



SOLIMAR ENERGY LIMITED

ABN 42 112 256 649

**Interim financial
report for six months ended**

31 December 2009

SOLIMAR ENERGY LIMITED

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SOLIMAR ENERGY LIMITED

Corporate Directory

Directors

Mr Frank Petruzzelli – Chairman
Mr Mark Elliott – Non Executive Director
Mr John Begg – 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
150 Stirling Highway
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SOLIMAR ENERGY LIMITED

Directors' Report

The Directors present their report together with the consolidated financial report for the six months ended 31 December 2009 and the review report thereon.

Directors

The directors of the company at any time during or since the end of the interim period are:

Name	Period of directorship
Frank Petruzzelli (Chairman)	Appointed 29 June 2007
John Begg (Executive Director)	Appointed 18 November 2009
Craig Burton (Executive Director)	Appointed 17 December 2004; Resigned 18 November 2009
Mark Elliott (Non-Executive Director)	Appointed 29 June 2007

Review of Operations – Half-year ended 31 December 2009

HIGHLIGHTS

- Acquisition of Quest Petroleum's 50% interest in Southeast Lost Hills
- Acquisition of 50%- 70% interest in over 4,500 acres at Gujarral Hills
- Establishment of new gas production in shallower interval at 3-13 after re-entry
- Drilling of appraisal well (Almond 4-13) which records multiple gas shows
- Capital raised of A\$1.8million through a private placement
- Appointment of John Begg to Board and management team to guide company's strategy and operations

DRILLING AND DEVELOPMENT PROGRAM

Southeast Lost Hills Project: 100% Working Interest and Operator (San Joaquin Basin)

At Southeast Lost Hills (SELH) Solimar Energy is targeting 40 bcf of gas and already has infrastructure in place to accept production from up to 3 wells. This includes production facilities, an export pipeline and associated gas sales contract.

The company's confidence in the project was demonstrated by the decision at the beginning of the period to purchase Quest Petroleum's 50% interest in Southeast Lost Hills delivering complete control in the project to the company.

The company's focus is now on a program of work to generate gas production and revenue and begin proving up the scale of the gas reserve.

Activity in the half year revolved around planning associated with a new well; Almond Grove 4-13 and re-entering the 2-13 and 3-13 wells to establish if production could be achieved from a shallower interval existing in both wells.

The re-entry into 2-13 and 3-13 began in November 2009. This occurred after a review of old wells and matching zones of interest to the crossing seismic data. Production tests on the targeted shallow

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interval saw flow rates of up to 400 mcf/d. The result showed that the presence and distribution of gas reservoirs was predictable on seismic which would be an advantage for the future placement of wells.

The 2-13 well was perforated at around 2,050 feet and stabilised at a rate of approximately 250 mcf/d before being shut in after the production system became blocked with what was believed to be migrating fines from the formation, causing a loss of production.

The 3-13 well was perforated between 2,215 and 2,225 feet being the extension of the zone discovered in the 2-13 well. Production rates were maintained at around 100 mcf/d and the well continued to produce gas for an extended period at these levels while monitored closely.

Despite promising initial production test results all three zones successfully tested eventually ceased production. The reasons for this are under review.

The Almond Grove 4-13 well was planned as purpose - drilled for the shallow (<4,000 feet) Pliocene gas reservoirs in the project, using modern technologies. The location of the well was chosen specifically to prove the presence of gas in the previously untested western area of the project.

Almond Grove 4-13 spudded on 16 January 2010 and reached a depth of 3,092 feet encountering the target zone at approximately 2,710 feet when very high gas readings (over 1,800 units of gas) were recorded. The zone, as with the earlier gas zones tested in the 2-13 and 3-13 wells could be matched to an amplitude anomaly on the seismic data.

While running a wiper trip to maintain good hole conditions, with the bit at 2,708 feet, there was influx into the borehole and the well was shut-in and mud weights raised to over 14 pounds per gallon (ppg) to bring the well under control.

Following this response to over pressured conditions the drill string became stuck and could not be recovered. The well was then plugged back to the 7 inch casing shoe at 2,252 feet and suspended.

The company is currently evaluating the data gathered from what has been a very active period for the SELH project and is considering various work program alternatives to verify the commercial potential. These include drilling new wells and a re-entry of 4-13, sidetracking and testing the gas zone intersected below 2,710 feet.

As a result of the recent activities at Southeast Lost Hills the company believes its main challenge at this stage is to further advance its development drilling and completion techniques to better handle the mineralogically sensitive and over pressured gas reservoirs.

It is likely that the economics of the project will revolve around completing multiple gas reservoirs per well to ensure that each well accesses economically producible volumes of gas. The now confirmed seismic signature of the gas reservoirs will greatly enhance well targeting for this purpose.

Maricopa Project: 50% Working Interest and Operator (San Joaquin Basin)

During the half year there was no drilling activity at the Maricopa project. Production however continued from Maricopa #6 and work continued on plans to install a water disposal pipeline (the cost of which would be shared with adjacent operators) that could transport waste water from the project at significantly reduced costs from current levels. The aim is to support bringing back Maricopa #7 into production (unlike Maricopa #6 this well produces oil with a high water cut) and to increase the economics of the Maricopa project generally.

The Maricopa #6 well continued to steadily produce light oil throughout the half year at rates between 22 and 31 bopd. The well has been performing consistently for the 21 months since being drilled and completed for production in May 2008. The results from the #6 well strongly indicate that further oil productive potential can be captured by the company in the Maricopa leases through additional drilling.

The company also undertook a geological review of the area to assist in further development of the project and as a result has identified other well locations that could be drilled to increase production.

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The Silverthread Project: 18.5% - 20% Working Interest (Ventura Basin)

There has been no progress in this project over the period as a result of disagreements with the operator Mirada Petroleum Inc. The company is currently talking with Mirada Petroleum Inc in an effort to resolve the matters. The company remains hopeful that agreement will be reached and this would then enable the partners to re enter, stimulate and re test the thick oil Zone penetrated in the Nesbitt #5 well.

Partners in the Silverthread Project (and their respective working interests) are:

Mirada Petroleum Inc. (Operator) and Partners:	63.0% to 60.0%
Solimar Energy Limited (ASX Code: SGY):	18.5% to 20.0%
Sunset Energy Limited (ASX Code: SEY):	18.5% to 20.0%

Deer Creek Project: 50% Working Interest and Operator (San Joaquin Basin)

Leasing activities were curtailed during the half year as the company focused on its development of Southeast Lost Hills and Maricopa. The company however continues to hold those leases it has previously acquired and has intentions at this time to progress the prospect in the future.

CORPORATE

Acquisition of 50% interest at Southeast Lost Hills

On 23 July 2009 Solimar Energy announced that it had signed an agreement to acquire Quest Petroleum's 50% working interest in the Block A and Block B leases at Southeast Lost Hills (SELH) including the existing wells and associated facilities.

The agreement would be effective upon the date the lessor consented to the assignment of Quest Petroleum's 50% interest to Solimar Energy.

The consideration for the purchase was 4,000,000 listed ordinary fully paid shares which would be issued in two tranches, \$A35,000 in cash and the cancelling of current outstanding billings of approximately US\$18,000.

Acquisition of New Project

The Company announced on 19 January 2010 an addition to its San Joaquin Basin asset portfolio that was secured using the expert knowledge and networks cultivated by the Company. Solimar Energy would be operator holding between 50% and 70% interests in over 4,500 prospective acres that contain substantial light oil resources at target depths between 3,500 feet and 11,000 feet.

Consideration for the leases were initial payments of less than US\$150,000 and the assumption of royalty obligations. The company would also carry one of the other partners (Quest Petroleum) (ASX Code: QPN) through administrative costs including lease rentals and various technical studies leading up to but not including the drilling phase in the two leases areas.

The company plans to drill a well by calendar mid year 2010 after selecting a test well site on the most advanced project at Gujarral Hills and most likely introducing a farmin partner(s) to part fund the well on a promoted basis. The Gujarral Hills field has historically produced over 50 million barrels of light oil with gas from four main oil reservoirs with many wells producing at initial rates of over 500 bopd. Over 35 million barrels of oil in place (OIP) is estimated remaining within the Gujarral Hills acreage controlled by the Company. Reservoir studies are being undertaken to select drillsites that have the best chance of enhancing oil recovery at commercial flow rates.

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Capital Raising

On 10 August 2009, Solimar Energy announced to the ASX that it had received commitments for a private placement of 25,714,626 fully paid ordinary shares (Shares) at an issue price of 7 cents per Share to sophisticated and professional investors to raise \$1,800,024. The proceeds from the Placement will be used primarily to fund Solimar Energy's ongoing exploration and development projects in California.

Appointment of Mr John Begg

On 28 October 2009 the company announced the appointment of Mr John Begg in a senior advisory capacity and subsequently on 18 November 2009 that he had joined the Board.

Mr Begg was to assume responsibility for:

- Strengthening the company's existing assets through technical and commercial initiatives.
- Expanding the company's asset base in California focussing on projects with near term oil and gas reserves addition and production potential.
- Raising the company's profile in the industry and investment community.

Mr Begg is a petroleum geologist who has over 30 years experience in upstream oil and gas and was until recently Managing Director of Salinas Energy Ltd (now Neon Energy).

As part of his package Mr Begg was awarded 10,000,000 options half of which have an exercise price of 9.35 cents and half of which have an exercise price of 12.75 cents. The options expire on 1 June 2012 and 9,000,000 of these options are subject to vesting conditions. The options were approved at the company's AGM in November 2009.

Strategy Going Forward

The company's immediate focus will be analysing the results from the 4-13 well at SELH to better understand the technical and geological issues associated with drilling at SELH. From this review a decision can then be made on the most appropriate step forward.

A geological review at Maricopa has provided the company with potential locations for another well. There is also the on-going work with the water disposal line and the installation of this will enhance the project's economics.

The company has also continued to invest in new exploration prospects that it considers appropriate in that they provide potential upside at a reasonable cost. The company recently acquired an interest at Guijarral Hills which it will be looking to begin work on as well as the other two prospects at Silverthread and Deer Creek.

The company will also review and undertake investments in new prospects if they are considered appropriate.

PRODUCTION AND SALES

Total net oil produced for the six months to 31 December 2009 was 4,384 barrels. Total Revenue (before royalties and partner's share) from the project for the six months to 31 December 2009 was US\$294,059.

Over the six month period oil production from Wellington Maricopa #6 has been averaging approximately 27 bopd.

Gas sales from the 3-13 well commenced in November 2009 and totalled 4.007 million cubic feet for the period to 31 December 2009.

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Solimar Energy Limited - Summary of Quarterly Sales Production

Quarterly Sales	Project	Sept Quarter 2009	Dec Quarter 2009	Half Year Dec 2009
Oil (barrels)	Maricopa (WM #6)	2,370	2,014	4,384
Natural Gas (mm cubic feet)	Southeast Lost Hills (3-13)	0	4.007	4.007

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

The lead auditor's independence declaration is set out on page 9 and forms part of the directors' report for the six months ended 31 December 2009.

Dated at Melbourne this 16th day of March 2010.

Signed in accordance with a resolution of the directors:



Frank Petruzzelli
Chairman

DECLARATION OF INDEPENDENCE BY NICHOLAS BURNE TO THE DIRECTORS OF SOLIMAR ENERGY LIMITED

As lead auditor for the review of Solimar Energy Limited for the half-year ended 31 December 2009, I declare that to the best of my knowledge and belief, there have been:

- no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Solimar Energy Limited and the entities it controlled during the period.



Nicholas E. Burne

Director



BDO Audit (NSW-VIC) Pty Ltd

Melbourne, 16 March 2010

SOLIMAR ENERGY LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the 6 months ended 31 December 2009

Note	Dec 2009 AUD	Dec 2008 AUD
Sales Revenue	198,313	374,466
Cost of extraction	(74,829)	(221,408)
Professional fees	(458,950)	(560,234)
Personnel expenses	(38,830)	(38,459)
Impairment charges	(363,561)	(5,446,835)
Research and exploration expenditure	(58,588)	(3,498)
Depreciation and amortisation expenses	(37,058)	(62,724)
Other expenses	(156,573)	(143,966)
Other income	73,291	73,125
Results from operating activities	<u>(916,785)</u>	<u>(6,029,533)</u>
Financial income	18,132	49,182
Financial expenses	(48,136)	-
Net financial income	<u>(30,004)</u>	<u>49,182</u>
Loss before income tax	<u>(946,789)</u>	<u>(5,980,351)</u>
Income tax benefit / (expense)	-	-
Loss for the half-year attributable to equity holders of Solimar Energy Ltd	<u>(946,789)</u>	<u>(5,980,351)</u>
Other comprehensive income		
Foreign currency translation differences	(402,118)	2,852,185
Total comprehensive income for the half-year	<u>(1,348,907)</u>	<u>(3,128,166)</u>
Loss per share attributable to the ordinary equity holders of the Company:		
Basic loss per share for the period (cents per share)	<u>(0.46)</u>	<u>(3.35)</u>
Diluted loss per share for the period (cents per share)	<u>(0.46)</u>	<u>(3.35)</u>

The consolidated statement of comprehensive income is to be read in conjunction with the accompanying condensed notes on pages 14 to 19.

SOLIMAR ENERGY LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2009

	Note	Dec 2009 AUD	Jun 2009 AUD
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		1,571,578	758,463
Trade and other receivables	7	206,686	195,437
TOTAL CURRENT ASSETS		<u>1,778,264</u>	<u>953,900</u>
NON - CURRENT ASSETS			
Receivables	7	111,495	123,244
Plant & equipment	10	242,614	348,843
Exploration and evaluation expenditure	8	543,212	736,833
Development assets	9	2,626,550	2,399,641
TOTAL NON - CURRENT ASSETS		<u>3,523,871</u>	<u>3,608,561</u>
TOTAL ASSETS		<u>5,302,135</u>	<u>4,562,461</u>
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	11	359,255	345,632
TOTAL CURRENT LIABILITIES		<u>359,255</u>	<u>345,632</u>
TOTAL LIABILITIES		<u>359,255</u>	<u>345,632</u>
NET ASSETS		<u>4,942,880</u>	<u>4,216,829</u>
EQUITY			
Contributed equity	12	21,248,961	19,285,712
Reserves		321,167	611,576
Accumulated losses		(16,627,248)	(15,680,459)
TOTAL EQUITY		<u>4,942,880</u>	<u>4,216,829</u>

The consolidated statement of financial position is to be read in conjunction with the accompanying condensed notes on pages 14 to 19.

SOLIMAR ENERGY LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the 6 months ended 31 December 2009

<i>Consolidated</i>		Issued capital	Accumulated	Reserves	Total
<i>For the Half year ended 31 December 2009</i>	<i>Note</i>	AUD	losses	AUD	equity
		AUD	AUD	AUD	AUD
Balance at 1 July 2009		19,285,712	(15,680,459)	611,576	4,216,829
<i>Transactions with owners in their capacity as owners</i>					
Equity settled share based payment transactions		260,000	-	-	260,000
Share issues net of costs		1,703,249	-	-	1,703,249
Issue of Options		-	-	111,709	111,709
		<u>1,963,249</u>	<u>-</u>	<u>111,709</u>	<u>2,074,958</u>
<i>Total comprehensive income for the Half Year</i>					
Net Loss for the Half-year		-	(946,789)	-	(946,789)
Foreign currency translation difference		-	-	(402,118)	(402,118)
		<u>-</u>	<u>(946,789)</u>	<u>(402,118)</u>	<u>(1,348,907)</u>
Balance at 31 December 2009		<u>21,248,961</u>	<u>(16,627,248)</u>	<u>321,167</u>	<u>4,942,880</u>
<i>Consolidated</i>					
<i>For the Half year ended 31 December 2008</i>					
Balance at 1 July 2008		17,103,294	(7,799,923)	(1,295,298)	8,008,073
<i>Transactions with owners in their capacity as owners</i>					
Equity settled share based payment transactions		-	-	-	-
Share issues net of cost		2,182,418	-	-	2,182,418
Issue of Options		-	-	6,700	6,700
		<u>2,182,418</u>	<u>-</u>	<u>6,700</u>	<u>2,189,118</u>
<i>Total comprehensive income for the Half Year</i>					
Net Loss for the Half-year		-	(5,980,351)	-	(5,980,351)
Foreign currency translation difference		-	-	2,852,185	2,852,185
		<u>-</u>	<u>(5,980,351)</u>	<u>2,852,185</u>	<u>(3,128,166)</u>
Balance at 31 December 2008		<u>19,285,712</u>	<u>(13,780,274)</u>	<u>1,563,587</u>	<u>7,069,025</u>

The consolidated statement of changes in equity is to be read in conjunction with the accompanying condensed notes on pages 14 to 19.

SOLIMAR ENERGY LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
For the 6 months ended 31 December 2009

	Consolidated	
	Dec 2009	Dec 2008
Note	AUD	AUD
Cash Flows From Operating Activities		
Receipts from customers	209,795	360,331
Payments to suppliers and employees	(700,090)	(1,167,782)
Net Cash Flows Used In Operating Activities	(490,295)	(807,451)
Cash Flows From Investing Activities		
Payments for exploration and evaluation	(268,065)	(719,022)
Payments for development	(217,009)	(454,952)
Payments for plant and equipment	(3,607)	(115,644)
Proceeds from sale of plant and equipment	48,969	-
Recovery of funds from exploration project	73,291	-
Proceeds from sale of Project Participation	-	73,125
Net Cash Flows Used In Investing Activities	(366,421)	(1,216,493)
Cash Flows From Financing Activities		
Proceeds from issue of share capital	1,800,024	2,276,418
Share issue costs	(96,775)	(96,400)
Interest received	18,132	40,889
Net Cash Flows From Financing Activities	1,721,381	2,220,907
Net Increase In Cash And Cash Equivalents		
	864,665	196,963
Cash and cash equivalents at beginning of period	758,463	1,525,280
Effect of exchange rate fluctuations on cash held	(51,550)	28,365
Closing Cash And Cash Equivalents	1,571,578	1,750,608

The consolidated statement of cash flows is to be read in conjunction with the accompanying condensed notes on pages 14 to 19.

SOLIMAR ENERGY LIMITED AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED HALF YEAR FINANCIAL STATEMENTS

FOR THE SIX MONTHS TO 31 DECEMBER 2009

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 Half year financial statements of the Company as at and for the six months ended 31 December 2009 comprises the Company and its subsidiaries (together referred to as the 'Group').

The consolidated annual financial report of the Group as at and for the year ended 30 June 2009 is available upon request from the Company's registered office or can be downloaded from www.solimarenergy.com.

2. Statement of Compliance

These general purpose financial statements for the six months to 31 December 2009 have been prepared in accordance with Australian Accounting Standard 134 Interim Financial Reporting and the Corporations Act 2001.

The consolidated Half year financial statement 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 2009 and any public announcements made by the Group during the six month reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The consolidated Half year financial statement was approved by the Board of Directors on 16 March 2010.

3. Segment Information

No information is disclosed for operating segments as the management accounts that are regularly reviewed by the Board of Directors only include consolidated numbers together with revenue and capital expenditure by project.

4. Significant Accounting Policies

The accounting policies applied by the Group in this consolidated Half year financial statement for the six months to 31 December 2009 are the same as those applied by the Group in its consolidated financial report as at and for the year ended 30 June 2009.

5. Estimates

The preparation of the Half year financial statement 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 Half year financial statement, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were other than described below the same as those applied to the consolidated financial report as at and for the year ended 30 June 2009.

Certain assumptions used in the value in use model that the Company prepares to assist in determining if impairment has occurred with its development assets were changed from those applied at 30 June 2009.

The key changes were an increase in the discount rate applied at 31 December 2009 of 14%, an increase in the spot gas price used and a lowering of the anticipated gas reserves available within an interval at Southeast Lost Hills wells drilled though still lying within the range estimated by an independent engineering company in June 2008.

SOLIMAR ENERGY LIMITED AND SUBSIDIARIES
 NOTES TO THE CONSOLIDATED HALF YEAR FINANCIAL STATEMENTS
 FOR THE SIX MONTHS TO 31 DECEMBER 2009

6. Financial Risk Management

The Group has exposure to the following risks from their use of financial instruments:

- credit risk
- liquidity risk
- market risk

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework.

Risk management policies identify and analyse the risks faced by the Group and set appropriate risk limits and controls as well as monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group aims to develop a disciplined and constructive control environment in which all contractors and employees understand their roles and obligations. For further information on the Group's risk management policies please refer to the consolidated annual financial report as at and for the year ended 30 June 2009.

7. Trade and other receivables

	Dec 09	Jun 09
	AUD	AUD
Current		
Trade receivables	33,478	61,133
Other receivables	115,530	83,828
Prepayments	57,678	50,476
	206,686	195,437
Non-current		
Other receivables	111,495	123,244
	111,495	123,244

SOLIMAR ENERGY LIMITED AND SUBSIDIARIES
 NOTES TO THE CONSOLIDATED HALF YEAR FINANCIAL STATEMENTS
 FOR THE SIX MONTHS TO 31 DECEMBER 2009

8. Exploration and evaluation expenditure

	Dec 09 AUD	Jun 09 AUD
a) Exploration expenditure	543,212	736,833
	<u>543,212</u>	<u>736,833</u>

b) Reconciliation of movement in exploration expenditure

	Half Year ended 31 Dec 2009	Financial Year ended 30 Jun 2009
Balance at the beginning of the period	736,833	6,437,035
Additions	200,945	938,572
Transfer to development assets	-	(3,411,518)
Transfer to plant and equipment	-	(77,945)
Impairment	(317,726)	(4,260,667)
Other amounts expensed	-	(3,493)
Impact of FX movements	(76,840)	1,114,849
Balance at the end of the period	<u>543,212</u>	<u>736,833</u>

Carrying amounts

Balance at the beginning of the period	736,833	6,437,035
Balance at the end of the period	<u>543,212</u>	<u>736,833</u>

9. Development assets

	Dec 09 AUD	Jun 09 AUD
a) Development assets	2,626,550	2,399,641
	<u>2,626,550</u>	<u>2,399,641</u>

b) Reconciliation of movement in development assets

	Half Year ended 31 Dec 2009	Financial Year ended 30 Jun 2009
Balance at the beginning of the period	2,399,641	278,478
Additions	554,812	571,844
Transfers from exploration and evaluation	-	3,411,518
Amortisation	(21,516)	(78,547)
Impairment	(34,989)	(2,653,392)
Impact of FX movement	(271,398)	869,740
Balance at the end of the period	<u>2,626,550</u>	<u>2,399,641</u>

Carrying amounts

Balance at the beginning of the period	2,399,641	278,478
Balance at the end of the period	<u>2,626,550</u>	<u>2,399,641</u>

The recoverable amounts of the development assets have been based on their value in use. Value in use was determined by discounting the estimated future cash flows that are expected to be generated

SOLIMAR ENERGY LIMITED AND SUBSIDIARIES
 NOTES TO THE CONSOLIDATED HALF YEAR FINANCIAL STATEMENTS
 FOR THE SIX MONTHS TO 31 DECEMBER 2009

from on-going development and use of the assets. As some of the development assets have a limited production history, there is high subjectivity in estimating value in use.

The key assumptions underlying the models have been disclosed in the 30 June 2009 annual financial report, and any significant changes to those assumptions during this half year have been disclosed in Note 5 to these half year financial statements.

Recovery of the carrying value of these development assets is predicated on cash flow forecasts which require significant capital expenditure, which in turn is reliant upon the company obtaining additional capital from equity issues. The directors believe that the company will be successful in obtaining such additional equity as required over the next 12 months.

10. Plant and Equipment

	Dec 09 AUD	Jun 09 AUD
a) Plant & equipment at cost	282,250	372,937
Less: accumulated depreciation	(39,636)	(24,094)
	<u>242,614</u>	<u>348,843</u>

b) Reconciliation of movement in plant and equipment

	Half Year ended 31 Dec 2009	Financial Year ended 30 Jun 2009
Balance at the beginning of the Period	348,843	58,472
Additions	3,607	236,942
Transfer from exploration and evaluation	-	77,945
Transfer from prepayments	-	13,573
Sale of Plant	(48,969)	-
Depreciation	(15,542)	(23,152)
Impairment	(10,846)	-
Impact of FX movements	(34,479)	(14,937)
Balance at the end of the Period	<u>242,614</u>	<u>348,843</u>
Carrying Amounts		
Balance at the beginning of the Period	348,843	58,472
Balance at the end of the Period	<u>242,614</u>	<u>348,843</u>

11. Trade and other payables

	Dec 09 AUD	Jun 09 AUD
Trade payables	231,233	88,324
Other payables and accrued expenses	128,022	257,308
	<u>359,255</u>	<u>345,632</u>

SOLIMAR ENERGY LIMITED AND SUBSIDIARIES
 NOTES TO THE CONSOLIDATED HALF YEAR FINANCIAL STATEMENTS
 FOR THE SIX MONTHS TO 31 DECEMBER 2009

12. Capital

For the six months ended 31 December 2009

	<i>Ordinary shares</i>	Number of shares	Issue Price	\$
1 July 2009	Opening balance	185,430,842		19,285,712
23 July 2009	Cost of Acquisition	4,000,000	\$0.065	260,000
18 August 2009	Capital placement	25,714,626	\$0.07	1,800,024
	Transaction costs			(96,775)
31 December 2009	Closing balance	<u>215,145,468</u>		<u>21,248,961</u>

For the six months ended 31 December 2008

	<i>Ordinary shares</i>	Number of shares	Issue Price	\$
1 July 2008	Opening balance	162,666,661		17,103,294
9 October 2008	Capital placement	20,764,181	\$0.10	2,076,418
23 December 2008	Capital placement	2,000,000	\$0.10	200,000
	Transaction costs			(94,000)
31 December 2008	Closing balance	<u>185,430,842</u>		<u>19,285,712</u>

13. Share-based payments

In December 2009 John Begg was granted 10,000,000 options and 9,000,000 of these are subject to vesting conditions concerning his period of service. In respect of this issue a share based expense of \$111,709 was recognised for the six months ended 31 December 2009.

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

Grant date	Number of instruments	Vesting conditions	Expiry Date
27 November 2009	1,000,000	Vest on grant (Tranche 1)	1 June 2012
27 November 2009	4,000,000	Vest after 10 months service (Tranche 2)	1 June 2012
27 November 2009	5,000,000	Vest after 22 months service (Tranche 3)	1 June 2012

Fair value of share options and assumptions used on date of valuation:

	Tranche 1	Tranche 2	Tranche 3
Fair Value at Grant Date	5.57 cents	6.19 cents	6.59 cents
Share Price	10.0 cents	10.0 cents	10.0 cents
Exercise Price	9.35 cents	9.35 cents	12.75 cents
Expected Volatility	133 %	133 %	133 %
Option Life	30 months	30 months	30 months
Expected Dividends	Nil	Nil	Nil
Risk Free interest rate (based on government bonds)	4.83%	4.83%	4.83%

The valuation incorporates an estimated probability of early exercise.

SOLIMAR ENERGY LIMITED AND SUBSIDIARIES
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14. Related parties

Arrangements with related parties remain in place. For details on these arrangements refer to the 30 June 2009 annual financial report.

15. Subsequent events

The Company announced on 19 January 2010 an addition to its San Joaquin Basin asset portfolio that was secured using the expert knowledge and networks cultivated by the Company. Solimar Energy would be operator holding between 50% and 70% interests in over 4,500 prospective acres that contain substantial light oil resources at target depths between 3,500 feet and 11,000 feet.

Consideration for the leases were initial payments of less than US\$150,000 and the assumption of royalty obligations. The company would also carry one of the other partners (Quest Petroleum) (ASX Code: QPN) through administrative costs including lease rentals and various technical studies leading up to but not including the drilling phase in the two leases areas.

The company plans to drill a well by calendar mid year 2010 after selecting a test well site on the most advanced project at Gujarral Hills and most likely introducing a farmin partner(s) to part fund the well on a promoted basis. The Gujarral Hills field has historically produced over 50 million barrels of light oil with gas from four main oil reservoirs with many wells producing at initial rates of over 500 bopd. Over 35 million barrels of oil in place (OIP) is estimated remaining within the Gujarral Hills acreage controlled by the Company. Reservoir studies are being undertaken to select drillsites that have the best chance of enhancing oil recovery at commercial flow rates.

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 10 to 19, 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 2009 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 16th day of March 2010.

Signed in accordance with a resolution of the directors:



Frank Petruzzelli
Chairman

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Solimar Energy Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Solimar Energy Limited, which comprises the statement of financial position as at 31 December 2009, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, a statement of accounting policies, other selected explanatory notes and the directors' declaration.

Directors' Responsibility for the Half-Year Financial Report

The directors of the disclosing entity are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls 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 Interim and Other Financial Reports 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 financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the disclosing entity's financial position as at 31 December 2009 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Solimar Energy Limited, 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.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001* would be in the same terms if it had been given to the directors at the time that this auditor's review report was made.

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 disclosing entity's financial position as at 31 December 2009 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and Corporations Regulations 2001.



BDO Audit (NSW-VIC) Pty Ltd



Nicholas E. Burne

Director

Melbourne, 16 March 2010