
- **Forbes Gas Project:** the South Buckeye well yielded initial non-commercial gas test results with "fracking" operations now under review.

* *Note that all dates for drilling activities discussed in this half yearly report are subject to rig availability, weather conditions and other operational issues which may cause these dates to change.*

Corporate

Farmout Agreement signed with Sunset Energy Limited

On 21 August 2007 Solimar Energy announced to the ASX that its wholly-owned subsidiary, Solimar Energy LLC ("Solimar"), had signed a Farmout Agreement with Sunset Energy Limited ("Sunset Energy").

Under the agreement, Solimar Energy agreed to offer Sunset Energy a 50% working interest in the Maricopa and Deer Creek Prospect Areas in exchange for Sunset Energy agreeing to fund 100% of the cost to drill and complete 2 wells, one on each Prospect Area.

On 13 February 2008 a variation to the agreement was made whereby Sunset Energy would pay 100% of the first US\$750,000 in costs to drill and complete two wells at the Maricopa prospect. Any additional costs beyond the US\$750,000 to drill and complete the two wells will be shared equally by both companies.

Lead Auditor's Independence Declaration under section 307C of the Corporations Act 2001

The lead auditor's independence declaration is set out on page 7 and forms part of the directors' report for the half-year ended 31 December 2007.

Dated at Melbourne this 12th day of March 2008.

Signed in accordance with a resolution of the directors:



Frank Petruzzelli
Chairman



Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To: the directors of Solimar Energy Limited

I declare that, to the best of my knowledge and belief, in relation to the review for the half-year-ended 31 December 2007 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the review; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the review.

A handwritten signature in black ink, appearing to read 'Peter Jovic'.

KPMG

A handwritten signature in black ink, appearing to read 'Peter Jovic'.

Peter Jovic
Partner

Melbourne

12 March 2008

SOLIMAR ENERGY LIMITED
INCOME STATEMENT
For the 6 months ended 31 December 2007

	CONSOLIDATED	
	31	31
	DECEMBER	DECEMBER
	2007	2006
Note	\$	\$
Professional fees	(579,312)	(2,072)
Personnel expenses	(43,400)	-
Exploration expenditure	(935,172)	(529,998)
On-site costs	-	(109,439)
Other expenses	(160,779)	(4,533)
Other income	247,016	-
Results from operating activities	(1,471,647)	(646,042)
Foreign exchange gain	63,395	-
Interest income	105,762	1,450
Interest expense	-	-
Net financial income	169,157	1,450
Loss before income tax	(1,302,490)	(644,592)
Income Tax expense	-	-
Loss for the year attributable to equity holders of Solimar Energy Ltd	(1,302,490)	(644,592)
Loss per share for profit attributable to the ordinary equity holders of the Company:		
Basic loss per share for the period (cents per share)	(0.80)	(0.67)
Diluted loss per share for the period (cents per share)	(0.80)	(0.67)

The consolidated income statement is to be read in conjunction with the accompanying condensed notes.

SOLIMAR ENERGY LIMITED
BALANCE SHEET
As at 31 December 2007

		CONSOLIDATED	
		AS AT 31 DECEMBER 2007 \$	AS AT 30 JUNE 2007 \$
Note			
ASSETS			
CURRENT ASSETS			
	Cash and cash equivalents	3,254,957	4,818,720
	Trade & other receivables	371,481	170,731
	TOTAL CURRENT ASSETS	3,626,438	4,989,451
NON - CURRENT ASSETS			
	Receivables	-	-
	Investments	-	-
	Plant & Equipment	6,541	-
6	Exploration and Development Expenditure	10,992,549	12,110,670
	TOTAL NON - CURRENT ASSETS	10,999,090	12,110,670
	TOTAL ASSETS	14,625,528	17,100,121
LIABILITIES			
CURRENT LIABILITIES			
	Trade & other payables	420,743	491,399
	Income Tax Provision	5,980	5,980
	Borrowings	-	655,110
	TOTAL CURRENT LIABILITIES	426,723	1,152,489
NON - CURRENT LIABILITIES			
	Borrowings	-	-
	TOTAL NON - CURRENT LIABILITIES	-	-
	TOTAL LIABILITIES	426,723	1,152,489
	NET ASSETS	14,198,805	15,947,632
EQUITY			
7	Contributed equity	17,103,294	17,103,294
	Reserves	(517,623)	(71,286)
	Accumulated losses	(2,386,866)	(1,084,376)
	TOTAL EQUITY	14,198,805	15,947,632

The consolidated balance sheet is to be read in conjunction with the accompanying condensed notes.

SOLIMAR ENERGY LIMITED
STATEMENT OF CHANGES IN EQUITY
For the 6 months ended 31 December 2007

	Issued Capital \$	Accumulated Losses \$	Reserves \$	Total Equity \$
At 1 July 2007	17,103,294	(1,084,376)	(71,286)	15,947,632
Effect of translation of foreign currency to group presentation	-	-	(501,687)	(501,687)
Total income and expense for the period recognised directly in equity	-	-	(501,687)	(501,687)
Profit / (Loss) for the period	-	(1,302,490)	-	(1,302,490)
Total income / expense for the period	-	(1,302,490)	(501,687)	(1,804,177)
Issue of options	-	-	55,350	55,350
At 31 December 2007	17,103,294	(2,386,866)	(517,623)	14,198,805
At 1 July 2006	-	(177,366)	-	(177,366)
Effect of translation of foreign currency to group presentation	-	-	(14,762)	(14,762)
Total income and expense for the period recognised directly in equity	-	-	(14,762)	(14,762)
Profit / (Loss) for the period	-	(644,592)	-	(644,592)
Total income / expense for the period	-	(644,592)	(14,762)	(659,354)
Issue of Shares	1,000,000	-	-	1,000,000
Cost of share-based payments	-	-	-	-
At 31 December 2006	1,000,000	(821,958)	(14,762)	163,280

The consolidated statement of changes in equity is to be read in conjunction with the accompanying condensed notes.

SOLIMAR ENERGY LIMITED
STATEMENT OF CASHFLOWS
For the 6 months ended 31 December 2007

	CONSOLIDATED	
	31 DECEMBER 2007 \$	31 DECEMBER 2006 \$
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	-	-
Funds received from Joint Venture Partners for commitments	263,401	-
Payments to suppliers and employees	(729,819)	(116,428)
Payments for oil & gas properties	-	-
Payments for exploration and development	(545,373)	(932,543)
NET CASH FLOWS USED IN OPERATING ACTIVITIES	(1,011,791)	(1,048,971)
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for exploration and evaluation	-	-
Payments for plant and equipment	(6,541)	-
NET CASH FLOWS FROM / (USED IN) INVESTING ACTIVITIES	(6,541)	-
CASH FLOWS FROM FINANCING ACTIVITIES		
Interest received	105,762	1,450
Proceeds from issue of share capital	-	1,000,000
Proceeds from borrowings	-	160,000
Repayment of borrowings	(655,110)	-
NET CASH FLOWS FROM / (USED IN) FINANCING ACTIVITIES	(549,348)	1,161,450
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(1,567,680)	112,479
Cash and cash equivalents at beginning of period	4,818,720	-
Effect of exchange rate fluctuations on cash held	3,917	14,762
CLOSING CASH AND CASH EQUIVALENTS	3,254,957	127,241

The consolidated statement of cash flows is to be read in conjunction with the accompanying condensed notes.

SOLIMAR ENERGY LIMITED

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. Reporting Entity

Solimar Energy Limited (the 'Company') is a company domiciled in Australia. The address of the Company's registered office is 566 Elizabeth Street, Melbourne, Vic 3000. The consolidated interim financial report of the Company as at and for the six months ended 31 December 2007 comprises the Company and its subsidiaries (together referred to as the 'Group').

The consolidated annual financial report of the consolidated entity as at and for the year ended 30 June 2007 is available upon request from the Company's registered office or can be downloaded from www.solimarenergy.com.

2. Statement of Compliance

The consolidated interim financial report is a general purpose financial report which has been prepared in accordance with AASB 134 Interim Financial Reporting and the Corporations Act 2001.

The consolidated interim financial report does not include all of the information required for a full annual financial report, and should be read in conjunction with the consolidated annual financial report of the Group as at and for the year ended 30 June 2007.

This consolidated interim financial report was approved by the Board of Directors on 12 March 2008.

3. Significant Accounting Policies

Except as described below, the accounting policies applied by the Group in this consolidated interim financial report are the same as those applied by the Group in its consolidated financial report as at and for the year ended 30 June 2007.

The Group has adopted AASB 2007-4 Amendments to Australian Accounting Standards arising from ED 151 and Other Amendments (April 2007) (AASB 2007-4).

4. Estimates

The preparation of the interim financial report requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

In preparing this consolidated interim financial report, the significant judgements made by management in applying the consolidated entity's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial report as at and for the year ended 30 June 2007.

5. Segment Reporting

The consolidated entity operates in one business and geographical segment, namely exploration and development of oil and gas in one geographical area – California, USA.

SOLIMAR ENERGY LIMITED
CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL
STATEMENTS

6. Exploration Expenditure

	31 DEC 2007 \$	30 JUN 2007 \$
Exploration Expenditure	10,992,549	12,110,670
	<u>10,992,549</u>	<u>12,110,670</u>

Reconciliation of movement in exploration expenditure

	Half year ended 31 Dec 2007	Financial year ended 30 Jun 2007
<i>Exploration expenditure at cost</i>		
Balance at the beginning of the period	12,110,670	-
Additions (Net of Farm-in payments)	298,321	1,905,332
Additions - Equity Settled	-	2,316,318
Acquired through Acquisition	-	8,440,251
Amounts expensed during period	(935,172)	(551,231)
Reclassified from Exploration	(28,357)	-
Movement as a result of FX Translation	(452,913)	-
Balance at the end of the period	<u>10,992,549</u>	<u>12,110,670</u>
Carrying amount		
Balance at the beginning of the period	12,110,670	-
Balance at the end of the period	<u>10,992,549</u>	<u>12,110,670</u>

7. Capital

For the six months ended 31 December 2007

	<i>Ordinary shares</i>	Number of shares	Issue Price	\$
1 July 2007	Opening balance	162,666,661		17,103,294
31 December 2007	Closing balance	<u>162,666,661</u>		<u>17,103,294</u>

For the six months ended 31 December 2006

	<i>Ordinary shares</i>	Number of shares	Issue Price	\$
1 July 2006	Opening balance	56,000,001		9,503,390
11 July 2006	Issue of fully paid securities	10,000,000	\$ 0.36	3,600,000
31 December 2006	Closing balance	<u>66,000,001</u>		<u>13,103,390</u>
	Less:			
	Share issue costs			<u>(162,777)</u>
				<u>12,940,613</u>

SOLIMAR ENERGY LIMITED
CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL
STATEMENTS

8. Share-based payments

In December 2007 the Group granted options to key management personnel. The terms and conditions of the share options granted were identical to those granted to Directors at the general meeting on 29 June 2007. The granting of these options was recognised as a share based expense of \$55,350 for the six months ended 31 December 2007.

The terms and conditions of the options grant are as follows:

Grant date	Number of instruments	Vesting conditions	Expiry Date
17 December 2007	1,500,000	Vested on grant date	18 December 2009

Fair value of share options and assumptions for the six months ended 31 December 2007:

Fair value at grant date	\$0.0369
Share price	\$0.17
Exercise price	\$0.25
Expected volatility	80%
Option life	2 Years
Expected dividends	Nil
Risk-free interest rate (based on government bonds)	6.8%

The valuation is based on the assumption that the options are exercised at the mid-point of their option life.

The basis of measuring fair value is consistent with that disclosed in the consolidated financial report as at and for the year ended 30 June 2007.

9. Related parties

Arrangements with related parties remain in place. For details on these arrangements refer to the 30 June 2007 annual financial report.

SOLIMAR ENERGY LIMITED
DIRECTORS' DECLARATION

In the opinion of the directors of Solimar Energy Limited ("the Company"):

1. the financial statements and notes set out on pages 8 to 14, are in accordance with the Corporations Act 2001 including:
 - (a) giving a true and fair view of the Group's financial position as at 31 December 2007 and of its performance for the six month period ended on that date; and
 - (b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001; and
2. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Dated at Melbourne this 12th day of March 2008.

Signed in accordance with a resolution of the directors:



Frank Petruzzelli
Chairman



Independent auditor's review report to the members of Solimar Energy Limited

We have reviewed the accompanying half-year financial report of Solimar Energy Limited, which comprises the consolidated interim condensed balance sheet as at 31 December 2007, condensed income statement, statement of changes in equity and cash flow statement for the half-year ended on that date, a statement of accounting policies and other explanatory notes 1 to 9 and the directors' declaration set out on pages 3 to 5 of the Group comprising the company and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2007 and its performance for the half-year ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of KPMG, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Solimar Energy Limited is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Group's financial position as at 31 December 2007 and of its performance for the half-year period ended on that date; and
- (b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

KPMG

Melbourne

12 March 2008

Peter Jovic
Partner